The Carlyle Group L.P. (CG)

Model Built For Consistent Distributions; Initiate With Buy

- Company Update
- Initiation of Coverage

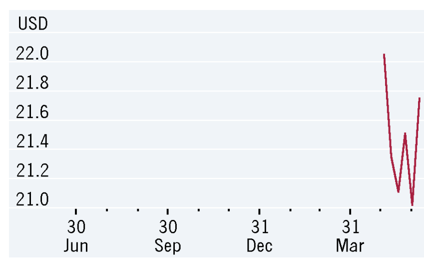
- **New coverage** — We initiate coverage of CG with a Buy rating and $29 12-month blended SOTP/DEDM price target. Founded in 1987, CG is a Washington-DC based global and diversified Alternatives Manager focused on Private Equity, Real Estate, Energy/Infrastructure, Hedge Funds, and Fund of Funds, and manages $159B in AUM at 3/31/12 across 89 funds and 52 FoFs vehicles. CG went public on 5/2 through a primary IPO priced at $22 per unit and below the $23-$25 price range.
- **Attractive on yield; less so on SOTP** — But we see a well positioned platform either way. In our view, the units priced below the initial range plus labored in early trading as investors are wrestling with difficult macro backdrop plus mixed valuation appeal. On the one hand, the units screen well cheap on distribution yield (particularly 2013), or ~7.5% 2012E (pro forma) & 11% 2013E versus 6.7% and 7.5%, respectively, for key peers (APO, BX, and KKR) as platform diversification should bolster distributions – we pro forma 2012 to account for a partial year and note the 1Q pro forma distribution is ~$0.43, or 8% annualized. On the other hand, CG is trading at ~5x residual performance fees for this year versus peers at ~1x and KKR at -1.5x. We believe: 1) as CG seems poised to deliver more consistent and potentially outsized distributions in the intermediate term, we see the units working back toward intrinsic value; and, 2) we believe the entire sector is inexpensive, particularly given superior flow and structural prospects (though we recognize PTP model limits broad-based investor appeal).
- **Key reasons to own** — 1) See an above-average distribution and capital return story driven by high "cash content" (or DE/ENI); 2) offers solid asset gathering potential, relative to peers and industry, leveraging diversified + global platform; and, 3) compelling value. Positively, CG's 89 funds and 200+ investments allow for higher probability of realizations; PE portfolio vintaged with ~60% invested before 2009; 70% of carry funds > HW mark; three large buyout funds are raising successor funds in the ST; LP penetration +40% since 2006 and with deep international presence; and CG's fundraising and marketing teams offer a significant competitive advantage, we believe.
- **Catalysts ahead** — 1) Consistent distributions; 2) outsized organic growth; and, 3) cross-sell of new(er) businesses.
- **Risks** — Tactically: 1) ENI likely negative in 2Q given weak markets QTD. Structurally: 1) Bulk of ENI + SOTP valuation tied to performance fees; 2) below-average FRE margin; 3) adverse carried interest legislation; 4) M&A execution risk; and, 5) low float.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	na	na	na	0.83A	2.74A	na
2012E	**1.10A**	**-0.25E**	**0.58E**	**0.83E**	**2.26E**	**na**
Previous	na	na	na	na	na	na
2013E	**0.64E**	**0.75E**	**0.80E**	**1.04E**	**3.22E**	**na**
Previous	na	na	na	na	na	na
2014E	**na**	**na**	**na**	**na**	**3.83E**	**na**
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Buy	**1**
Price (11 Jun 12)	US$21.42
Target price	US$29.00
Expected share price return	35.4%
Expected dividend yield	7.2%
Expected total return	**42.6%**
Market Cap	US$6,623M

Price Performance
(RIC: CG.O, BB: CG US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	6.4	7.8	9.5	6.7	5.6
P/E reported (x)	6.4	7.8	9.5	6.7	5.6
P/BV (x)	3.0	0.7	0.5	0.5	0.4
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	0.0	0.0	5.2	10.7	12.2
Per Share Data (US$)					
EPS adjusted	3.33	2.74	2.26	3.22	3.83
EPS reported	3.33	2.74	2.26	3.22	3.83
BVPS	7.22	30.11	39.08	45.77	52.54
Tangible BVPS	5.75	28.15	37.06	43.76	50.54
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.00	0.00	1.12	2.28	2.62
Profit & Loss (US$m)					
Net interest income	0	0	0	0	0
Fees and commissions	2,292	2,052	2,038	2,711	3,234
Other operating Income	94	97	42	5	1
Total operating income	**2,386**	**2,149**	**2,079**	**2,716**	**3,235**
Total operating expenses	-1,354	-1,257	-1,258	-1,577	-1,810
Oper. profit bef. provisions	**1,032**	**892**	**822**	**1,139**	**1,425**
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	-18	-59	-26	-18	-18
Pre-tax profit	**1,014**	**833**	**796**	**1,121**	**1,407**
Tax	0	0	-103	-129	-218
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**1,014**	**833**	**693**	**992**	**1,189**
Adjusted earnings	1,014	833	693	992	1,189
Growth Rates (%)					
EPS adjusted	na	-17.8	-17.4	42.5	18.9
Oper. profit bef. prov.	na	-13.5	-7.9	38.6	25.1
Balance Sheet (US$m)					
Total assets	**17,063**	**24,652**	**30,981**	**33,709**	**36,632**
Avg interest earning assets	0	0	0	0	0
Customer loans	0	0	0	0	0
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**17,063**	**24,652**	**30,981**	**33,709**	**36,632**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**2,199**	**9,167**	**11,990**	**14,104**	**16,315**
Profitability/Solvency Ratios (%)					
ROE adjusted	46.1	14.7	6.6	7.6	7.8
Net interest margin	na	na	na	na	na
Cost/income ratio	56.8	58.5	60.5	58.1	56.0
Cash cost/average assets	7.9	6.0	4.5	4.9	5.1
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Outsized Distribution Story Not Fully Appreciated – Initiate With Buy

Investment Summary

We initiate coverage of The Carlyle Group L.P. (CG) with a Buy rating and $29 12-month price target using a blended valuation of proprietary distributable earnings discount model (DEDM) and sum-of-the-parts (SOTP) – see also our 4/23 note for details on the DEDM methodology, Brokers & Asset Managers - Introducing A New Way To Value Alternative Managers: Sector Screens Cheap On Modified DEDM Methodology. Founded in 1987 by Mr. David M. Rubenstein, Mr. William E. Conway, and Mr. Daniel A. D'Aniello, Carlyle is a Washington-DC based global and diversified Alternatives Manager focused on Private Equity, Real Estate, Energy/Infrastructure, Hedge Funds, and Fund of Funds, and manages $159B in AUM at 3/31/12 across 89 funds and 52 Fund of Funds vehicles. Carlyle went public on 5/2/12 through a primary IPO priced at $22 per unit versus the $23-$25 price range.

We see several reasons to own CG:

High throughput model should produce high(er) unitholder distribution visibility vs. the industry at large

First, we see an above average distribution and capital return story driven by high "cash content" – or the ratio of distributable earnings to ENI. Carlyle operates a high "throughput" model that offers unitholders high(er) visibility and persistency around distributions driven by breadth of platform and number of funds – the 89 funds and 200+ portfolio companies allow for higher probability of realizations, for instance. Additionally, we see the following producing high cash content:

- **A large percentage of Carlyle's portfolio is vintaging with ~60% of fair value invested prior to 2009;**
- **~30% of portfolio is publically traded, allowing for ease of exit through secondary offerings;**
- **Lead indicators are generally favorable** – Management is optimistic about monetization potential; 2012 is off to a strong start through 3/31 as the PE portfolio appreciated 8% in 1Q12, bringing the "in-carry" ratio (or the % of carry fund AUM excluding "dry powder" that are above hurdle and eligible to generate performance fees within the period) to 70%, though we suspect weak(er) public markets QTD may drag 2Q ENI negative.

Strong capital raising cycle + deep(er) distribution = strong asset gathering potential

Global distribution, outsized LP share, and broadening product line-up bolster capital raising

Second, Carlyle offers strong asset gathering potential, relative to peers and industry. Carlyle is entering a strong capital raising period with three large buyout funds raising successor funds. Furthermore, Carlyle's deeper infrastructure, broader platform – including Claren Road, ESG, and AlpInvest – and 40% increase in LP base since 2006, should bolster capital raising potential, in our view.

Third, Carlyle's strategic positioning and more consistent distribution potential justify a premium valuation, in our view. Alternatives Managers may be increasingly valued on distributable earnings, and we believe Carlyle's propensity for more consistent unitholder distributions bolsters value appeal. At the current price of ~$21.50 per unit, we see solid upside to target and believe investors are too conservative around residual performance fee valuation, particularly as Carlyle offers among the highest visibility among our coverage universe, in our opinion.

Looking ahead, we see robust capital raising, deployment, and monetization cycle(s) and ultimately, outsized unitholder distributions, as key catalysts unfolding in 2012.

Performance Fee + Distribution Potential Undervalued

We value Carlyle using a 50/50 blend of proprietary SOTP and DEDM valuation methodologies

Our $29 12-month price target reflects a 50/50 blend using a distributable earnings discount model (DEDM) and sum-of-the-parts (SOTP) methodologies – see also our 4/23 note, Introducing A New Way To Value Alternative Managers: Sector Screens Cheap On Modified DEDM Methodology. We apply a more ratable methodology versus APO, BX, and KKR given potentially higher and more consistent distribution for the next few years.

Our sum-of-the-parts (SOTP) approach takes into consideration the disparate earnings components and blends the value of: 1) fee-related earnings (FRE), or the after-tax management fee stream less corporate costs; 2) net cash (after debt) + investments + accrued performance (net of comp); and, 3) the estimated net present value of performance fees. Using our 2012 after-tax FRE estimate of $0.41 and applying a 15x target multiple, we value the management fee business at ~$6.25 per unit. Next, we value the B/S at $1.5B reflecting an estimated $650M cash at 6/30, $325M in GP investments, $1.1B in accrued net performance fees, and $500M debt, or ~$5 per unit – which also incorporates a 20% discount on carry by us to reflect market, liquidity, and timing risks. Finally, we add the net present value of performance fees, which we estimate to be $6B, or $18.50 per unit. Adding all the components together, our SOTP valuation is $29.50 per unit.

Figure 1. Proprietary SOTP/DEDM Methodology Suggests Solid Upside To Target

Methodology		Weighting	
DEDM[1]	SOTP[2]	% DEDM	% SOTP
$28.00	$29.50	50%	50%
Price	FTM Dist	Target	ETR
$21.79	$1.55	$29.00	40%

[1]distributable earnings discount model

[2]SOTP = sum-of-the-parts of FRE multiple, B/S, and NPV of performance fees

Source: Citi Investment Research and Analysis

Our distributable earnings discount model (DEDM) is a multi-stage 10-year model that discounts future distributions using company specific cost of capital assumptions. Beyond our explicit forecast period through 2014, the base case scenario factors 8% growth in DE in years 4-5; 5% growth years 6-10; and 3% terminal growth; a ~12.5% cost of capital (2.5% risk-free; 6% risk premium, 1.65 beta). In such scenario, our DEDM work suggests a $28 12-month target (for more details, see the DEDM model at end of report). Blending the two approaches together at a 50/50 rate, our 12-month target is $29 per unit (Figure 1).

Coming from another direction, CG is trading at 9.7x and 7.0x our 2012-13 distributable earnings per unit forecast and yielding 7.5% (pro forma) and 10.7% based on our 2012-13 distribution forecasts versus peers at 12x and 10x and 8.5% and 9.5% yields, respectively (Figure 2). We use a pro forma 2012 distribution yield because CG went public in May and 2Q will only reflect a pro-rated distribution (no 1Q distribution as well). Such a valuation discount should narrow, in our view, given Carlyle's high throughput model and above average distribution potential. We note CG reported after-tax pro-forma ENI of $1.10 per unit for 1Q earnings. Assuming ~75% payout of DE, the annualized pro forma yield would have been approximately ~8%. These pro forma yields contrast to a median of 6.5% for APO, BX, and KKR.

Figure 2. CG Screens Attractive On Yield But Less So On SOTP

	CG[1]	KKR	OZM	BX	APO	Avg
Current Price	$21.42	$11.92	$7.23	$12.00	$12.62	
less: Net Cash + Inv/share	$5.04	$8.46	-$0.37	$3.14	$2.08	
less: Value of Fee earnings	$6.21	$4.71	$6.22	$8.16	$4.54	
2012E FRE	*$0.41*	*$0.34*	*$0.44*	*$0.54*	*$0.32*	
x Target P/E multiple	*15.0x*	*14.0x*	*14.0x*	*15.0x*	*14.0x*	*14.3x*
=Implied Value of Per. Fees	$10.17	-$1.25	$1.38	$0.70	$6.00	
Net Perf Fees/share - 2012E	$1.88	$0.83	$0.73	$0.74	$2.55	
Net Perf Fees/share - 2013E	$2.99	$0.80	$0.85	$0.94	$2.20	
Implied Residual P/E - 2012E	**5.4x**	**-1.5x**	**1.9x**	**1.0x**	**2.4x**	**0.9x**
Implied Residual P/E - 2013E	**3.4x**	**-1.6x**	**1.6x**	**0.7x**	**2.7x**	**0.9x**
ENI - 2012E	$2.26	$2.18	$1.18	$1.41	$2.82	
ENI - 2013E	$3.22	$1.79	$1.32	$1.74	$2.52	
P/ENI - 2012E	**9.5x**	**5.5x**	**6.1x**	**8.5x**	**4.5x**	**6.2x**
P/ENI - 2013E	**6.7x**	**6.7x**	**5.5x**	**6.9x**	**5.0x**	**6.0x**
Distribution - 2012E	$1.12	$0.69	$0.93	$0.67	$1.03	
Distribution - 2013E	$2.28	$0.78	$1.05	$0.96	$0.96	
Yield - 2012E	**5.2%**	**5.8%**	**12.9%**	**5.6%**	**8.1%**	**8.1%**
Yield - 2013E	**10.7%**	**6.5%**	**14.5%**	**8.0%**	**7.6%**	**9.2%**

	CG[1]	KKR	OZM	BX	APO	Avg
% B/S	24%	71%	-5%	26%	16%	21%
% FRE	29%	40%	86%	68%	36%	54%
% Implied Perf fee	47%	-11%	19%	6%	48%	12%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	

Note: Implied value of performance fees = Current price - Net Cash/Inv/Unrealized Carry - FRE valuation

Unrealized carry discounted 20%

[1]ENI and distributions are pro forma for the reorganization and offering transactions, as if such transactions occurred on January 1, 2012. There is no distribution for CG in 1Q12 and 2Q12 will be pro-rated for the period CG is pubic.

Source: Company reports, Citi Investment Research and Analysis

Consistent Distribution Story

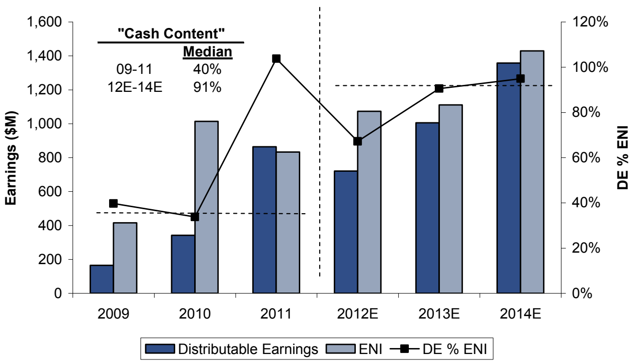
Carlyle's "cash content" should exceed peers…leading to an above average distribution story

Carlyle offers an above average distribution story, we believe, given their model should: a) produce high (and relatively more consistent) "cash content" or the amount of distributable earnings relative to ENI; and, b) the firm intends to distribute approximately 75% of DE to unitholders. To be sure, Carlyle's DE as percentage of ENI totaled 40%, 34%, and 104% and 46% in 2009-1Q12 compared versus peer averages of 40%, 35%, 87%, and 35%, respectively (Figures 3-4).

"Cash content" reflects % of DE relative ENI, and likely to be an area of focus for investors, we believe, given idiosyncratic distribution stories across the industry

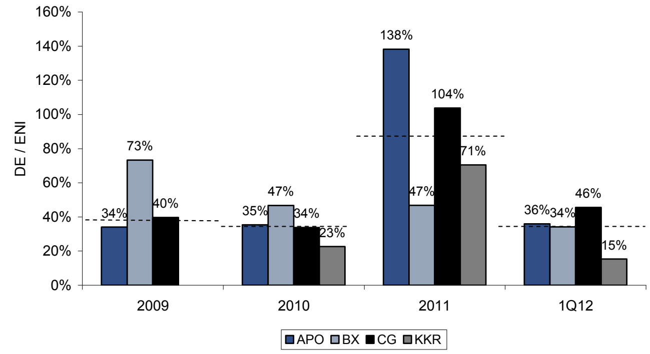
Relative to peers, Carlyle's differentiated model produces a high level of cash content through: a) diversification – by segment and number of funds; b) greater number of portfolio company investments; and should benefit from: c) portfolio vintaging; and, d) increasing number of funds at/nearing the carried interest threshold. To be sure, Carlyle distributed $2.1B in 2009; $8.2B in 2010; and $18.8B to LPs in 2011 (Figure 5) – the latter across 45 funds and investments in 22 countries; while 2011 distributions are significantly greater than peers (Figure 6).

Figure 3. Carlyle's ENI "Cash Content" Is Poised To Increase…



Source: Company reports, Citi Investment Research and Analysis

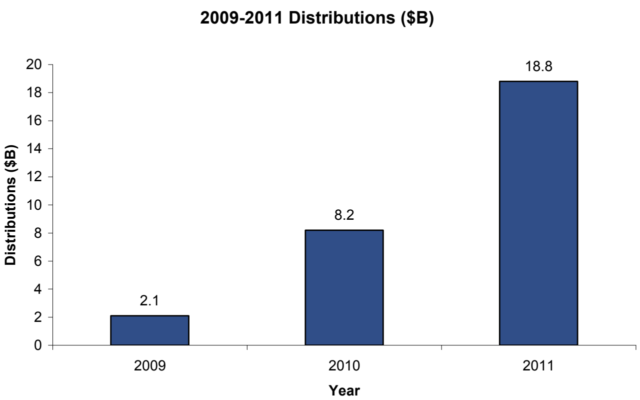
Figure 4. …And Is Competitive To Peers



Note: distributable earnings and economic net income calculated on pre-tax basis

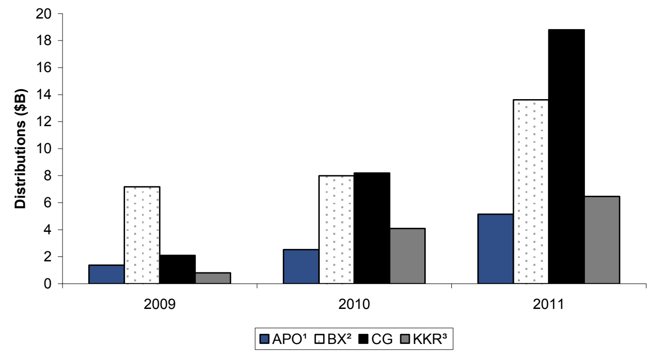
Source: Company reports, Citi Investment Research and Analysis

Figure 5. Carlyle Is Highly Focused On Distributions…



Source: Company reports, Citi Investment Research and Analysis

Figure 6. …Which Are Poised To Accelerate



Source: Company reports, Citi Investment Research and Analysis

Carlyle's multi-fund model is well diversified with 89 active funds across four segments

Below we detail each factor:

1. **Well diversified platform:** Carlyle's platform is diversified by product and number of funds (Figures 7-8). By comparison, Carlyle's 89 active funds (and separately 52 FoF vehicles) compare to 31 active funds for APO; 17 for BX; and 13 for KKR (Figure 9). Furthermore, Carlyle's $159B in AUM are diversified across Private Equity (33% of 3/31 AUM), FoF Solutions (29% of AUM), Real Assets (20% of AUM), and Global Market Strategies (18% of AUM); as well as geography (Figures 10-11). In turn, distributable earnings are diversified (Figure 12);

2. **High throughput model:** Carlyle's multi-product platform offers more stable and predictable realization prospects given: a) higher frequency of monetization activity (from greater number of funds); b) less concentration risk as less dependent on any single investment/fund; and, c) each fund matures at different dates, helping to smooth out monetization events. To be sure, we note the following:

- **In 2011, 28 out of 89 active funds, or 31%, produced net realized performance fees** (Figure 13);

- **In 1Q, 113 investments produced realized proceeds across 31 funds;**

- **Carlyle controls over 200 portfolio companies, compared to ~75 for BX, ~65 for KKR, and ~45 for APO.** In turn, the higher number of companies should allow for higher probability & frequency of realizations.

3. **Solid harvesting potential**: Management is upbeat around upcoming monetizations given the large, maturing portfolio with embedded gains. We note:

   - **Approximately 60% of carry portfolio value was invested prior to 2009**;

A relatively mature investment portfolio with ~30% publically traded bolsters the realization outlook

   - **30% of the PE portfolio is publically traded, allowing for ease of exit through secondary offerings.** This compares to ~30% for KKR; ~25% for BX; and 64% for APO – though closer to ~40% for the latter if you exclude LYB;

   - **A number of portfolio companies and funds are above cost with Corporate Private Equity (CPE) multiple of invested capital (MOIC) of 1.8x at 3/31 and (Real Assets) RA MOIC of 1.5x;**

   - **70% of carry fund AUM are > hurdle and eligible for performance fees;** compared to ~35%-40% of PE AUM for KKR (adjusted for KPE); ~70% for BX (PE + RE); and, ~85% of PE and CM above HW for APO. For KKR, we note, another $17B in AUM are close to earning cash carry as the netting hole in the 2006 Fund is more than covered by $2.4B unrealized gains in the public portfolio, for instance.

4. **Pent-up yield potential:** Unrealized accrued performance fees total $2.5B at 3/31 or approximately $1.4B when subtracting out 45% deal team compensation. Compared to the ~$21.50 unit price at 6/11, the $1.4B net unrealized performance fees equates to $4.60 per unit and represents ~20% of the current market price.

5. **Strong track record:** Carlyle's gross and net historical IRRs in PE (Figures 14-15) are 27% and 19% in Private Equity including 31% on realized/partially realized investments; 1.8x historical MOIC (2.6x on realized/partially realized). Similarly, Real Assets gross and net IRRs are 18% and 12%, including 31% realized/partially realized; 1.5x historical MOIC and 2.2x realized MOIC; Claren Road Master Fund and Opportunities Fund inception to date net annualized return is 11% and 18%, respectively; Carlyle Strategic Partners – distressed – gross and net IRRs are 18% and 12% with a 1.6x MOIC; while AlpInvest's gross and net IRRs are 10% and 9%, respectively. Carlyle's investment track records – across MOICs and IRRs, and business segments – are competitive with peer medians (Figure 16).

Figure 7. Carlyle's Platform Is Well Diversified By Number Of Funds…

Corporate Private Equity (CPE)

- **U.S. Buyout**: CP II, CP III, CP IV, CP V
- **Europe Buyout**: CEP II, CEP III
- **Asia Buyout**: CAP 1, CAP III, CAP III
- **Other Corporate Private Equity**: CGFSP I, CJP I, CJP II, Mexico I, MENA I, CSABF I, CVP II, CUSGF III, CETP I, CETP II, CAVP II, CAGP III, CAGP IV, CBPF

Real Assets (RA)

- **Real Estate & Infrastructure**: CRP III, CRP IV, CRP V, CRP VI, CEREP I, CEREP II, CREP III, CAREP I, CAREP II, CIP I
- **Asia Buyout**: Energy II, Energy III, Energy IV, Renewable Energy I, Renewable Energy II

Global Market Strategies

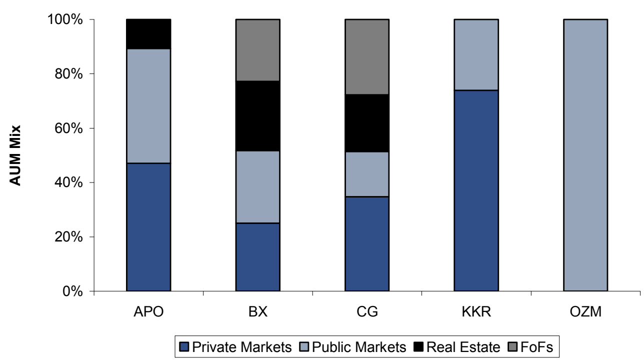
- **CMS Carry Funds**: CSP I, CSP II, CMP I, CMP II
- **GMS Hedge Funds**: Claren Road (2 funds), Emerging Sovereign Group (6 funds)
- **Structured Credit**: 32 funds

Fund of Funds Solutions

- **AlpInvest**

Source: Company reports, Citi Investment Research and Analysis

Figure 8. …Product / Asset Class…



Source: Company reports, Citi Investment Research and Analysis

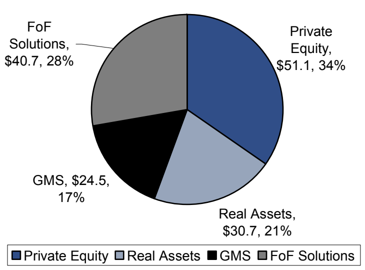
Figure 9. …And Differentiated Versus Peers

	# Active Funds			
	Private Equity	Real Assets	Credit / Capital Mkts	Total[1]
APO	6	8	17	31
BX	5	9	3	17
CG	26	17	46	89
KKR	8	2	3	13

[1]excludes strategic managed accounts and fund of funds vehicles

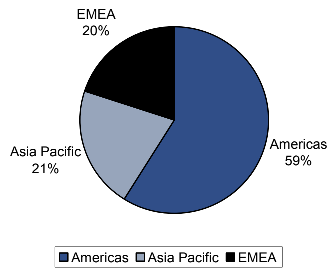
Source: Company reports, Citi Investment Research and Analysis

Figure 10. …Diversified Across Product…



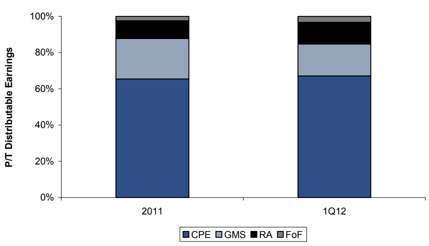
Source: Company reports, Citi Investment Research and Analysis

Figure 11. …And Geography…



Source: Company reports, Citi Investment Research and Analysis

Figure 12. …And Earnings Mix



Source: Company reports, Citi Investment Research and Analysis

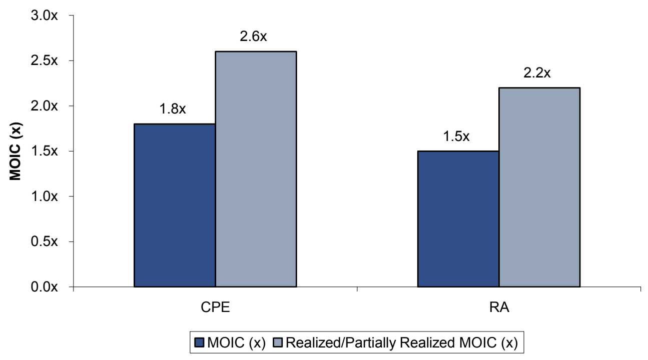
Figure 13. A Wide Number Of Funds Produced Carry In 2011

	Total Fee Earning AUM ($B)	Active Funds	# Funds Generating Net Performance Fee Revenue ($B)	# Funds Generating Net Realized Performance Fee Revenue ($B)	% Total
Corporate Private Equity	**38.0**	**26**	**11**	**8**	**31%**
U.S. Buyout	18.5	4	4	3	
Europe Buyout	7.8	2	1	0	
Asia Buyout	4.1	4	0	2	
Other CPE	7.6	16	6	3	
Real Assets	**22.2**	**17**	**4**	**3**	**18%**
Real Estate	9	10	0	1	
Energy	12.1	6	4	2	
Infrastructure	1.1	1	0	0	
Global Market Strategies	**23.2**	**46**	**17**	**17**	**37%**
Carry Funds	2.4	6	2	2	
Hedge Funds	7.8	8	7	7	
Structured Credit	13	32	8	8	
Total Funds	**83.4**	**89**	**32**	**28**	**31%**
Excluding Structured Credit	**70.4**	**57**	**24**	**20**	**35%**

Note: FPAUM @ 12/31/11

Source: Company reports, Citi Investment Research and Analysis

Figure 14. Carlyle's Investment Record Is Strong Across…

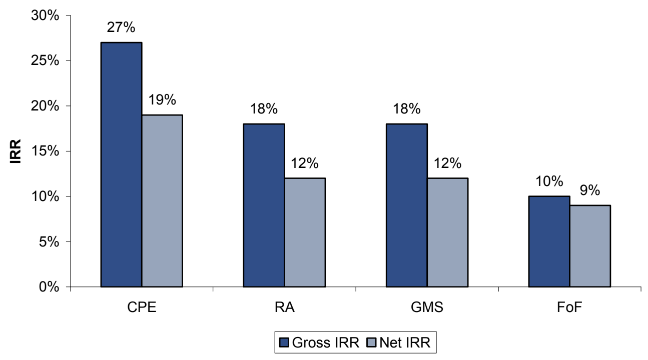


Note: Data refers to inception to date performance results. CPE = Corporate Private Equity; RA = Real Assets

Multiple of invested capital ("MOIC") represents total fair value, before management fees, expenses, and carried interest, divided by invested capital. An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received, including dividends, interest, or other distributions and/or return of capital, represents at least 85% of invested and such investment is not fully realized.

Source: Company reports, Citi Investment Research and Analysis

Figure 15. …CPE, RA, GMS, and FoFs.



Note: Data refers to inception to date performance results; GMS = Global Market Strategies; FoF = Fund of Funds

Source: Company reports, Citi Investment Research and Analysis

Figure 16. Carlyle's Performance Record Is In-line With Key Peers

Private Equity	APO[1]	BX[2]	CG	KKR	Median
Gross IRR	39%	N/A	27%	26%	27%
Net IRR	26%	15%	19%	19%	19%
MOIC (x)	1.9x	1.6x	1.8x	2.0x	1.9x
Realized/Partially Realized MOIC (x)	N/A	1.9x	2.6x	3.0x	2.6x
Real Assets/Real Estate	**APO**	**BX[3]**	**CG**	**KKR**	**Median**
Gross IRR	N/A	N/A	18%	N/A	18%
Net IRR	N/A	16%	12%	N/A	14%
MOIC (x)	N/A	1.4x	1.6x	N/A	1.5x
Realized/Partially Realized MOIC (x)	N/A	2.1x	2.2x	N/A	2.1x
Public Mkts/Global Mkts/Credit	**APO[4]**	**BX**	**CG**	**KKR[5]**	**Median**
Gross IRR	19%	N/A	18%	11.4%	18%
Net IRR	16%	17%	12%	10.7%	14%
Fund of Funds	**APO**	**BX**	**CG**	**KKR**	**Median**
Gross IRR	N/A	N/A	10%	N/A	10%
Net IRR	N/A	6%	9%	N/A	8%

Data through 3/31/12

[1]MOIC (x) represents weighted-average of Fund 1, II, MIA, III, IV, V, VI, and VII.

[2]MOIC (x) represents weighted-average (based on invested capital) of BCP I, BCP II, BCP III, BCOM, BCP IV, BCP V, BCP VI, and BEP.

[3]MOIC (x) represents weighted-average (based on invested capital) of Pre-BREP, BREP I, BREP II, BREP III, BPEP Intl, BREP IV, BREP Intl II, BREP V, BREP VI, BREP Co-Investment, BREP Europe III, BSSF II, BREP VII.

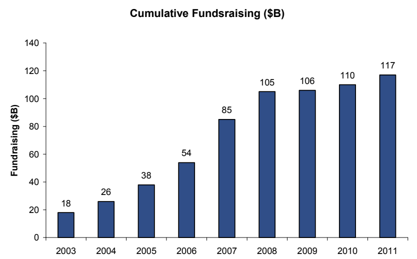
[4]Weighted-average based on invested capital of AIE II, COF I, COF II, ACLF, Artus, and EPF. Only includes sub-set of Capital Markets funds.

[5]High Yield carve out, net; since September 2004

Source: Company reports, Citi Investment Research and Analysis

Consistent & Outsized Asset Gathering Potential

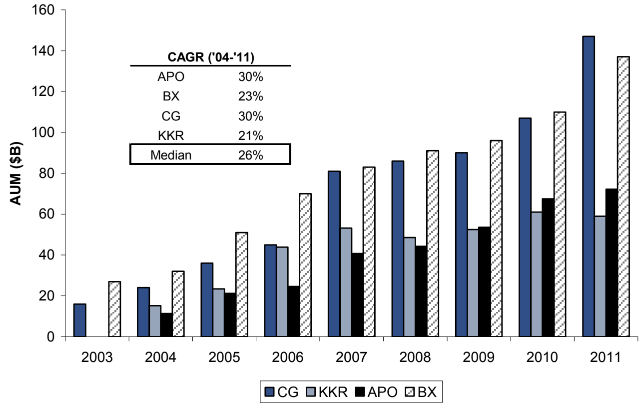
Figure 17. Consistent Asset Gathering…



Source: Company reports, Citi Investment Research and Analysis

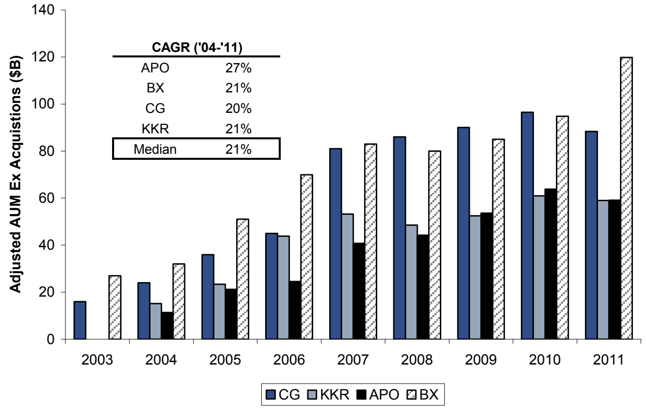
We see Carlyle raising significant new LP capital over the next several years given the firm's strategic positioning, persistent asset gathering model, and share gains, as well as cyclical and structural opportunities – the latter reflecting both rising alternatives allocations and significant distribution/raising cycle ahead. While competitor's capital raising cycles are often dominated by large PE or RE funds that raise capital every few years, Carlyle's multi-fund and diverse platform produces more consistent capital raising in any one particular year, likely keeping FPAUM more consistent versus peers – though many others are becoming more diversified and raising smaller funds as partial offsets. To be sure, Carlyle's raised $117B in cumulative capital since inception (Figure 17), driving a 30% AUM CAGR since 2004, or at the high end of the peer range (Figure 18) though also bolstered by recent acquisition activity including Claren Road Asset Management, Emerging Sovereign Group, and AlpInvest. Excluding the acquired assets, Carlyle's AUM CAGR since 2004 is approximately 20% and in-line to peers (Figure 19).

Figure 18. …Is Producing Strong AUM Growth



Source: Company reports, Citi Investment Research and Analysis

Figure 19. Despite Outsized Distributions Of $18B In 2011, Carlyle's AUM Growth Is Competitive To Peers, Even When Backing Out Acquisitions



APO excludes acquisitions of $3.7B and $9.4B in 2010-11.

BX excludes acquisitions of $11B in 2008 (GSO); $3B in 2010 and $2B in 2011.

CG excludes acquisitions of $10.5B in 2010 (Claren Road, Stanfield CLOs, Mizuho CLOs) and $48B in 2011 (AlpInvest, ESG, Foothill CLOs, and Churchill CLOs)

Source: Company reports, Citi Investment Research and Analysis

Leading Strategic Positioning

We estimate that Carlyle could potentially raise approximately $15B to $19B per year over the next four years. We see the following key drivers:

Carlyle is typically "in the market" with new products, maintaining mind share with fund LPs, and potentially crowding out smaller players

1. **Multiple funds in the market at any one time:** Given the diverse line-up of funds, Carlyle is usually "in the market" fundraising and regularly meeting with LPs. In turn, Carlyle offers: a) "one-stop shop" for alternatives regardless of market conditions; and, b) access to multiple products at any one point in time, further enhancing the firm's cross-selling ability. For instance, Carlyle raised nearly $7B during 2011 across funds and co-investments while 12 different carry funds held closes in 2011 (Figure 20);

Figure 20. Multiple Carlyle Funds Are Typically In The Market At Any Point In Time

	Number of Funds in the Market, by Segment								
Segment	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
CPE	2	2	5	7	5	6	5	4	5
RA	2	2	5	4	4	5	3	2	2
GMS	1	4	5	7	7	9	1	1	5
FoFS									1
Total	**5**	**8**	**15**	**18**	**16**	**20**	**9**	**7**	**13**

Source: Company reports, Citi Investment Research and Analysis

2. **Product innovation and access to new(er) investment themes:** Carlyle continues to meet investor needs by offering a wide range of solutions and access to emerging investment themes and/or asset classes. For example, Carlyle offers funds specifically focused on growth in emerging markets (such as Emerging Sovereign Group hedge fund, Sub-Saharan Africa buyout fund, and South America buyout); financial market inefficiencies (Realty Credit Partners, Carlyle Strategic Partners III), and asset-liability matching (Claren Road hedge funds, Energy Mezzanine Opportunities). We see Carlyle

developing a first mover advantage in such areas, which is particularly important as consultants see emerging and frontier markets as no longer cyclical allocations, but rather new(er) asset classes;

3. **Flagship buyout funds are raising capital:** Management is marketing successor buyout funds in U.S., Europe, and Asia in 2012-13.

Carlyle's deep + specialized marketing and client service team provide a competitive advantage

4. **Robust fundraising infrastructure:** Carlyle's fundraising and marketing teams offer a significant competitive advantage for the firm. Carlyle's Investor Relations efforts are led by Mr. David Rubenstein, Co-Founder & MD and Mr. Mike Arpey, IR MD, along with a team of 59 Investor Relations personnel, up from 33 in 2007. Specifically Carlyle offers:

   - **Multiple touchpoints with institutional investors and contact with geographically focused fundraising professionals and/or product specialists;**
   - **Numerous interactions**, including annual conferences, semi-annual calls/meetings, two-day Private Equity University with exposure to professors and Carlyle senior management;
   - **Segmented and tailored marketing approach to various client channels with dedicated specialists serving PE, RA, GMS, and FoF businesses;**
   - **Robust investor relations including centralized investor response system, investor reporting and attribution**;
   - **Designated key Account Manager to oversee relationships;**

   Furthermore, Carlyle's infrastructure is able to leverage large institutional relationships while penetrate new(er) channels. Carlyle typically functions as a strategic thought partner for large relationships while also flexible to manage smaller clients and related distribution networks.

5. **Significant product cross-selling opportunities:** Carlyle should benefit from significant cross selling opportunities across the platform given the firm's strong investment track record and the increasing LP shift toward bundled mandates. To be sure, the majority of LP capital is committed to multiple funds, including 10% of capital committed to 20+ funds, and 24% committed to 11-20 funds (Figure 21).

6. **Deep institutional relationships:** Carlyle's fundraising success is also attributable to deep client relationships built over a number of years. In turn, Carlyle benefits from significant "re-up" commitments from existing investors. Among current successor funds in Private Equity, 75%, 63%, and 52% of U.S. buyout, Europe, and Asian buyout fund commitments were from investors in a previous vintage (Figure 22).

A 40% increase in the LP base since 2006 bolsters capital raising potential

7. **Expansion of investor base and penetration into new(er) market segments:** Carlyle continues to penetrate LPs globally and is meeting success as: a) the number of LPs increased 40% since 2006 (Figure 23); b) total commitments grew ~110%; and, c) the average commitment per investor improved 51% from $41M to $62M between 2006 and 2011. Carlyle's investor base totals 1,400 LPs and is highly diversified by client type and geography (Figures 24-26). Furthermore, the firm is beginning to penetration additional market segments such as HNW/Foundations, strategic partnerships, and retail (such as feeder funds, pooled vehicles, and other HNW channels).

Carlyle is well positioned to benefit from the structural shift toward bundled mandates

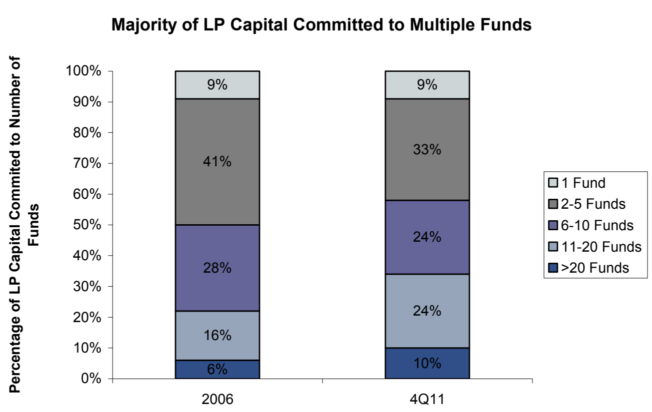
8. **Structural shift toward bundled mandates:** LPs continue to bundle mandates toward the largest and diversified players with strong track records in order to consolidate relationships, incorporate asset allocation across PE, RE, and credit, and reduce the cost of administration for plan sponsors - see also our 10/18/11, Turning The Business Upside Down - Takeaways From CIRA-Sponsored Institutional Consultant Call and 11/7/11 notes, High Powered Mandates. In particular, Carlyle and AlpInvest announced strategic mandates/managed accounts with MERS of Michigan in mid-2011 whereby MERS will invest $500M with AlpInvest over five years and $250M with Carlyle over five years;

9. **Organic + inorganic growth:** Carlyle's growth model should bolster capital raising efforts as the firm continues to: a) expand organically within each business segment; b) pursue inorganic growth opportunities; while, c) launch bundled solution products. Management appears open to acquisition opportunities having completed several deals and/or lift-outs in the last several quarters, such as in hedge funds, including Claren Road Asset Management (55% ownership), Emerging Sovereign Group (55% ownership); fund of funds, with the acquisition of a 60% interest in AlpInvest; and product extension, including the acquisition of four European CLO management contracts from Highland Capital Management in February 2012. In turn, Carlyle weighs "build versus buy" decisions by considering:

   - **Existing capabilities sufficient or new skills required;**
   - **Ability to expand brand;**
   - **Underlying investor demand**;
   - **Speed to market;**
   - **Fundraising cycle;**
   - **Risk weighted build versus buy economics;**

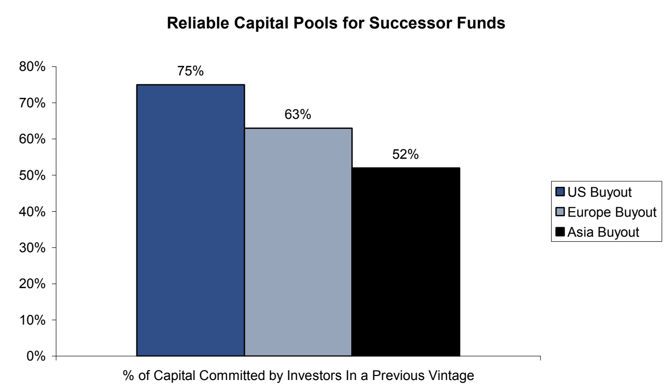
We believe future acquisition targets could include hedge funds, platform capabilities, and CLOs.

Figure 21. Significant Cross Selling…



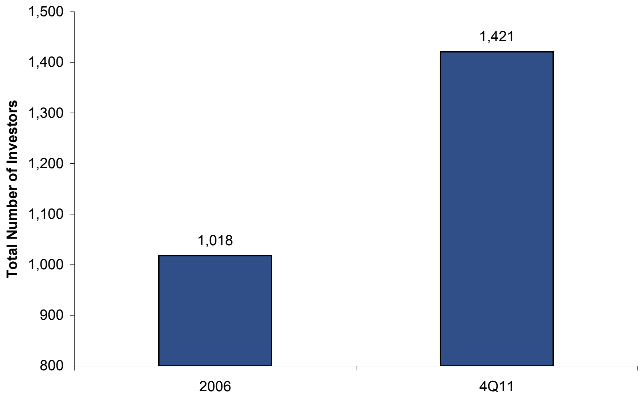
Source: Company reports, Citi Investment Research and Analysis

Figure 22. …Combined With High "Re-Up" Rates



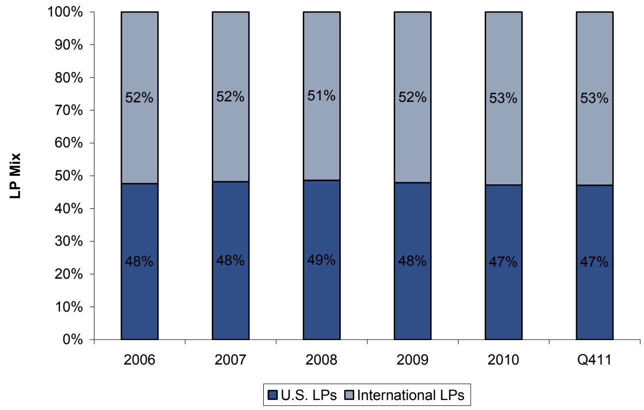
Source: Company reports, Citi Investment Research and Analysis

Figure 23. Is Bolstering Carlyle's LP Penetration…



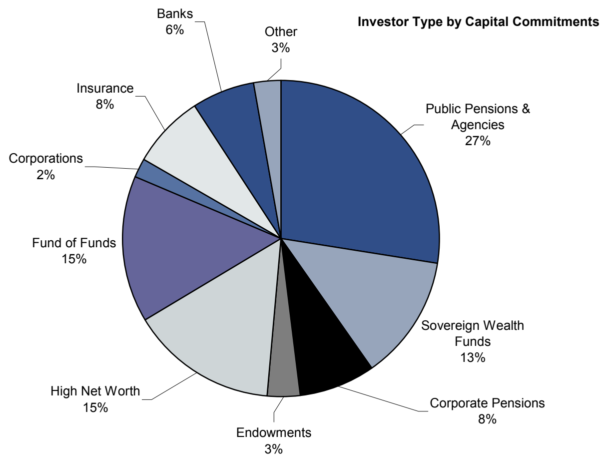
Source: Company reports, Citi Investment Research and Analysis

Figure 24. …And Global Presence



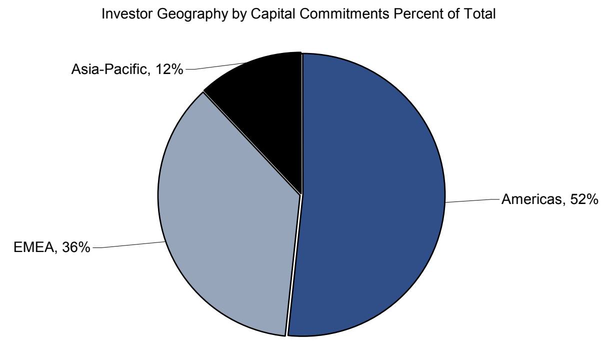
Source: Company reports, Citi Investment Research and Analysis

Figure 25. Carlyle's LP Base Is Highly Diversified By Client Type…



Source: Company reports, Citi Investment Research and Analysis

Figure 26. …And Region

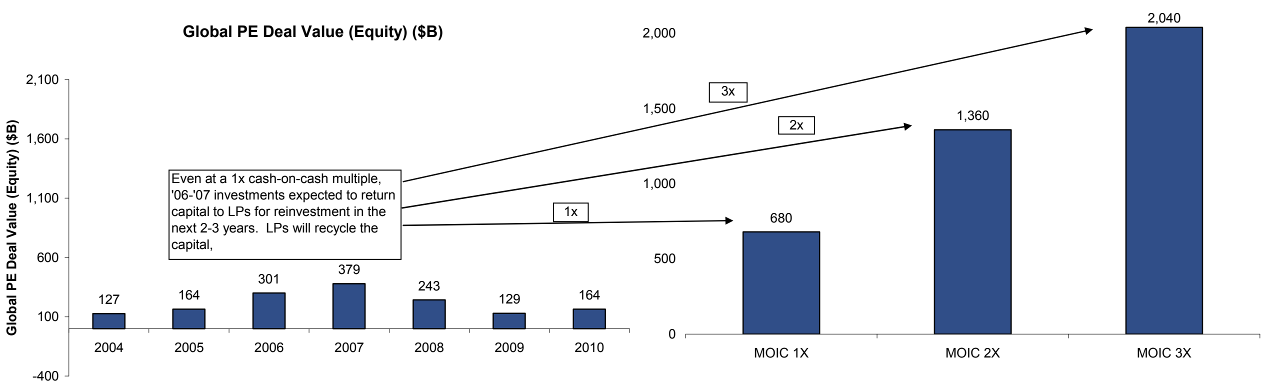


Source: Company reports, Citi Investment Research and Analysis

Significant Cyclical Re-Investment Opportunity Ahead

A significant amount of LP capital should be in motion over the next several years as capital is re-invested into Private Equity. With approximately $700B of LP capital deployed in 2006-07 vintage PE funds according to McKinsey (Figure 27), there appears to be a favorable tailwind developing as LPs likely re-allocate capital into PE assets over the next several years. As previously mentioned, Carlyle alone distributed $18.8B to LPs in 2011, for instance.

Figure 27. A Significant Amount Of Capital Is Expected To Be Re-cycled Into New(er) Vintage Private Equity Funds



Source: McKinsey, Company reports, Citi Investment Research and Analysis

Structurally Rising Alternatives Allocations

Allocations to alternatives are rising given alpha potential to address pension plan underfunding

Thematically, we see institutional investors continuing to increase allocations to the alternatives managers in an effort to bolster alpha generation (Figure 28). There are three powerful structural forces driving the alternatives upcycle:

1. **Pension plans are underfunded:** At 5/31, S&P 1500 pension plans are only 70% funded according to BNY Asset Management (Figure 29);

2. **Mandate activity beginning to percolate:** According to a recent Preqin survey, 25% and 27% of institutional investors plan to increase allocations to PE over the next 12 months and longer term, respectively (Figure 30). Such activity is broadly consistent with rising LP interest expressed by APO, BX, and KKR. To be sure, all four firms (along with Carlyle) continue to build large strategic mandates with pension funds.

3. **Barbelling between active and passive:** There is an accelerating use of index funds/ETFs and liability driven investing in combination with alternatives and alpha-seeking products to improve risk adjusted return profiles – see also our 6/11 note, Global Diversified Financials - Passive Wave Going Global; Up Next = UK + Australia. According to Cambridge Associates, the annualized net return over the last 15 years for the U.S Private Equity Index totals 12% versus 5% for the S&P 500 (Figure 31). More broadly, style box investing appears increasingly less in demand, which should bolster share for Alternatives relative to Traditional managers.

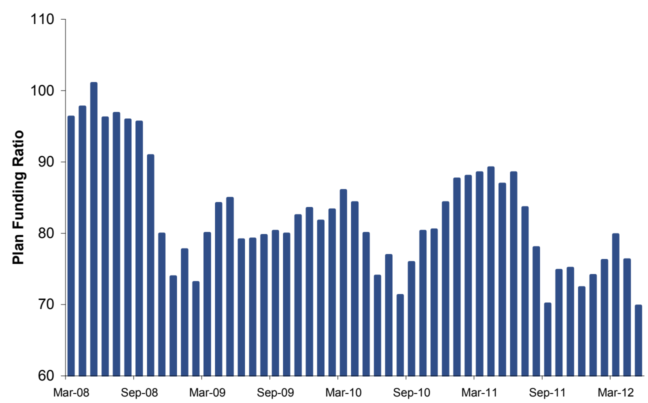
Figure 28. Pensions Are Raising Alternatives Allocations To Boost Alpha

Policy Targets		Equities	Fixed Income	Real Return / Opportunity	Hedge Fund / Private Equity	Cash	Date
California Public Employees' Retirement System	Prior	60%	26%	8%	6%	0%	2009
	Current	56%	19%	15%	10%	0%	2010
	Change	**-4%**	**-7%**	**7%**	**4%**	**0%**	
Colorado Public Employees' Retirement Association	Prior	58%	25%	10%	7%	0%	2009
	Current	56%	25%	12%	7%	0%	2010
	Change	**-2%**	**0%**	**2%**	**0%**	**0%**	
New Jersey Investment Council	Prior	39%	34%	9%	15%	3%	2010
	Current	39%	34%	9%	15%	3%	2011
	Change	**0%**	**0%**	**0%**	**0%**	**0%**	
Ohio Public Employees Retirement System	Prior	63%	24%	8%	4%	N/A	12/31/2008
	Current	50%	25%	12%	13%	N/A	12/31/2010
	Change	**-13%**	**1%**	**4%**	**9%**	**N/A**	
State of Wisconsin Investment Board	Prior	58%	31%	6%	5%	N/A	6/30/2008
	Current	53%	26%	13%	12%	-4%	6/8/2011
	Change	**-5%**	**-5%**	**7%**	**7%**	**N/A**	
New York State Teachers' Retirement System	Prior	61%	26%	8%	5%	N/A	6/30/2008
	Current	57%	26%	10%	7%	N/A	6/30/2010
	Change	**-4%**	**0%**	**2%**	**2%**	**N/A**	
Employees Retirement System of Texas	Prior	62%	38%	0%	0%	0%	2007
	Current	45%	33%	0%	21%	1%	2/22/2011
	Change	**-17%**	**-5%**	**0%**	**21%**	**1%**	
Oregon Public Employees Retirement System	Prior	55%	27%	8%	10%	0%	6/30/2007
	Current	46%	27%	11%	16%	0%	6/30/2010
	Change	**-9%**	**0%**	**3%**	**6%**	**0%**	
Ohio State Teachers' Retirement System	Prior	61%	18%	15%	5%	1%	
	Current	57%	18%	17%	7%	1%	2/21/2012
	Change	**-4%**	**0%**	**2%**	**2%**	**0%**	
Median Change		**-4%**	**0%**	**2%**	**4%**	**0%**	

Notes: Real Return includes TIPS, Real Estate, etc.

Source: Pension Fund CAFRs, Pensions & Investments, Citi Investment Research and Analysis

Figure 29. Underfunded Pension Plans Bodes Well For…



Note: Funding ratio = ratio of asset values to liabilities, representative of a typical pension plan. Data through 5/31/12

The asset and liability returns are for a hypothetical Moderate Risk portfolio compared to the return of BNY Mellon's "Typical" Pension

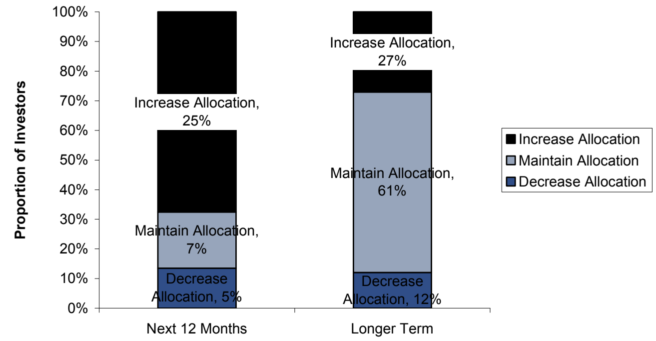
Liability Index, using Reported Value discounting.

(1) Reported Value of Liabilities : projected benefit payments discounted at Aa Corporate term structure

(2) Moderate Risk Portfolio: 50% Russell 3000, 10% MSCI EAFE, 40% Barclays Capital Aggregate Bonds

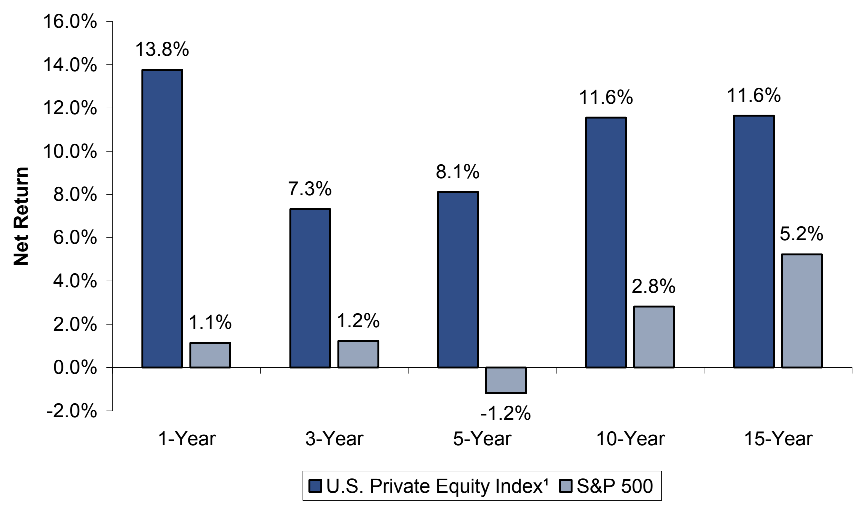
Source: BNY Mellon Asset Management, Mercer, Citi Investment Research and Analysis

Figure 30. …Rising Future Allocations



Source: Preqin, Citi Investment Research and Analysis

Figure 31. Private Equity Is Significantly Outpacing Traditional Asset Classes



[1]Cambridge Associates LLC U.S. Private Equity Index through 9/30/11

Note: Net return = pooled end-to-end return, net of fees, expenses, and carried interest.

Source: Cambridge Associates

ENI, FRE & DE Estimates

Our 2012-14 after-tax ENI per unit estimates are $2.26, $3.22, and $3.83; 2012-14 after-tax FRE are $0.41, $0.47, and $0.64; after-tax DE $2.21, $3.04, and $3.49 respectively. Additionally, we forecast distributions of $1.12, $2.28, and $2.62 in 2012-14 though note 2012 only represents a partial year cash distribution following IPO – the 2Q distribution will be pro-rated to reflect a partial quarter as a public company and there is no 1Q distribution. On a pro forma basis, we estimate the 2012 distribution is ~$1.70. Below we outline some of the underlying model assumptions:

- **Market returns:** Between 12% to 17% in CPE; 15%-17% in RE; 10% for GMS Hedge Funds; and 8% for FoF Solutions. For 2Q12, we forecast 5-6% depreciation in PE overlaying public investments and markets;
- **Fund raising**: We forecast capital commitments of $17B, $18B, and $18B in 2102-14 versus $5.5B in 2011 as Carlyle is entering a favorable capital raising cycle driven by successful fund launches for U.S, Europe, and Asian buyout. Caryle's 6th U.S. buyout fund, Carlyle Partners VI, launched fundraising efforts in 1Q and management anticipates accelerated fundraising activities in 2012-13;
- **Capital deployment:** We assume about $12B "dry powder" deployed per year for CPE and RA combined, and similar to the $11B invested in 2011;
- **Monetizations**: We forecast distributions of $14.5B in 2012, increasing to $22B in 2013 and $24B in 2014 as Carlyle's portfolio further matures and exit activity picks up;
- **Compensation:** We generally assume a 45% comp pool versus ~40% for peers; in GMS given the partial ownership of Claren Road and Emerging Sovereign, we forecast a 32% comp pool;
- **Tax rate:** ENI tax rate of between 10% to 12% per year; no taxes on carry.

Increasingly Robust Set Of Businesses

Corporate Private Equity (CPE)

Carlyle's Corporate Private Equity (CPE) segment is one of the world's largest PE businesses, with 250+ investment professionals in 23 offices globally, 26 active funds, nine concentrations of industry focus, and $53B in AUM at 3/31/12 (~$49B buyout, ~$4B growth capital). CPE is led by Mr. William E. Conway, Jr., Co-Founder and MD. In contrast to peers, Carlyle operates a regional and multi-fund PE model focused on U.S. buyout, Europe buyout, and Asia buyout, as well as other regionally focused growth and emerging markets funds, such as MENA, Asia, South America, and Africa (Figures 32-33).

EBITDA + debt restructure are key value drivers as P/E multiple expansion generally not assumed

The main drivers to Carlyle's value creation at portfolio companies are EBITDA growth and debt paydown rather than acquisition-exit multiple arbitrage. For example in U.S. buyout, 74% of returns are attributable to EBITDA growth, 37% to debt deleveraging, and -11% to multiple contraction (Figure 34). Dynamics are somewhat different in Europe and Asia, where pricing inefficiencies are more common and exit multiple expansion does typically create positive IRRs, though majority of the valuation creation results from growth in EBITDA.

In additional to Carlyle's scaled and global platform, the firm is also differentiated with respect to deal sourcing and portfolio company optimization. We note:

- **Approximately 75% of investments sourced through proprietary and/or limited processes**;
- **Significant industry expertise with deep industry relationships cultivated over 24 years;**
- **Local presence:** Carlyle maintains local investment teams across six continents;
- **Superior network advantages:** Through managing 200 portfolio companies, Carlyle is able to gather and analyze portfolio data into investment, operational, and exit decision making;
- **Customized value creation plan:** Carlyle utilizes 27 operating executives with an average of 40+ years of relevant experience to create a customized value creation plan with lowest execution risk but highest impact. Operating executives work directly with investment teams from due diligence to exit.

Figure 32. Corporate Private Equity Is Diversified Across U.S., Asia, And Europe Buyout…

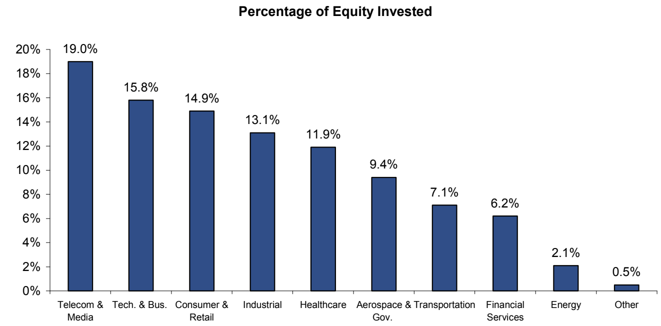
US Buyout: Facts & Figures As of 12/31/11	
Realized/Partially Realized Gross IRR	32%
Total AUM	$26B
Available Capital	$6B
Fee-earning AUM	$18B
Active Investments	33
2011 Equity Invested	$3.3B
2011 Distributions	$5.7B
Investment Professionals	61

Asia Buyout: Facts & Figures As of 12/31/11	
Realized/Partially Realized Gross IRR	31%
Total AUM	$7B
Available Capital	$2B
Fee-earning AUM	$4B
Active Investments	20
2011 Equity Invested	$0.3B
2011 Distributions	$4.3B
Investment Professionals	42

Europe Buyout: Facts & Figures As of 12/31/11	
Realized/Partially Realized Gross IRR	28%
Total AUM	$9B
Available Capital	$2B
Fee-earning AUM	$8B
Active Investments	27
2011 Equity Invested	$2.3B
2011 Distributions	$1.9B
Investment Professionals	40

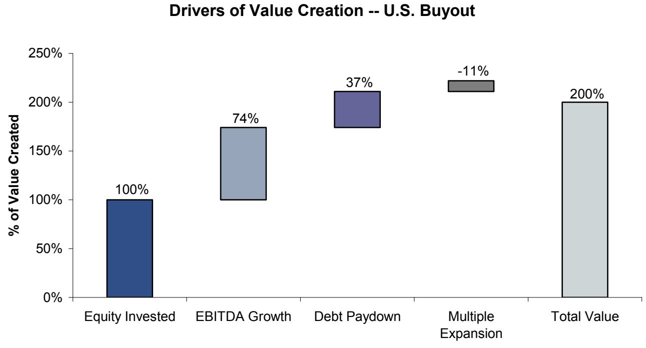
Source: Company reports, Citi Investment Research and Analysis

Figure 33. …And Sector



Source: Company reports, Citi Investment Research and Analysis

Figure 34. Value Creation Is Typically Driven By Growth + Deleveraging (And Not Multiple Expansion)

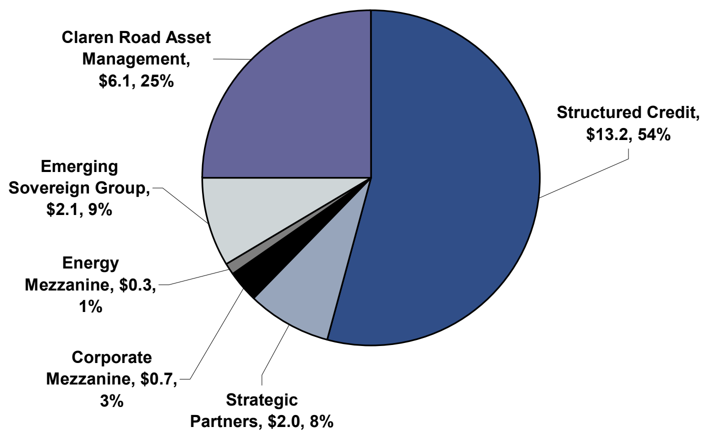


Source: Company reports, Citi Investment Research and Analysis

Global Market Strategies (GMS)

The Global Market Strategies (GMS) segment evolved from primarily a credit-focused business to a global multi-strategy and multi-product platform encompassing hedge funds, credit/structured credit, and carry funds representing $28B in AUM at 3/31/12 (Figure 35). GMS is led by Mr. Mitch Petrick and management's strategy is to partner/acquire existing platforms or launch new investment strategies. Carlyle completed two acquisitions in 2011 including 55% ownership interests in Claren Road Asset Management, a L/S credit-oriented HF, and Emerging Sovereign Group, an emerging markets and global macro HF. Internally, GMS intends to build a new energy mezzanine business.

Figure 35. GMS Transformed Into A Global, Multi-Product Platform



Source: Company reports, Citi Investment Research and Analysis

Real Assets (RA)

Real Assets (RA) include real estate ($12B AUM), energy ($17B AUM), and infrastructure ($1B AUM) businesses with $32B in AUM at 3/31/12 across 17 active funds (Figure 36). RA is led by Mr. Dan D'Aniello and includes 133 investment professionals. Carlyle's Energy & Power and Renewable funds are jointly advised with Riverstone Investment Group LLC, though Carlyle discontinued the JV and plans on developing a "controlled" energy platform using in-house capabilities – either developed internally or potentially a team lift-out.

Figure 36. Real Asset Performance is Strong

Real Assets: Facts & Figures As of 12/31/11	
Realized/Partially Realized Gross IRR	29%
Total AUM	$31B
Available Capital	$8B
Fee-earning AUM	$22B
Active Investments	331
2011 Equity Invested	$3B
2011 Distributions	$5.2B
2011 Appreciation	16%

Source: Company reports, Citi Investment Research and Analysis

Figure 37. Fund Of Funds Is Highly Complementary

Fund of Fund Solutions: Facts & Figures As of 12/31/11	
IRR	10%
Total AUM	$41B
Available Capital	$15B
Fee-earning AUM	$28B
Fund of Fund Vehicles	52
2011 Equity Invested	$2.4B
2011 Distributions	$3.3B
Investment Professionals	60

Source: Company reports, Citi Investment Research and Analysis

Fund of Funds Solutions (AlpInvest)

Carlyle entered the Fund of Funds business in July 2011 through acquiring a 60% equity interest in AlpInvest Partners, a leading independent private equity fund of funds manager led by Volkert Doeksen (Figure 37). AlpInvest manages 52 active funds with $45B in AUM at 3/31/12 across fund investments (71% of AUM), co-investments/mezzanine (16% of AUM), and secondary investment (13% of AUM); and has approximately 5% market share of annual Fund of Funds commitments. The majority of AlpInvest AUM are managed on behalf of Dutch pension firms APG and PGGM and both pension fund managers extended their commitment as client with additional mandates totaling €10B between 2011-15.

The Fund of Funds business is strategically important to Carlyle for several reasons. First, the firm maintains relationships with 1,400+ LPs and most are looking to allocate beyond fund commitments into FoFs. In turn, Carlyle can garner a larger share of wallet. Second, the deeper portfolio construction further aligns Carlyle with LPs interests. Third, the business complements Carlyle's existing products and services. Fourth, organic growth opportunities are sizeable as Carlyle could expand to include: a) fund of hedge funds; b) outsourced CIO; c) third-party administration and reporting; and, d) customized managed account solutions – the latter driving strong FoF growth at BX, for instance. Early results are encouraging. As mentioned earlier, Carlyle won $750M in aggregate mandates from MERs of Michigan including $500M for AlpInvest and $250M for Carlyle.

Company History

Carlyle is one of the world's largest alternatives asset management firms focused on Private Equity, Real Assets (real estate, infrastructure, energy), Hedge Funds, and Fund of Funds. Carlyle was founded in Washington DC in 1987 and now employs 1,300 individuals including 600 investment professionals in 33 offices across six continents. Carlyle went public on May 2nd 2012 through a primary IPO that priced 30.5M common units at $22 per unit. As of March 31st, 2012, Carlyle manages $159B in AUM.

Management

Carlyle was founded by Mr. David M. Rubenstein, Co-CEO; Mr. William E. Conway, Co-CEO & CIO; and Mr. Daniel A. D'Aniello, Chairman. Mr. Rubenstein practiced law with Shaw, Pittman, Potts & Trowbridge LLP prior to forming Carlyle. Mr. Conway was SVP and CFO of MCI Communications from 1985-1987 and VP & Treasurer from 1981-1984. Mr. D'Aniello was VP for Finance and Development at Marriot Corporation and prior to Marriot, a financial officer at PepsiCo and Trans World Airlines.

Other key members include: Mr. Glenn A. Youngkin, COO; Ms. Adena T. Friedman, CFO; Mr. David Marchick, External Affairs; Mr. Jeff Ferguson, Legal and Compliance; Mr. Mike Arpey, VP Investor Relations; Mr. Bruce Rosenblum, Risk Management; Mr. Mitch Petrick, Head of GMS; and Mr. Volkert Doeksen, Head of FoF Solutions.

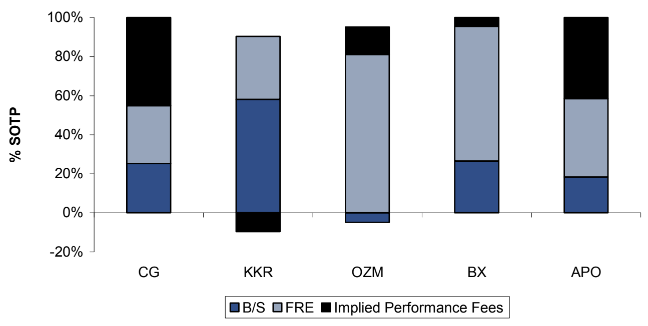
Risks

Beyond market declines, reduced MOICs, and economic slowdowns, which could pressure company valuations and/or carry funds NAVs, we note the following key risks:

1. **Bulk of ENI tied to performance fees:** Since 2009, 70% of CG's ENI composition is tied to performance fees versus 23% for KKR, 41% for BX, and 84% for APO. In turn, CG's sum-of-the-parts valuation is weighted more toward performance fees rather than FRE, the latter which is more stable given recurring management fee streams and typically valued separately when using a SOTP methodology. Likewise, CG's distributable earnings will likely be more weighted to performance fees which can be lumpy given monetization cycles – though CG's multi-fund and high throughput model does alleviate some of the concern, in our view;

2. **SOTP weighted toward carry relative to peers:** As shown in Figure 38, the bulk of CG's SOTP methodology is tied toward carried interest. Isolating the value for the B/S and capitalizing FRE, we estimate implied performance fees represent 45% of the current unit price, with 30% and 25% tied FRE and the B/S, respectively. This compares to peer averages of 10% (performance fees), 55% (FRE), and 22% (B/S), respectively. Likewise, if we array our SOTP components, 75% of our target price for CG is ascribed to performance fees, versus 60% for APO, 49% for OZM, 37% for BX, and 34% for KKR (Figure 39);

Figure 38. The Bulk Of Carlyle's Unit Price…



Note: Implied value of performance fees = Current price - Net Cash/Inv/Unrealized Carry - FRE valuation

Unrealized carry discounted 20%

Source: Company reports, Citi Investment Research and Analysis

Figure 39. …And SOTP Is Tied To Performance Fees

	CG	KKR	OZM	BX	APO	Avg
% B/S	10%	42%	-3%	17%	12%	15%
% FRE	15%	24%	54%	45%	27%	36%
% Implied Perf fee	75%	34%	49%	37%	60%	43%
Total	100%	100%	100%	100%	100%	

Source: Citi Investment Research and Analysis

CG is founded more on volume than margins

3. **Below average FRE margin:** Carlyle below average FRE margin relative to peers reflects: a) the firm's global platform, which brings higher cost across geography, product, and personnel; and, b) greater focus and costs related to distribution. As noted earlier – and in contrast to peers - CG operates a multi-fund model; is frequently "in the market" with product openings; and offers LPs highly specialized marketing and customer service;

4. **Adverse carried interest taxation:** The U.S. Congress has considered legislation that if enacted would preclude PTPs from qualifying as a partnership or require PE firms to hold carried interest through taxable corporate blockers and tax individual holders of common units with respect to income and gains at

increased rates. In turn, the effective tax rates paid by PE firms could increase. However: a) there would likely be a 10-year phase in-period should such legislation be enacted; and, b) several management teams in the sector suggest recent carried interest legislation discussion is not focused on the PTP structure, but rather towards unitholders given the passthrough nature of income – see our 4/4, Recapping Thoughts On Carried Interest Taxation and 5/8 notes, Clarifying Carried Interest Concerns;

5. **M&A driven execution risk:** The large percentage of recent M&A growth driven by M&A (AlpInvest, Claren Road, ESG, CLOs, etc) does raise execution risk, though management utilizes a well-defined build versus buy process that emphasizes risk-adjusted economics, cultural fit, investor demand, fit, etc;

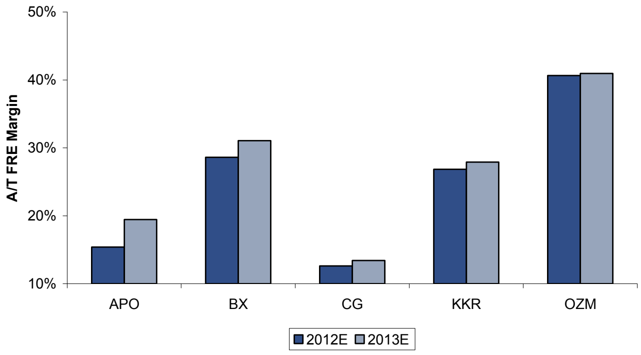
6. **Fund of Funds business possibly raises conflict of interest issues:** While AlpInvest does not directly invest in any Carlyle funds, some investors may feel there are inherent conflicts of interest which may limit the overall market opportunity;

7. **Lack of disclosure relative to peers:** While CG offers solid disclosure including detailed historical MOIC/IRR statistics, additional disclosure of investment performance for dollars “in the ground” by fund and/or segment, in-line with peers such as APO, BX, and KKR, would be helpful. In turn, with no “in the ground” statistics – which only focus on unrealized investments, both cost and fair value – it is more difficult to value the firm using a SOTP methodology because overall performance reflects historical gains which are already realized;

8. **Potential fee pressure:** Should large strategic mandates, which typically command low(er) fees relative to funds, become a larger percentage of AUM, Carlyle could face an adverse AUM mix shift. That said, we see new and emerging market funds commanding higher fees relative to the prior funds and the fee compression related to strategic mandates appears manageable;

9. **Low float:** Employees, partners, and insiders own 78% of the company; strategic investors CalPERS and Mubadala own 12%, and the common float is 10% following 30.5M shares issued in the primary IPO on 5/3 (Figure 41). Beyond the 180 day lock-up agreement, holders of Carlyle partnership units (other than Mubadala and CalPERS) are prohibited from transferring or exchanging any units until the 5th anniversary of the IPO. Based on respective agreements, CalPERS will not be able to sell until six months post the IPO while Mubadala is subject to a phased-in two-year restriction (12-18 months after IPO, up to 18.6M units; 18-24 months after IPO, 21M units; and 24 months after closing, up to 23.5M units).

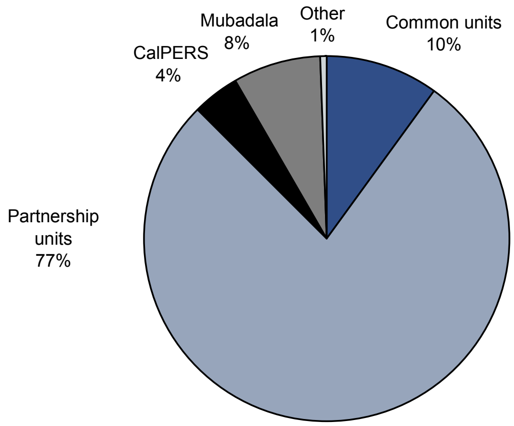
Figure 40. CG's FRE Margin Is Below Peers



For OZM, we calculate FRE margin by removing incentive fees and variable compensation from non-GAAP economic income results

Source: Company reports, Citi Investment Research and Analysis

Figure 41. Low Float May Present Technical Selling Pressure



Source: Company reports, Citi Investment Research and Analysis

Companies mentioned: (APO.N; US$12.69; 1); (BX.N; US$12.22; 1); (KKR.N; US$11.98; 1); (OZM.N; US$7.34; 1)

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Glossary of Terms

Figure 42. Glossary Of Terms

Economic net income or "ENI," represents segment net income which excludes the impact of income taxes, acquisition-related items including amortization of acquired intangibles and contingent consideration taking the form of earn-outs, charges associated with equity-based compensation issued in Carlyle's initial public offering or future acquisitions, corporate actions and infrequently occurring or unusual events. For periods prior to its Initial Public Offering, ENI also reflects pro forma compensation expense for compensation to senior Carlyle professionals, which Carlyle has accounted for as distributions from equity rather than as employee compensation for periods prior to its Initial Public Offering. Total Segment ENI equals the aggregate of ENI for all segments.

Fee Related Earnings is a component of ENI and measures operating profitability exclusive of performance fees, investment income from investments in Carlyle's funds and performance fee-related compensation. Accordingly, Fee Related Earnings reflect the ability of the business to cover direct base compensation and operating expenses from fee revenues other than performance fees. For periods prior to its Initial Public Offering, Fee Related Earnings also reflects pro forma compensation expense for compensation to senior Carlyle professionals, which Carlyle has accounted for as distributions from equity rather than as employee compensation for periods prior to its Initial Public Offering.

Distributable Earnings is a component of ENI representing total ENI less net performance fees and investment income plus realized net performance fees and realized investment income. Distributable Earnings is intended to show the amount of net realized earnings without the effects of consolidation of the Consolidated Funds. Distributable Earnings is derived from Carlyle's segment reported results and is an additional measure to assess performance and amounts potentially available for distribution from Carlyle Holdings to its equity holders.

"Assets under management" or "AUM" refers to the assets managed by Carlyle. AUM equals the sum of the following: (a) the fair value of the capital invested in Carlyle carry funds, co-investment vehicles and fund of funds vehicles plus the capital that Carlyle is entitled to call from investors in those funds and vehicles (including Carlyle commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles; (b) the amount of aggregate collateral balance at par of Carlyle's collateralized loan obligations ("CLOs") and the reference portfolio notional amount of Carlyle's synthetic collateralized loan obligations ("synthetic CLOs"); and (c) the net asset value (pre-redemptions and subscriptions) of Carlyle's long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds. AUM includes certain energy and renewable resources funds that Carlyle jointly advise with Riverstone Investment Group L.L.C. ("Riverstone"). In addition, Carlyle's calculation of AUM (but not fee-earning AUM) includes uncalled commitments to, and the fair value of invested capital in, investment funds from Carlyle and its personnel, regardless of whether such commitments or invested capital are subject to fees.

"Available capital," commonly known as "dry powder," for Carlyle's carry funds refers to the amount of capital commitments available to be called for investments. Amounts previously called may be added back to available capital following certain distributions.

"Carry funds" refers to those investment funds that Carlyle advises, including the buyout funds, growth capital funds, real asset funds and distressed debt and mezzanine funds (but excluding Carlyle's structured credit funds, hedge funds and fund of funds vehicles), where Carlyle receives a special residual allocation of income, which is referred to as a "carried interest," in the event that specified investment returns are achieved by the fund.

"Expired available capital" occurs when a fund has passed the investment and follow-on periods and can no longer invest capital into new or existing deals. Any remaining available capital, typically a result of either recycled distributions or specific reserves established for the follow-on period that are not drawn, can only be called for fees and expenses and is therefore removed from the total AUM calculation.

"Fee-earning assets under management" or "Fee-earning AUM" refers to the assets managed by Carlyle from which Carlyle derives recurring fund management fees. Fee-earning AUM generally equals the sum of: (a) for carry funds and certain co-investment vehicles where the investment period has not expired, the amount of limited partner capital commitments and for fund of funds vehicles, the amount of external investor capital commitments during the commitment period; (b) for substantially all carry funds and certain co-investment vehicles where the investment period has expired, the remaining amount of limited partner invested capital; (c) the gross amount of aggregate collateral balance at par, adjusted for defaulted or discounted collateral, of Carlyle's CLOs and the reference portfolio notional amount of Carlyle's synthetic CLOs; (d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of Carlyle's long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds; and (e) for fund of funds vehicles and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital. Fee-earning AUM includes certain energy and renewable resources funds that Carlyle jointly advises with Riverstone.

"Fund of funds vehicles" refer to those funds, accounts and vehicles advised by AlpInvest Partners B.V., formerly known as AlpInvest Partners N.V.

"Net performance fees" refers to the performance fees from Carlyle funds and fund of funds vehicles net of the portion allocated to Carlyle investment professionals which is reflected as performance fee related compensation expense.

"Net realized performance fees" refers to the realized performance fees from Carlyle funds and fund of funds vehicles net of the portion allocated to Carlyle investment professionals which is reflected as realized performance fee related compensation expense.

"Performance fees" consist principally of carried interest from carry funds and fund of funds vehicles and incentive fees or allocations from certain of our Global Market Strategies funds. Carlyle is generally entitled to a 20% allocation (or 1.8% to 10% in the case of most of the fund of funds vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns of generally 8% to 9% and the return of certain fund costs (subject to catch-up provisions as set forth in the fund limited partnership agreement). Carried interest revenue, which is a component of performance fees in Carlyle's combined and consolidated financial statements, is recognized by Carlyle upon appreciation of the valuation of the applicable funds' investments above certain return hurdles as set forth in each respective partnership agreement and is based on the amount that would be due to Carlyle pursuant to the fund partnership agreement at each period end as if the funds were liquidated at such date.

Source: Company reports, Citi Investment Research and Analysis

Earnings Model

Figure 43. CG Summary Model

The Carlyle Group — William R. Katz
Earnings Results and Forecasts — (212) 816-5394
($ Millions, Except As Noted) — william.katz@citi.com

KEY FORECAST VARIABLES:	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12E	3Q12E	4Q12E	2011	2012E	2013E	2014E	2QE/1Q	2EQ/2Q	12E/11	13E/12E	14E/13E
						Forecast:				Forecast:			% Change				
Revenues																	
Fund Management fees	200.6	214.9	234.4	220.6	225.4	228.5	238.9	254.5	870.5	947.3	1,045.4	1,158.3	1.4	6.3	8.8	10.4	10.8
Portfolio advisory fees	12.3	12.0	7.5	5.7	8.0	8.9	8.9	9.9	37.5	35.6	22.5	20.5	10.9	-26.0	-5.0	-36.8	-8.9
Transaction fees, net	18.8	4.1	5.4	9.9	2.7	7.9	7.4	7.4	38.2	25.3	17.5	14.5	191.7	92.1	-33.7	-30.9	-17.1
total fund level fees	231.7	231.0	247.3	236.2	236.1	245.3	255.1	271.7	946.2	1,008.3	1,085.4	1,193.3	3.9	6.2	6.6	7.7	9.9
Performance Fees																	
Realized	401.7	97.6	387.4	414.6	281.8	189.3	187.6	319.7	1,301.3	978.4	1,443.8	1,633.2	-32.8	94.0	-24.8	47.6	13.1
Unrealized	459.2	243.8	-894.7	-3.4	349.7	-419.9	73.0	48.4	-195.1	51.2	181.8	408.0	-220.1	-272.2	-126.3	254.8	124.4
total	860.9	341.4	-507.3	411.2	631.5	-230.6	260.6	368.1	1,106.2	1,029.7	1,625.6	2,041.1	-136.5	-167.5	-6.9	57.9	25.6
Investment income (loss)																	
Realized	29.8	5.6	13.0	17.2	2.1	1.5	1.7	1.8	65.6	7.1	-1.2	-4.0	-27.4	-72.8	-89.1	-117.1	227.2
Unrealized	23.2	9.8	-17.6	0.4	21.2	1.5	1.7	1.8	15.8	26.2	-1.2	-4.0	-92.8	-84.5	66.1	-104.7	227.2
total	53.0	15.4	-4.6	17.6	23.3	3.0	3.4	3.7	81.4	33.4	-2.4	-8.0	-86.9	-80.2	-59.0	-107.3	227.2
Interest and other income	5.9	7.6	1.4	0.6	2.6	1.9	1.9	1.9	15.5	8.2	7.4	8.5	-28.8	-75.7	-47.4	-9.2	14.9
Total Revenue	1,151.5	595.4	-263.2	665.6	893.5	19.6	521.0	645.4	2,149.3	2,079.4	2,716.0	3,234.9					
Expense																	
Direct base compensation	98.8	97.4	107.2	101.0	101.2	108.0	108.9	111.3	404.4	429.4	460.8	475.9	6.8	10.9	6.2	7.3	3.3
Performance fee related																	
Realized	187.8	44.6	193.2	198.2	139.1	75.5	83.0	128.0	623.8	425.6	629.5	718.2	-45.7	69.2	-31.8	47.9	14.1
Unrealized	232.9	106.1	-477.2	-9.8	157.6	-181.9	30.4	20.6	-148.0	26.7	75.0	184.7	-215.4	-271.4	-118.0	181.2	146.3
Total direct comp & benefits	519.5	248.1	-176.8	289.4	397.9	1.6	222.3	259.8	880.2	881.7	1,165.3	1,378.9	-99.6	-99.3	0.2	32.2	18.3
General & administrative	82.1	95.7	89.8	109.2	93.7	96.6	97.6	97.1	376.8	384.9	412.1	431.5	3.1	0.9	2.2	7.1	4.7
Interest expense	16.5	14.8	15.1	12.8	9.8	7.0	4.4	4.4	59.2	25.6	17.5	17.5	-28.2	-52.5	-56.8	-31.6	0.0
Total expense	618.1	358.6	-71.9	411.4	492.7	105.3	324.3	361.2	1,316.2	1,283.5	1,594.9	1,827.9	-78.6	-70.6	-2.5	24.3	14.6
P/T Economic Net Income	533.4	236.8	-191.3	254.2	400.8	-85.6	196.7	284.1	833.1	796.0	1,121.1	1,407.0	-121.4	-136.2	-4.5	40.8	25.5
tax rate	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.0%	12.9%	11.5%	15.5%					
Total tax	0.0	0.0	0.0	0.0	63.5	-8.6	19.7	28.4	0.0	103.0	128.9	218.1				25.2	69.2
A/T Economic Net Income	N/A	N/A	N/A	254.2	337.3	-77.1	177.0	255.7	833.1	692.9	992.2	1,189.0				43.2	19.8
A/T ENI per unit				**0.83**	**1.10**	**-0.25**	**0.58**	**0.83**	**2.74**	**2.26**	**3.22**	**3.83**					
P/T Fee Related Earnings	40.2	30.7	36.6	13.8	34.0	35.5	46.2	60.9	121.3	176.5	202.4	276.9	4.4	15.6	45.5	14.7	36.8
A/T Fee Related Earnings	N/A	N/A	N/A	N/A	24.5	25.5	33.2	43.8	121.3	127.1	145.8	199.3	4.4	N/A	4.8	14.7	36.8
Net Performance Fees	440.2	190.7	-223.3	222.8	334.8	-124.2	147.2	219.6	630.4	577.4	921.1	1,138.2	-137.1	-165.1	-8.4	59.5	23.6
Investment Income	53.0	15.4	-4.6	17.6	23.3	3.0	3.4	3.7	81.4	33.4	-2.4	-8.0	-86.9	-80.2	-59.0	-107.3	227.2
P/T Distributable earnings	283.9	89.3	243.8	247.4	189.1	150.8	152.4	254.4	864.4	736.4	1,015.5	1,187.8	-20.2	68.9	-14.8	37.9	17.0
A/T Distributable earnings (public holders)	N/A	N/A	N/A	N/A	17.4	13.6	13.4	23.1	N/A	67.5	92.8	106.4	-21.9	N/A	N/A	37.4	14.6
Distributable earnings per unit					**0.57**	**0.45**	**0.44**	**0.76**		**2.21**	**3.04**	**3.49**					
Distribution per unit					**N/A**	**$0.22**	**$0.33**	**$0.57**		**$1.12**	**$2.28**	**$2.62**					
Margins																	
Employee comp % Mgmt fees		45.3%	45.7%	45.8%	44.9%	47.3%	45.6%	43.7%	46.5%	45.3%	44.1%	41.1%					
Performance fee comp % PF		44.1%	56.0%	45.8%	47.0%	46.1%	43.5%	40.4%	43.0%	43.9%	43.3%	44.2%					
P/T FRE margin		13.3%	14.8%	5.8%	14.4%	14.5%	18.1%	22.4%	12.8%	17.5%	18.7%	23.2%					
A/T FRE margin		N/A	N/A	N/A	10.4%	10.4%	13.0%	16.1%	12.8%	12.6%	13.4%	16.7%					
P/T ENI margin		39.8%	72.7%	38.2%	44.9%	-436.4%	37.8%	44.0%	38.8%	38.3%	41.3%	43.5%					
A/T ENI margin		N/A	N/A	N/A	37.8%	-392.7%	34.0%	39.6%	N/A	33.3%	36.5%	36.8%					
AUM																	
Corporate Private Equity	N/A	55,848	51,044	51,065	53,264	52,361	57,191	57,560	51,065	57,560	71,659	77,986					
Real Assets	N/A	31,628	30,373	30,672	32,242	31,837	31,506	30,923	30,672	30,923	26,880	30,159					
Global Mkt Strategies	N/A	20,503	23,049	24,513	28,292	29,042	29,381	29,727	24,513	29,727	27,378	29,337					
FoF Solutions	N/A	N/A	44,194	40,719	45,424	45,924	46,851	47,803	40,719	47,803	51,149	49,972					
total		**107,979**	**148,660**	**146,969**	**159,222**	**159,164**	**164,929**	**166,014**	**146,969**	**166,014**	**177,065**	**187,454**					
FPAUM																	
Corporate Private Equity	N/A	39,403	38,674	37,996	37,833	40,073	44,213	44,078	37,996	44,078	52,943	55,953					
Real Assets	N/A	22,591	22,352	22,172	22,848	22,633	22,418	22,078	22,172	22,078	19,668	21,373					
Global Mkt Strategies	N/A	18,419	21,424	23,186	26,803	27,608	28,421	29,242	23,186	29,242	31,845	36,554					
FoF Solutions	N/A	N/A	30,177	27,671	29,514	30,014	30,834	31,673	27,671	31,673	34,420	32,487					
total	**N/A**	**80,413**	**112,627**	**111,025**	**116,998**	**120,328**	**125,886**	**127,072**	**111,025**	**127,072**	**138,876**	**146,367**					
Beg AUM	107,512	N/A	107,979	148,660	146,969	159,222	159,164	164,929	107,512	146,969	166,014	177,065					
Acquisitions	N/A	0	47,009	1,217	2,903	0	0	0	48,226	2,903	0	0					
Commitments	N/A	3,336	1,172	897	3,773	4,500	6,500	2,000	5,405	16,773	18,400	17,800					
Capital called, net	N/A	-290	-302	-193	157	0	0	0	-785	157	0	0					
Distributions	N/A	-11,425	-2,297	-5,091	-3,676	-3,200	-3,700	-3,950	-18,813	-14,526	-22,400	-23,800					
Net Flows (subscriptions-redemptions)	N/A	0	512	826	710	275	275	275	1,338	1,535	900	1,000					
Changes in CLO collateral	N/A	-424	-527	-165	244	0	0	0	-1,116	244	0	0					
Market impact	N/A	7,717	-3,188	3,173	6,570	-1,633	2,690	2,760	7,702	10,387	14,151	15,388					
Foreign exchange	N/A	1,553	-1,698	-2,355	1,572	0	0	0	-2,500	1,572	0	0					
Total AUM	**N/A**	**107,979**	**148,660**	**146,969**	**159,222**	**159,164**	**164,929**	**166,014**	**146,969**	**166,014**	**177,065**	**187,454**					
Net capital raised		3,336	1,684	1,723	4,483	4,775	6,775	2,275	6,743	18,308	19,300	18,800					

Source: Company reports, Citi Investment Research and Analysis

Figure 44. CG Summary Model (cont.)

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						Forecast:				Forecast:			% Change				
KEY FORECAST VARIABLES:	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**1Q12**	**2Q12E**	**3Q12E**	**4Q12E**	**2011**	**2012E**	**2013E**	**2014E**	**2QE/1Q**	**2EQ/2Q**	**12E/11**	**13E/12E**	**14E/13E**
Corporate Private Equity																	
Revenues																	
Fund Management fees	129.4	130.2	128.1	123.6	123.9	121.3	128.9	142.3	511.3	516.4	587.0	653.4	-2.1	-6.8	1.0	13.7	11.3
Portfolio advisory fees	11.8	10.4	4.8	4.3	7.0	6.4	6.4	6.4	31.3	26.1	17.5	14.5	-8.9	-38.7	-16.5	-33.0	-17.1
Transaction fees, net	18.5	4.1	3.8	8.3	1.6	6.4	6.4	6.4	34.7	20.7	17.5	14.5	298.4	55.5	-40.3	-15.6	-17.1
total fund level fees	159.7	144.7	136.7	136.2	132.5	134.1	141.7	155.0	577.3	563.3	622.0	682.4	1.2	-7.3	-2.4	10.4	9.7
Performance Fees																	
Realized	326.9	30.8	333.0	262.2	223.0	141.9	168.7	203.9	952.9	737.6	1,024.8	1,074.7	-36.4	360.7	-22.6	38.9	4.9
Unrealized	367.4	240.8	-787.2	79.7	241.3	-385.7	51.7	35.2	-99.3	-57.4	130.4	97.6	-259.9	-260.2	-42.2	-326.9	-25.1
total	694.3	271.6	-454.2	341.9	464.3	-243.8	220.5	239.2	853.6	680.1	1,155.1	1,172.3	-152.5	-189.8	-20.3	69.8	1.5
Investment income (loss)																	
Realized	27.1	-0.1	8.1	8.1	0.8	1.0	1.1	1.2	43.2	4.1	-0.8	-2.4	23.8	-1090.4	-90.6	-119.5	202.0
Unrealized	2.0	7.2	-14.8	5.9	14.5	1.0	1.1	1.2	0.3	17.8	-0.8	-2.4	-93.2	-86.2	5825.5	-104.5	202.0
total	29.1	7.1	-6.7	14.0	15.3	2.0	2.2	2.4	43.5	21.9	-1.6	-4.8	-87.1	-72.1	-49.8	-107.3	202.0
Interest and other income	3.6	4.2	0.3	1.1	1.4	1.0	1.0	1.0	9.2	4.4	4.0	5.0	-28.6	-76.2	-52.2	-9.1	25.0
Total Revenue	886.7	427.6	-323.9	493.2	613.5	-106.7	365.4	397.5	1,483.6	1,269.7	1,779.5	1,854.9	-117.4	-125.0	-14.4	40.2	4.2
Expense																	
Direct base compensation	64.1	62.3	62.8	63.9	55.3	62.0	62.0	64.0	253.1	243.3	262.0	267.2	12.1	-0.5	-3.9	7.7	2.0
Performance fee related																	
Realized	167.3	12.1	176.2	131.9	117.6	63.9	75.9	91.8	487.5	349.2	461.1	483.6	-45.7	427.8	-28.4	32.1	4.9
Unrealized	214.9	124.2	-444.2	58.0	132.0	-173.6	23.3	15.9	-47.1	-2.4	58.7	43.9	-231.5	-239.8	-94.8	-2509.8	-25.1
Total direct comp & benefits	446.3	198.6	-205.2	253.8	304.9	-47.7	161.2	171.6	693.5	590.0	781.8	794.8	-115.6	-124.0	-14.9	32.5	1.7
General & administrative	55.1	56.7	56.5	70.2	58.8	59.0	59.0	58.0	238.5	234.8	245.0	257.3	0.3	4.1	-1.6	4.3	5.0
Interest expense	10.5	9.7	9.8	7.5	5.9	4.4	2.8	2.8	37.5	15.8	11.0	11.0	-24.9	-54.3	-57.7	-30.4	0.0
Total expense	511.9	265.0	-138.9	331.5	369.6	15.7	223.0	232.4	969.5	840.7	1,037.8	1,063.0	-95.7	-94.1	-13.3	23.5	2.4
P/T Economic Net Income	**374.8**	**162.6**	**-185.0**	**161.7**	**243.9**	**-122.5**	**142.4**	**165.2**	**514.1**	**429.0**	**741.7**	**791.8**	**-150.2**	**-175.3**	**-16.6**	**72.9**	**6.8**
P/T Fee Related Earnings	**33.6**	**20.2**	**7.9**	**-4.3**	**13.9**	**9.7**	**18.9**	**31.2**	**57.4**	**73.7**	**107.9**	**151.9**	**-30.5**	**-52.2**	**28.5**	**46.4**	**40.7**
Net Performance Fees	**312.1**	**135.3**	**-186.2**	**152.0**	**214.7**	**-134.1**	**121.3**	**131.5**	**413.2**	**333.4**	**635.3**	**644.8**	**-162.5**	**-199.1**	**-19.3**	**90.6**	**1.5**
Realized net performance fees	**159.6**	**18.7**	**156.8**	**130.3**	**105.4**	**78.0**	**92.8**	**112.2**	**465.4**	**388.4**	**563.6**	**591.1**	**-25.9**	**317.4**	**-16.5**	**45.1**	**4.9**
Investment Income	**29.1**	**7.1**	**-6.7**	**14.0**	**15.3**	**2.0**	**2.2**	**2.4**	**43.5**	**21.9**	**-1.6**	**-4.8**	**-87.1**	**-72.1**	**-49.8**	**-107.3**	**202.0**
P/T Distributable earnings	**220.3**	**38.8**	**172.8**	**134.1**	**120.1**	**88.7**	**112.8**	**144.6**	**566.0**	**466.2**	**670.8**	**740.5**	**-26.1**	**128.6**	**-17.6**	**43.9**	**10.4**
Operating expense	129.7	128.7	129.1	141.6	120.0	125.4	123.8	124.8	529.1	493.9	518.0	535.5	4.5	-2.5	-6.6	4.9	3.4
Comp % Performance fees	55%	50%	59%	56%	54%	45%	45%	45%	52%	51%	45%	45%	-16.3	-10.3	-1.2	-11.7	0.0
Real Assets																	
Revenues																	
Fund Management fees	37.4	40.3	37.2	35.8	36.6	36.2	36.3	35.9	150.7	145.0	144.5	172.4	-1.1	-10.1	-3.8	-0.4	19.3
Portfolio advisory fees	0.0	0.7	1.9	0.6	0.3	0.5	0.5	0.5	3.2	1.8	2.0	3.0	N/A	-28.6	-43.8	11.1	50.0
Transaction fees, net	0.3	0.0	1.6	1.6	1.1	1.5	1.0	1.0	3.5	4.6	0.0	0.0	N/A	N/A	N/A	N/A	N/A
total fund level fees	37.7	41.0	40.7	38.0	38.0	38.2	37.8	37.4	157.4	151.4	146.5	175.4	0.6	-6.8	-3.8	-3.3	19.7
Performance Fees																	
Realized	40.0	12.0	29.1	16.9	23.2	51.9	19.4	21.8	98.0	116.3	242.2	301.5	123.8	N/A	18.7	108.3	24.5
Unrealized	60.8	19.1	-78.2	50.8	82.4	-38.7	1.7	1.9	52.5	47.3	-51.6	276.3	-146.9	-302.5	-9.9	-209.2	-635.1
total	100.8	31.1	-49.1	67.7	105.6	13.2	21.1	23.7	150.5	163.6	190.6	577.8	-87.5	-57.4	8.7	16.5	203.2
Investment income (loss)																	
Realized	-0.2	0.7	1.8	-0.2	0.0	0.0	0.0	0.0	2.1	0.0	-0.1	-0.4			-100.0	N/A	227.2
Unrealized	4.4	-0.2	-0.7	-0.8	3.0	0.0	0.0	0.0	2.7	3.0	-0.1	-0.4			11.1	-104.1	227.2
total	4.2	0.5	1.1	-1.0	3.0	0.0	0.0	0.0	4.8	3.0	-0.2	-0.8			-37.5	-108.1	227.2
Interest and other income	0.6	2.1	-0.5	-0.2	0.4	0.3	0.3	0.3	2.0	1.2	1.0	1.0	-37.5	-88.1	-42.5	-13.0	0.0
Total Revenue	143.3	74.7	-7.8	104.5	147.0	51.7	59.1	61.3	314.7	319.2	337.8	753.4	-64.8	-30.8	1.4	5.8	123.0
Expense																	
Direct base compensation	19.1	19.8	19.4	17.0	18.2	16.0	16.5	16.5	75.3	67.2	67.0	69.0	-12.1	-19.2	-10.8	-0.3	3.0
Performance fee related																	
Realized	1.1	4.6	2.4	0.3	0.9	13.0	4.9	5.4	8.4	24.2	96.9	135.7	1342.3	N/A	187.8	300.7	40.0
Unrealized	4.5	-4.6	-4.3	0.5	5.9	-9.7	0.4	0.5	-3.9	-2.9	-20.7	124.3	-263.9	110.2	-26.3	618.5	-701.9
Total direct comp & benefits	24.7	19.8	17.5	17.8	25.0	19.3	21.8	22.4	79.8	88.5	143.2	329.0	-22.8	-2.5	10.9	61.8	129.7
General & administrative	18.6	21.2	19.5	20.5	19.1	19.4	19.7	20.0	79.8	78.1	82.9	84.6	1.5	-8.6	-2.1	6.1	2.0
Interest expense	3.1	2.9	2.9	2.3	1.9	1.3	0.8	0.8	11.2	4.9	3.3	3.3	-29.7	-53.9	-56.3	-32.1	0.0
Total expense	46.4	43.9	39.9	40.6	46.0	40.0	42.3	43.2	170.8	171.5	229.5	416.9	-13.0	-8.8	0.4	33.8	81.7
P/T Economic Net Income	**96.9**	**30.8**	**-47.7**	**63.9**	**101.0**	**11.7**	**16.8**	**18.1**	**143.9**	**147.6**	**108.3**	**336.5**	**-88.4**	**-62.1**	**2.6**	**-26.6**	**210.6**
P/T Fee Related Earnings	**-2.5**	**-0.8**	**-1.6**	**-2.0**	**-0.8**	**1.7**	**1.0**	**0.4**	**-6.9**	**2.3**	**-5.8**	**19.4**	**-317.7**	**-317.7**	**-133.7**	**-348.7**	**-436.7**
Net Performance Fees	**95.2**	**31.1**	**-47.2**	**66.9**	**98.8**	**9.9**	**15.8**	**17.8**	**146.0**	**142.3**	**114.3**	**317.8**	**-89.9**	**-68.1**	**-2.5**	**-19.7**	**177.9**
Realized net performance fees	**38.9**	**7.4**	**26.7**	**16.6**	**22.3**	**38.9**	**14.6**	**16.3**	**89.6**	**92.1**	**145.3**	**165.8**	**74.6**	**N/A**	**2.8**	**57.7**	**14.1**
Investment Income	**4.2**	**0.5**	**1.1**	**-1.0**	**3.0**	**0.0**	**0.0**	**0.0**	**4.8**	**3.0**	**-0.2**	**-0.8**	**-100.0**	**-100.0**	**-37.5**	**-108.1**	**227.2**
P/T Distributable earnings	**36.2**	**7.3**	**26.9**	**14.4**	**21.5**	**40.7**	**15.6**	**16.7**	**84.8**	**94.4**	**139.4**	**184.9**	**89.2**	**457.3**	**11.4**	**47.6**	**32.6**
Operating expense	40.8	43.9	41.8	39.8	39.2	36.7	37.0	37.3	166.3	150.2	153.3	156.9	-6.3	-16.3	-9.7	2.0	2.4
Comp % Performance fees	6%	0%	4%	1%	6%	25%	25%	25%	3%	13%	40%	45%	288.2	N/A	335.4	207.2	12.5

Source: Company reports, Citi Investment Research and Analysis

Figure 45. CG Summary Model (cont.)

The Carlyle Group
Earnings Results and Forecasts
($ Millions, Except As Noted)

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						Forecast:					Forecast:		% Change				
KEY FORECAST VARIABLES:	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**1Q12**	**2Q12E**	**3Q12E**	**4Q12E**	**2011**	**2012E**	**2013E**	**2014E**	**2QE/1Q**	**2EQ/2Q**	**12E/11**	**13E/12E**	**14E/13E**
Global Market Strategies																	
Revenues																	
Fund Management fees	33.8	44.4	50.4	44.9	48.6	53.8	56.0	57.7	173.5	216.1	231.6	246.2	10.7	21.2	24.6	7.2	6.3
Portfolio advisory fees	0.5	0.9	0.8	0.8	0.7	1.5	1.5	2.5	3.0	6.2	1.0	1.0	114.3	66.7	106.7	-83.9	0.0
Transaction fees, net	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
total fund level fees	34.3	45.3	51.2	45.7	49.3	55.3	57.5	60.2	176.5	222.3	232.6	247.2	12.2	22.1	26.0	4.6	6.3
Performance Fees																	
Realized	34.8	54.8	6.1	108.5	32.4	-4.5	-4.0	90.4	204.2	114.2	156.1	232.5	-113.9	-108.2	-44.1	36.7	48.9
Unrealized	31	-16.1	-6.8	-101	12.7	4.5	18.5	10.0	-92.9	45.7	97.9	25.8	-64.4	-128.1	-149.2	114.2	-73.6
total	65.8	38.7	-0.7	7.5	45.1	0.0	14.4	100.4	111.3	159.9	254.0	258.3	-100.0	-100.0	43.7	58.8	1.7
Investment income (loss)																	
Realized	2.9	5	3.1	9.3	1.3	0.5	0.6	0.6	20.3	3.1	-0.3	-1.2	-59.0	-89.3	-84.9	-110.0	292.6
Unrealized	16.8	2.8	-2.1	-4.7	3.7	0.5	0.6	0.6	12.8	5.5	-0.3	-1.2	-85.6	-81.0	-57.3	-105.6	292.6
total	19.7	7.8	1	4.6	5	1.1	1.2	1.3	33.1	8.5	-0.6	-2.4	-78.7	-86.3	-74.2	-107.2	292.6
Interest and other income	1.7	1.3	1.4	-0.4	0.6	0.5	0.5	0.5	4.0	2.1	2.0	2.0	-16.7	-61.5	-47.5	-4.8	0.0
Total Revenue	121.5	93.1	52.9	57.4	100	56.9	73.6	162.4	324.9	392.9	488.0	505.1	-43.1	-38.9	20.9	24.2	3.5
Expense																	
Direct base compensation	15.6	15.3	16.9	13.9	19.7	20.0	20.4	20.8	61.7	80.9	93.0	98.6	1.8	31.0	31.1	15.0	6.0
Performance fee related																	
Realized	19.4	27.9	-0.7	41.8	17.8	-1.4	-1.2	27.1	88.4	42.3	50.7	74.4	-107.6	-104.9	-52.1	19.8	46.7
Unrealized	13.5	-13.5	-10.7	-37.5	9.7	1.4	5.5	3.0	-48.2	19.6	31.8	8.3	-86.0	-110.0	-140.7	62.3	-74.0
Total direct comp & benefits	48.5	29.7	5.5	18.2	47.2	20.0	24.7	50.9	101.9	142.8	175.5	181.2	-57.5	-32.5	40.2	22.9	3.2
General & administrative	8.4	17.8	10.8	14	13	13.2	13.4	13.6	51.0	53.2	65.0	69.6	1.5	-25.9	4.3	22.2	7.0
Interest expense	2.9	2.2	2.4	3	1.7	1.3	0.8	0.8	10.5	4.5	3.2	3.2	-25.5	-42.4	-56.7	-30.6	0.0
Total expense	59.8	49.7	18.7	35.2	61.9	34.5	38.9	65.3	163.4	200.6	243.7	253.9	-44.3	-30.6	22.7	21.5	4.2
P/T Economic Net Income	**61.7**	**43.4**	**34.2**	**22.2**	**38.1**	**22.4**	**34.7**	**97.1**	**161.5**	**192.3**	**244.3**	**251.2**	**-41.3**	**-48.4**	**19.1**	**27.0**	**2.8**
P/T Fee Related Earnings	**9.1**	**11.3**	**22.5**	**14.4**	**15.5**	**21.3**	**23.5**	**25.6**	**57.3**	**85.8**	**73.5**	**78.0**	**37.5**	**88.6**	**49.8**	**-14.4**	**6.1**
Net Performance Fees	**32.9**	**24.3**	**10.7**	**3.2**	**17.6**	**0.0**	**10.1**	**70.3**	**71.1**	**98.0**	**171.4**	**175.6**	**-100.0**	**-100.0**	**37.8**	**75.0**	**2.4**
Realized net performance fees	**15.4**	**26.9**	**6.8**	**66.7**	**14.6**	**-3.2**	**-2.8**	**63.2**	**115.8**	**71.8**	**105.3**	**158.1**	**-121.7**	**-111.8**	**-38.0**	**46.6**	**50.0**
Investment Income	**19.7**	**7.8**	**1**	**4.6**	**5**	**1.1**	**1.2**	**1.3**	**33.1**	**8.5**	**-0.6**	**-2.4**	**-78.7**	**-86.3**	**-74.2**	**-107.2**	**292.6**
P/T Distributable earnings	**27.4**	**43.2**	**32.4**	**90.4**	**31.4**	**18.7**	**21.2**	**89.4**	**193.4**	**160.7**	**178.5**	**234.8**	**-40.5**	**-56.8**	**-16.9**	**11.1**	**31.5**
Operating expense	26.9	35.3	30.1	30.9	34.4	34.5	34.6	35.1	123.2	138.6	161.2	171.3	0.3	-2.2	12.5	16.3	6.3
Comp % Performance fees	50%	37%	1629%	57%	61%	31%	30%	30%	36%	39%	33%	32%	-48.8	-16.0	7.2	-16.1	-1.5
Fund of Funds																	
Revenues																	
Fund Management fees	0.0	0.0	18.7	16.3	16.3	17.2	17.7	18.6	35.0	69.7	82.3	86.3	5.3	N/A	99.2	18.1	4.8
Portfolio advisory fees	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.0	1.5	2.0	2.0	N/A	N/A	N/A	33.3	0.0
Transaction fees, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A	N/A
total fund level fees	0.0	0.0	18.7	16.3	16.3	17.7	18.2	19.1	35.0	71.2	84.3	88.3	8.4	N/A	103.5	18.4	4.7
Performance Fees																	
Realized	0.0	0.0	19.2	27.0	3.2	0.0	3.5	3.7	46.2	10.3	20.8	24.6	N/A	N/A	-77.6	100.7	18.3
Unrealized	0.0	0.0	-22.5	-32.9	13.3	0.0	1.2	1.2	-55.4	15.7	5.2	8.2	N/A	N/A	-128.3	-66.9	57.8
total	0.0	0.0	-3.3	-5.9	16.5	0.0	4.6	4.9	-9.2	26.0	25.9	32.7	N/A	N/A	-382.8	-0.3	26.2
Investment income (loss)																	
Realized	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A	N/A
Unrealized	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A	N/A
total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A	N/A
Interest and other income	0.0	0.0	0.2	0.1	0.2	0.1	0.1	0.1	0.3	0.5	0.4	0.5	-50.0	N/A	66.7	-20.0	25.0
Total Revenue	0.0	0.0	15.6	10.5	33.0	17.8	22.9	24.1	26.1	97.7	110.7	121.6	-46.1	N/A	274.5	13.2	9.8
Expense																	
Direct base compensation	0.0	0.0	8.1	6.2	8.0	10.0	10.0	10.0	14.3	38.0	38.8	41.1	25.0	N/A	165.7	2.0	6.0
Performance fee related																	
Realized	0.0	0.0	15.3	24.2	2.8	0.0	3.5	3.7	39.5	9.9	20.8	24.6	-100.0	N/A	-74.8	108.8	18.3
Unrealized	0.0	0.0	-18.0	-30.8	10.0	0.0	1.2	1.2	-48.8	12.4	5.2	8.2	-100.0	N/A	-125.4	-58.1	57.8
Total direct comp & benefits	0.0	0.0	5.4	-0.4	20.8	10.0	14.6	14.9	5.0	60.3	64.7	73.8	-51.9	N/A	1106.4	7.3	14.1
General & administrative	0.0	0.0	3.0	4.5	2.8	5.0	5.5	5.5	7.5	18.8	19.2	20.1	78.6	N/A	150.7	2.0	5.0
Interest expense	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.0					
Total expense	0.0	0.0	8.4	4.1	23.9	15.0	20.1	20.4	12.5	79.4	83.9	94.0	-37.2	N/A	535.4	5.6	12.0
P/T Economic Net Income	**0.0**	**0.0**	**7.2**	**6.4**	**9.1**	**2.8**	**2.8**	**3.7**	**13.6**	**18.3**	**26.8**	**27.6**	**-69.5**	**N/A**	**34.8**	**46.3**	**2.9**
P/T Fee Related Earnings	**0.0**	**0.0**	**7.8**	**5.7**	**5.4**	**2.8**	**2.8**	**3.7**	**13.5**	**14.6**	**26.8**	**27.6**	**N/A**	**N/A**	**N/A**	**83.3**	**2.9**
Net Performance Fees	**0.0**	**0.0**	**-0.6**	**0.7**	**3.7**	**0.0**	**0.0**	**0.0**	**0.1**	**3.7**	**0.0**	**0.0**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Realized net performance fees	**0.0**	**0.0**	**3.9**	**2.8**	**0.4**	**0.0**	**0.0**	**0.0**	**6.7**	**0.4**	**0.0**	**0.0**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Investment Income	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
P/T Distributable earnings	**0.0**	**0.0**	**11.7**	**8.5**	**5.8**	**2.8**	**2.8**	**3.7**	**20.2**	**15.0**	**26.8**	**27.6**	**N/A**	**N/A**	**N/A**	**78.4**	**2.9**
Operating expense	0.0	0.0	11.1	10.7	11.1	15.0	15.5	15.5	21.8	57.1	57.9	61.2	35.1	N/A	161.9	1.5	5.7
Comp % Performance fees	0%	0%	82%	112%	78%	100%	100%	100%	101%	86%	100%	100%	28.9	N/A	-15.1	16.6	0.0

Source: Company reports, Citi Investment Research and Analysis

Distributable Earnings Discount Model (DEDM)

Figure 46. Carlyle Group Distributable Earnings Discount Model (DEDM)

Dividend Discount Model	
Today's Date	6/11/2012
Ticker:	**CG**
Price:	$21.80
Units O/S (M):	306.3
Net Cash + Invs + Accrued Carry @ 6/30/12:	1,544.4

Scenario	DE/ENI	Payout	Per Unit	% Change
Low	50.0%	75.0%	$21.50	-1%
Base	75.0%	75.0%	$28.00	28%
High	80.0%	80.0%	$32.00	47%

High Case Inputs	
Risk free rate	2.5%
Risk premium	6.0%
Beta	1.65x
Cost of Equity	12.4%
% Distributable	80.0%
Payout ratio	80.0%
DE growth (years 4-5)	10.0%
DE growth (years 6-10)	5.0%
Terminal growth rate	3.0%
Net Present Value (NPV)	**9,817.2**
NPV per unit	$32.05

	Distributable Earnings (DE)									
	2012E[1]	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
A/T ENI	389.5	992.2	1,189.0	1,307.8	1,438.6	1,510.6	1,586.1	1,665.4	1,748.7	1,836.1
x % distributable	122%	99%	96%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
= A/T DE	474.1	980.0	1,146.2	1,046.3	1,150.9	1,208.5	1,268.9	1,332.3	1,398.9	1,468.9
x payout ratio	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Distribution	379.3	784.0	917.0	837.0	920.7	966.8	1,015.1	1,065.9	1,119.1	1,175.1
Present Value	355.1	651.9	677.3	549.2	536.4	500.3	466.6	435.1	405.7	378.4
x payout ratio	80%									
Terminal Value	3,316.8									

[1]remaining quarters of 2012 only; also 2Q12 pro-rata for 5/2/12 IPO event

Base Case Inputs	
Risk free rate	2.5%
Risk premium	6.0%
Beta	1.65x
Cost of Equity	12.4%
% Distributable	75.0%
Payout ratio	75.0%
DE growth (years 4-5)	8.0%
DE growth (years 6-10)	5.0%
Terminal growth rate	3.0%
Net Present Value (NPV)	**8,538.4**
NPV per unit	$27.88

	Distributable Earnings (DE)									
	2012E[1]	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
A/T ENI	389.5	992.2	1,189.0	1,284.1	1,386.8	1,456.1	1,528.9	1,605.4	1,685.7	1,769.9
x % distributable	122%	99%	96%	75%	75%	75%	75%	75%	75%	75%
= A/T DE	474.1	980.0	1,146.2	963.1	1,040.1	1,092.1	1,146.7	1,204.0	1,264.2	1,327.5
x payout ratio	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Distribution	355.6	735.0	859.7	722.3	780.1	819.1	860.0	903.0	948.2	995.6
Present Value	332.9	611.2	635.0	473.9	454.4	423.8	395.3	368.7	343.7	320.6
x payout ratio	75%									
Terminal Value	2,634.5									

[1]remaining quarters of 2012 only; also 2Q12 pro-rata for 5/2/12 IPO event

Low Case Inputs	
Risk free rate	2.5%
Risk premium	6.0%
Beta	1.65x
Cost of Equity	12.4%
% Distributable	50.0%
Payout ratio	75.0%
DE growth (years 4-5)	5.0%
DE growth (years 6-10)	5.0%
Terminal growth rate	3.0%
Net Present Value (NPV)	**6,544.2**
NPV per unit	$21.37

	Distributable Earnings (DE)									
	2012E[1]	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
A/T ENI	389.5	992.2	1,189.0	1,248.4	1,310.8	1,376.4	1,445.2	1,517.4	1,593.3	1,673.0
x % distributable	122%	99%	96%	50%	50%	50%	50%	50%	50%	50%
= A/T DE	474.1	980.0	1,146.2	624.2	655.4	688.2	722.6	758.7	796.7	836.5
x payout ratio	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Distribution	355.6	735.0	859.7	468.2	491.6	516.1	541.9	569.0	597.5	627.4
Present Value	332.9	611.2	635.0	307.1	286.4	267.1	249.1	232.3	216.6	202.0
x payout ratio	75%									
Terminal Value	1,660.1									

[1]remaining quarters of 2012 only; also 2Q12 pro-rata for 5/2/12 IPO event

Source: Citi Investment Research and Analysis

The Carlyle Group L.P.

Company description

Founded in 1987 by Mr. David M. Rubenstein, Mr. William E. Conway, and Mr. Daniel A. D'Aniello, Carlyle is a Washington DC based global and diversified alternatives manager focused on Private Equity, Real Estate, Energy/Infrastructure, Hedge Funds, and Fund of Funds. Carlyle went public on 5/5/12 through a primary IPO priced at $22 per unit and manages $159B in AUM at 3/31/12 across 89 funds and 52 fund of funds vehicles.

Investment strategy

We rate The Carlyle Group (CG) with a Buy rating. We believe Carlyle offers a diversified and high powered financial model, above average distribution potential, and superior asset gathering. With among the highest "cash content" or the ratio of distributable earnings (DE) to economic net income (ENI), we believe Carlyle's differentiated model (multi-fund platform) should produce more visible and consistent capital returns to unitholders. We believe the units are undervalued when considering depth of franchise and performance fee and distribution potential.

Valuation

We value CG using a 50/50 blend of sum-of-the-parts (SOTP) and distributable earnings discount model (DEDM). Our sum-of-the-parts approach blends the: 1) value of FRE earnings, or the after-tax management fee stream less corporate costs; 2) the value of net cash (after debt) + investments + accrued performance (net of comp); and, 3) the estimated net present value of performance fees, for a total of $29.50 per unit. Our DEDM model - beyond our explicit forecast period through 2012 - factors a base case scenario of 8% growth in DE in years 4-5; 5% growth years 6-10; and 3% terminal growth; a 12.5% cost of capital (2.5% risk-free; 6% risk premium, 1.65 beta), for a total of $28 per unit. Taken together and rounded, our 50/50 blended target is $29.

Risks

The four central risks to our price target reflect: 1) negative investment performance given the bulk of ENI is skewed to performance fees; 2) adverse carried interest legislation; 3) M&A execution; and, 4) low float.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the unit price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the unit price may outperform our target.

Financial market risk — Changes in markets will impact the comps used in the valuation of CG's portfolio companies. Such values will have a direct impact on AUM and IRRs.

Performance risk — An inability to generate an adequate return sought by clients could results in prospective clients choosing to invest with competitors.
Performance fees — The lack of positive IRR's in CG's private equity funds would limit the company's ability to generate carried interest.

Financing — Private equity firms use funding from the capital markets, both large commercial and investment banks. Financing will vary regarding: 1) interest rates; 2) equity commitments; 3) debt covenants. Generally, when more capital is

available, private equity portfolio companies have greater access to financing with acceptable terms. When capital markets become more restrictive, it can be more challenging for portfolio companies to refinance debt and/or for sponsors to arrange acquisition funding, thus limiting deal activity.

Blackstone Group L.P.

Valuation

We value BX at $18 using a blended methodology based on: 1) 75% sum-of-the-parts (SOTP) approach that combines target P/E, book value, and NPV of performance fees; and, 2) 25% distributable earnings discount model. In turn, our SOTP factors: 1) 15x target multiple applied to our 2012 FRE estimate of $0.54, or ~$8.20 in value; 2) ~$8 for the net present value of performances across Private Equity, Real Estate, Credit, and Hedge Fund Solutions segments; and, ~$3.10 in net cash and investments and unrealized carry (discounted by 20%). Our base-case DEDM factors a 11.5% cost of capital; 50% distributable ratio; and 90% payout ratio; and specific growth assumptions.

Risks

The three central risks to our price target reflect slowing investment performance, slowing organic growth, and adverse carried interest legislation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the unit price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the unit price may outperform our target.

Financial market risk — Changes in markets will impact the comps used in the valuation of BX's portfolio companies. Such values will have a direct impact on AUM and IRRs.

Performance risk — An inability to generate an adequate return sought by clients could results in prospective clients choosing to invest with competitors.

Performance fees — The lack of positive IRR's in BX's private equity funds would limit the company's ability to generate carried interest.

Financing — Private equity firms use funding from the capital markets, both large commercial and investment banks. Financing will vary regarding: 1) interest rates; 2) equity commitments; 3) debt covenants. Generally, when more capital is available, private equity portfolio companies have greater access to financing with acceptable terms. When capital markets become more restrictive, it can be more challenging for portfolio companies to refinance debt and/or for sponsors to arrange acquisition funding, thus limiting deal activity.

Apollo Global Management, LLC

Valuation

We value APO at $16.75 using a blended methodology based on: 1) 75% sum-of-the-parts (SOTP) approach that combines target P/E, book value, and NPV; and, 2) 25% distributable earnings discount model (DEDM). In turn, our SOTP factors: 1) 14x target multiple applied to our 2012 FRE estimate of $0.32 (adjusted for integration expense), or ~$5 in value; 2) $10 for the net present value of

performance fees across Private Equity, Real Estate, and Capital Markets segments; and 3) ~$2.00 in net cash + investments + unrealized carry per share. Our base-case DEDM factors a 11% cost of capital; 50% distributable ratio; 90% payout ratio; and specific growth assumptions.

Risks

The three central risks to our price target being achieved reflect slowing investment performance, slowing organic growth, and adverse carried interest legislation.

Financial market risk - Changes in markets will impact the comps used in the valuation of APO's portfolio companies. Such values will have a direct impact on AUM and IRRs.

Performance risk - An inability to generate an adequate return sought by clients could results in prospective clients choosing to invest with competitors.
Performance fees - The lack of positive IRR's in APO's private equity funds would limit the company's ability to generate carried interest.

Financing - Private equity firms use funding from the capital markets, both large commercial and investment banks. Financing will vary regarding: 1) interest rates; 2) equity commitments; 3) debt covenants. Generally, when more capital is available, private equity portfolio companies have greater access to financing with acceptable terms. When capital markets become more restrictive, it can be more challenging for portfolio companies to refinance debt and/or for sponsors to arrange acquisition funding, thus limiting deal activity.

KKR & Co. L.P.

Valuation

We value KKR at $20 using a blended methodology based on: 1) 75% sum-of-the-parts (SOTP) approach that combines target P/E, book value, and NPV of performance fees; and, 2) 25% distributable earnings discount model (DEDM). In turn, our SOTP factors: 1) a 14x multiple applied to 2012 after-tax fee related earnings (FRE), or ~$4.75; 2) a weighted-average probabilistic NPV of future carried interest, or ~$7, and, 3) the book value of the Capital Markets and Principal Activities segment plus cash and accrued carry (less 20% discount) valued at ~$8.25 per unit. Our base-case DEDM factors a 11.5% cost of capital; 50% realization ratio on carry; 90% payout ratio; and specific growth assumptions.

Risks

The three central risks to our price target reflect slowing investment performance, slowing organic growth, and adverse carried interest legislation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the unit price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the unit price may outperform our target.

Financial market risk — Changes in markets will impact the comps used in the valuation of KKR's portfolio companies. Such values will have a direct impact on AUM and IRRs.

Performance risk — An inability to generate an adequate return sought by clients could results in prospective clients choosing to invest with competitors.

Performance fees — The lack of positive IRR's in KKR's private equity funds would limit the company's ability to generate carried interest.

Financing — Private equity firms use funding from the capital markets, both large commercial and investment banks. Financing will vary regarding: 1) interest rates; 2) equity commitments; 3) debt covenants. Generally, when more capital is available, private equity portfolio companies have greater access to financing with acceptable terms. When capital markets become more restrictive, it can be more challenging for portfolio companies to refinance debt and/or for sponsors to arrange acquisition funding, thus limiting deal activity.

Och-Ziff Capital Management

Valuation

We value OZM at $11.50 using a blended methodology based on: 1) 25% sum-of-the-parts approach that combines target P/FRE, book value, and NPV of performance fees; and, 75% distributable earnings discount model (DEDM). In turn, our SOTP factors: 1) target P/E multiple of 14x to our 2012 FRE estimate of $0.45; 2) adding $6 for our estimated probabilistic value to OZM's potential performance fee revenue stream; and, 3) subtracting net debt of ~$0.50. Our base-case DEDM factors a 12% cost of capital; 80% payout ratio; and specific growth assumptions. Our 14x target P/E is in-line with industry peers.

Risks

The three central risks to our price target reflect deteriorating investment performance, slowing organic growth and major change in carried interest taxation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets could impact AUM and investment advisory fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments with notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Performance fees — The lack of positive investment performance in OZM's hedge funds would limit the company to generate performance fees (incentive carry) and grow DEPS.

Notes

Notes

Appendix A-1

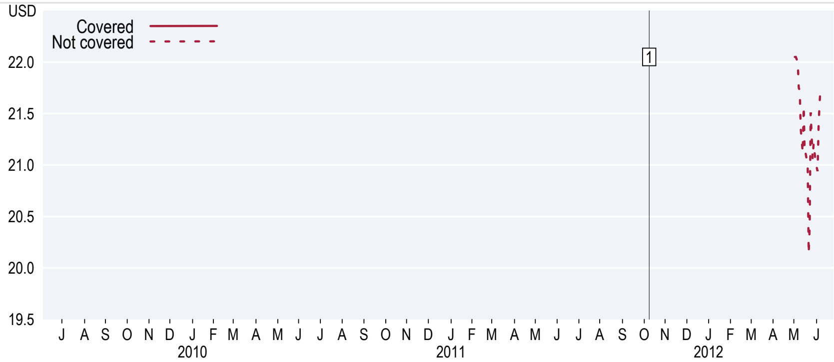
Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

The Carlyle Group L.P. (CG)

Ratings and Target Price History
Fundamental Research



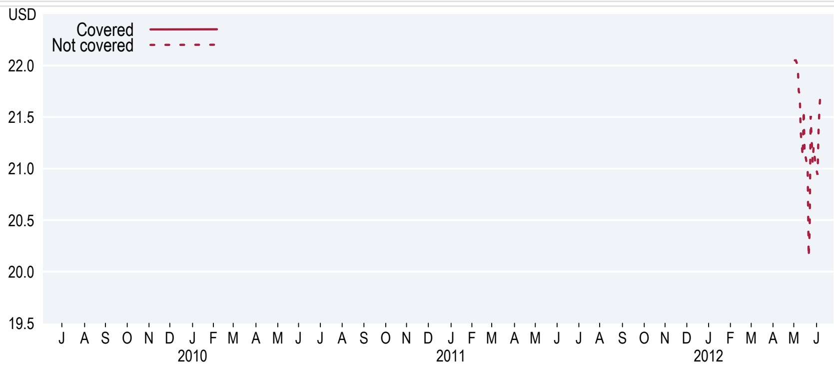
	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Carlyle Group L.P. (CG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)



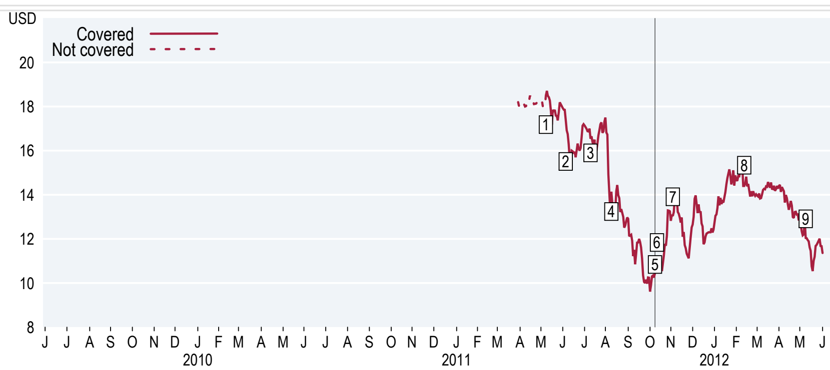
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Apollo Global Management, LLC (APO)

Ratings and Target Price History
Fundamental Research

Analyst: William R Katz
Covered since May 9 2011



	Date	Rating	Target Price	Closing Price
1	9-May-11	*1H	*24.00	18.50
2	6-Jun-11	1H	*23.00	17.40
3	11-Jul-11	1H	*22.00	16.54
4	9-Aug-11	1H	*18.00	14.14
5	8-Oct-11	Stock rating system changed		
6	12-Oct-11	*1	18.00	10.84
7	3-Nov-11	1	*17.00	13.04
8	13-Feb-12	1	*16.50	14.40
9	9-May-12	1	*16.75	12.04

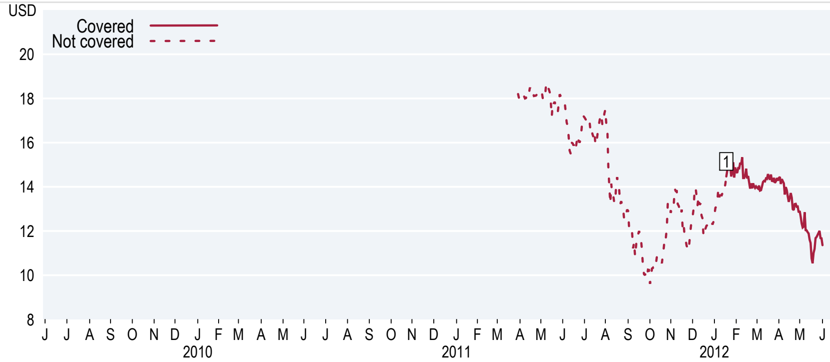
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Apollo Global Management, LLC (APO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: William R Katz
Covered since May 9 2011



	Date	Rating	Target Price	Closing Price
1	18-Jan-12	*ADD MP	-	14.47

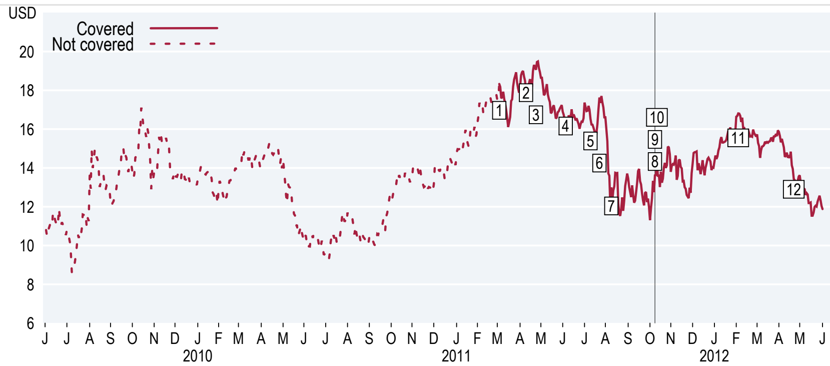
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Blackstone Group L.P. (BX)

Ratings and Target Price History
Fundamental Research

Analyst: William R Katz
Covered since March 3 2011



	Date	Rating	Target Price	Closing Price
1	3-Mar-11	*1M	*23.50	18.33
2	11-Apr-11	1M	*24.00	18.00
3	25-Apr-11	1M	*25.50	19.06
4	6-Jun-11	1M	*23.00	16.16
5	11-Jul-11	1M	*22.00	16.53
6	22-Jul-11	1M	*24.00	17.63
7	9-Aug-11	1M	*20.00	13.00
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	20.00	12.75
10	12-Oct-11	1	*18.00	14.33
11	3-Feb-12	1	*19.00	16.81
12	23-Apr-12	1	*18.00	13.43

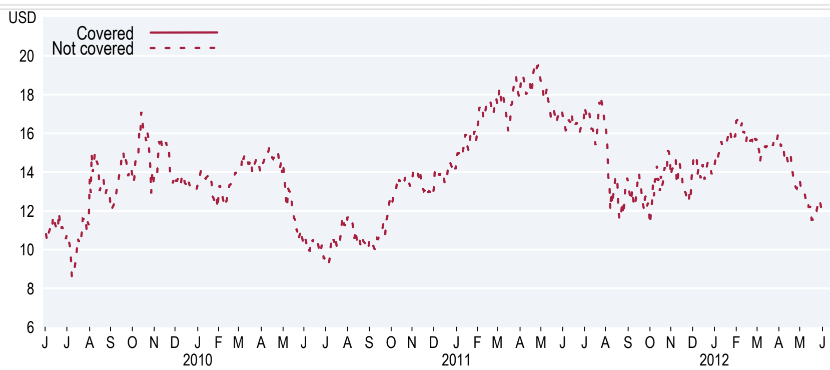
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Blackstone Group L.P. (BX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: William R Katz
Covered since March 3 2011



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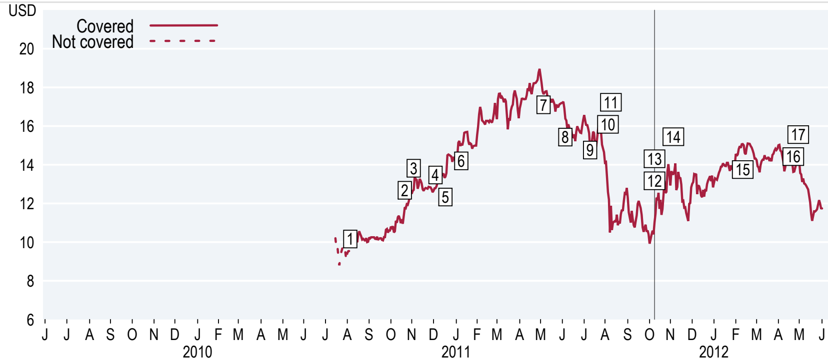
Rating/target price changes above reflect Eastern Standard Time

KKR & Co. L.P. (KKR)

Ratings and Target Price History
Fundamental Research

Analyst: William R Katz
Covered since August 5 2010



	Date	Rating	Target Price	Closing Price
1	5-Aug-10	*1H	*14.00	9.90
2	21-Oct-10	1H	*15.00	11.80
3	3-Nov-10	1H	*17.00	12.70
4	3-Dec-10	1H	*18.00	12.79
5	17-Dec-10	1H	*21.00	13.38
6	10-Jan-11	1H	*22.00	15.09

	Date	Rating	Target Price	Closing Price
7	5-May-11	1H	*24.00	17.65
8	6-Jun-11	1H	*22.50	16.38
9	11-Jul-11	1H	*21.50	14.76
10	4-Aug-11	1H	*20.00	12.59
11	9-Aug-11	1H	*16.00	11.88
12	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
13	8-Oct-11	*1	16.00	10.40
14	4-Nov-11	1	*17.00	13.52
15	10-Feb-12	1	*18.50	15.07
16	23-Apr-12	1	*19.00	13.63
17	30-Apr-12	1	*20.00	14.12

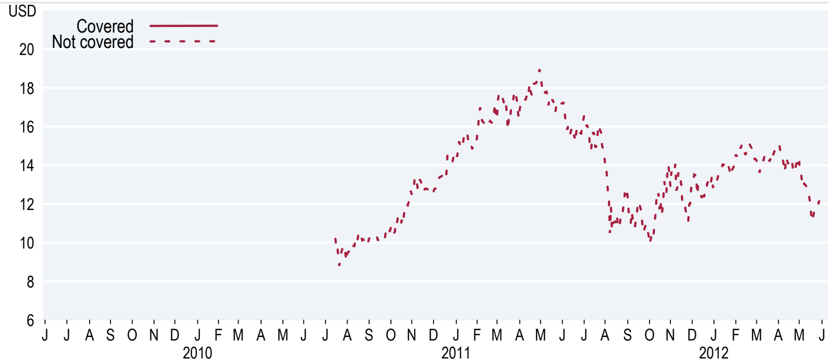
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

KKR & Co. L.P. (KKR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: William R Katz
Covered since August 5 2010



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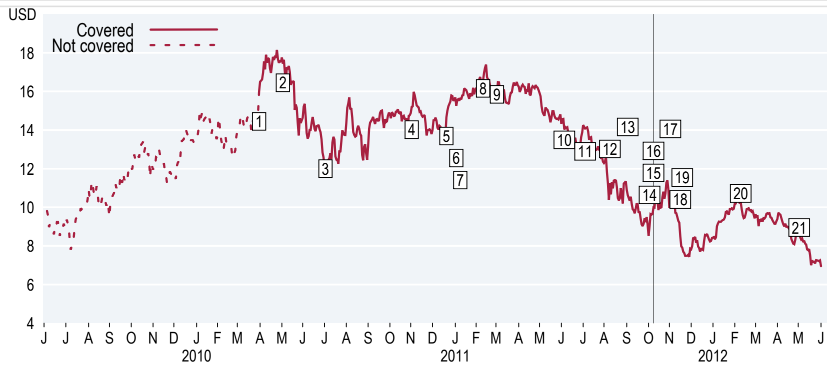
Rating/target price changes above reflect Eastern Standard Time

Och-Ziff Capital Management (OZM)

Ratings and Target Price History
Fundamental Research

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	31-Mar-10	*1H	*20.00	16.00
2	4-May-10	1H	*22.00	17.44
3	2-Jul-10	1H	*21.00	12.30
4	2-Nov-10	1H	*19.00	15.20
5	21-Dec-10	1H	*21.00	14.66
6	4-Jan-11	1H	*20.00	15.26
7	10-Jan-11	1H	*21.00	15.66

	Date	Rating	Target Price	Closing Price
8	10-Feb-11	1H	*22.00	16.56
9	2-Mar-11	1H	*21.00	15.96
10	6-Jun-11	1H	*20.00	14.03
11	5-Jul-11	1H	*19.00	14.08
12	9-Aug-11	1H	*16.00	11.26
13	2-Sep-11	1H	*15.50	10.63
14	4-Oct-11	1H	*14.00	9.03

	Date	Rating	Target Price	Closing Price
15	8-Oct-11	Stock rating system changed		
16	8-Oct-11	*1	14.00	9.66
17	2-Nov-11	1	*13.00	10.07
18	16-Nov-11	1	*12.00	8.50
19	18-Nov-11	1	*11.00	7.91
20	9-Feb-12	1	*12.00	10.26
21	2-May-12	1	*11.50	8.72

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Och-Ziff Capital Management (OZM)

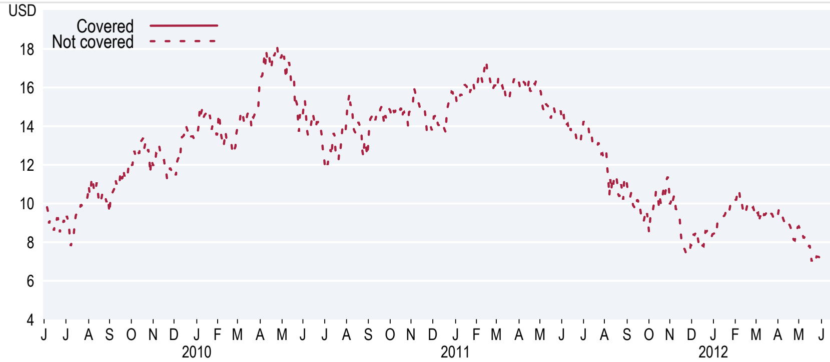
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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