

Carlyle Group L.P.  
Form 10-Q  
October 31, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number: 001-35538

The Carlyle Group L.P.

(Exact name of registrant as specified in its charter)

Delaware 45-2832612  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
1001 Pennsylvania Avenue, NW  
Washington, D.C., 20004-2505  
(Address of principal executive offices) (Zip Code)

(202) 729-5626  
(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: Carlyle Group L.P. - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of the registrant’s common units representing limited partner interests outstanding as of October 27, 2017 was 97,805,907.

---

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>5</u>
Unaudited Condensed Consolidated Financial Statements – September 30, 2017 and 2016:	
<u>Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2017 and 2016</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended September 30, 2017 and 2016</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016</u>	<u>8</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>9</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>69</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>151</u>
Item 4. <u>Controls and Procedures</u>	<u>151</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>152</u>
Item 1A. <u>Risk Factors</u>	<u>152</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>152</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>152</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>152</u>
Item 5. <u>Other Information</u>	<u>152</u>
Item 6. <u>Exhibits</u>	<u>152</u>
<u>SIGNATURE</u>	<u>155</u>



### Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, but are not limited to, statements related to our expectations regarding the performance of our business, our financial results, our liquidity and capital resources, contingencies, our distribution policy, and other non-historical statements. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words and other comparable words. Such forward-looking statements are subject to various risks, uncertainties and assumptions. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements including, but not limited to, those described under the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission (“SEC”) on February 16, 2017, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings with the SEC. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

### Website and Social Media Disclosure

We use our website ([www.carlyle.com](http://www.carlyle.com)), our corporate Facebook page (<https://www.facebook.com/onecarlyle/>) and our corporate Twitter account (@OneCarlyle) as channels of distribution of material company information. For example, financial and other material information regarding our company is routinely posted on and accessible at [www.carlyle.com](http://www.carlyle.com). Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive email alerts and other information about Carlyle when you enroll your email address by visiting the “Email Alert Subscription” section at <http://ir.carlyle.com/alerts.cfm?>. The contents of our website and social media channels are not, however, a part of this Quarterly Report on Form 10-Q and are not incorporated by reference herein.

Unless the context suggests otherwise, references in this report to “Carlyle,” the “Company,” “we,” “us” and “our” refer to The Carlyle Group L.P. and its consolidated subsidiaries. When we refer to the “partners of The Carlyle Group L.P.,” we are referring specifically to the common unitholders and our general partner and any others who may from time to time be partners of that specific Delaware limited partnership. When we refer to our “senior Carlyle professionals,” we are referring to the partner-level personnel of our firm. References in this report to the ownership of the senior Carlyle professionals include the ownership of personal planning vehicles of these individuals. When we refer to the “Carlyle Holdings partnerships” or “Carlyle Holdings”, we are referring to Carlyle Holdings I L.P., Carlyle Holdings II L.P., and Carlyle Holdings III L.P.

“Carlyle funds,” “our funds” and “our investment funds” refer to the investment funds and vehicles advised by Carlyle.

“Carry funds” generally refers to closed-end investment vehicles, in which commitments are drawn down over a specified investment period, and in which the general partner receives a special residual allocation of income from limited partners, which we refer to as carried interest, in the event that specified investment returns are achieved by the fund. Disclosures referring to carry funds will also include the impact of certain commitments which do not earn carried interest, but are either part of, or associated with our carry funds. The rate of carried interest, as well as the share of carried interest allocated to Carlyle, may vary across the carry fund platform. Carry funds generally include the following investment vehicles across our four business segments:

Corporate Private Equity: Buyout & growth funds advised by Carlyle

Edgar Filing: Carlyle Group L.P. - Form 10-Q

• Real Assets: Real estate, power, infrastructure and energy funds advised by Carlyle, as well as those energy funds advised by NGP Energy Capital Management in which Carlyle is entitled to receive a share of carried interest

• Global Market Strategies: Distressed credit, corporate mezzanine and energy credit funds, as well as certain closed-end credit funds advised by Carlyle

• Investment Solutions: Funds and vehicles advised by AlpInvest Partners B.V. (“AlpInvest”) and Metropolitan Real Estate Equity Management, LLC (“Metropolitan”), which include primary fund, secondary and co-investment strategies

• Carry funds specifically exclude those funds advised by NGP Energy Capital Management in which Carlyle is not entitled to receive a share of carried interest (or “NGP management fee funds”), collateralized loan obligation vehicles (CLOs), business development companies, and our former hedge fund platform.

For an explanation of the fund acronyms used throughout this Quarterly Report, refer to “Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation - Our Family of Funds.”

“Fee-earning assets under management” or “Fee-earning AUM” refers to the assets we manage or advise from which we derive recurring fund management fees. Our Fee-earning AUM is generally based on one of the following, once fees have been activated:

- (a) the amount of limited partner capital commitments, generally for carry funds where the original investment period has not expired, for AlpInvest carry funds during the commitment fee period and for Metropolitan carry funds during the weighted-average investment period of the underlying funds;
- (b) the remaining amount of limited partner invested capital at cost, generally for carry funds and certain co-investment vehicles where the original investment period has expired and Metropolitan carry funds after the expiration of the weighted-average investment period of the underlying funds;
- (c) the amount of aggregate fee-earning collateral balance at par of our collateralized loan obligations (“CLOs”), as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO;
- (d) the external investor portion of the net asset value of our hedge fund and fund of hedge funds vehicles (pre redemptions and subscriptions), as well as certain carry funds;
- (e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development companies and certain carry funds; or
- (f) the lower of cost or fair value of invested capital, generally for AlpInvest carry funds where the commitment fee period has expired and certain carry funds where the investment period has expired.

“Assets under management” or “AUM” refers to the assets we manage or advise. Our AUM equals the sum of the following:

- (a) the fair value of the capital invested in carry funds and related co-investment vehicles and NGP management fee funds 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 and principal cash at par or aggregate principal amount of the notes of our CLOs and other structured products (inclusive of all positions);
- (c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic, fund of hedge funds vehicles, mutual fund and other hedge funds; and
- (d) the gross assets (including assets acquired with leverage) of our business development companies.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. (“Riverstone”) and certain NGP management fee funds and carry funds that are advised by NGP.

For most of our carry funds, total AUM includes the fair value of the capital invested, whereas Fee-earning AUM includes the amount of capital commitments or the remaining amount of invested capital, depending on whether the original investment period for the fund has expired. As such, Fee-earning AUM may be greater than total AUM when the aggregate fair value of the remaining investments is less than the cost of those investments.

Our calculations of AUM and Fee-earning AUM may differ from the calculations of other alternative asset managers. As a result, these measures may not be comparable to similar measures presented by other alternative asset managers. In addition, our calculation of AUM (but not Fee-earning AUM) includes uncalled commitments to, and the fair value of invested capital in, our investment funds from Carlyle and our personnel, regardless of whether such commitments or invested capital are subject to management or performance fees. Our calculations of AUM or Fee-earning AUM are not based on any definition of AUM or Fee-earning AUM that is set forth in the agreements governing the investment funds that we manage or advise.

“Vermillion” refers to our commodities advisor and business advised by Carlyle Commodity Management L.L.C., which was formerly known as Vermillion Asset Management until August 2015.

Changes to Disclosure and Presentation of Key Performance Metrics

Investment funds and vehicles advised by AlpInvest Partners B.V. and Metropolitan Real Estate Equity Management, LLC, which comprise our Investment Solutions segment, are now included in our "carry funds" definition.

Accordingly, they are now included in our Invested Capital, Realized Proceeds and Fund Appreciation metrics. We have recast metrics for 2016, including supplemental key metrics information available on our website at [ir.carlyle.com](http://ir.carlyle.com) under “Key Metrics”. In addition, we have also adjusted the methodology for recognition of Invested Capital to an investment timing basis, rather than the timing of cash flows to and from our fund investors, to better reflect capital deployed by our funds during a given period.



## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

The Carlyle Group L.P.

Condensed Consolidated Balance Sheets

(Dollars in millions)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	\$ 1,355.7	\$ 670.9
Cash and cash equivalents held at Consolidated Funds	195.4	761.5
Restricted cash	9.6	13.1
Corporate treasury investments	117.4	190.2
Accrued performance fees	3,498.6	2,481.1
Investments	1,480.9	1,107.0
Investments of Consolidated Funds	4,235.8	3,893.7
Due from affiliates and other receivables, net	268.8	227.2
Due from affiliates and other receivables of Consolidated Funds, net	64.3	29.5
Receivables and inventory of a real estate VIE	—	145.4
Fixed assets, net	100.1	106.1
Deposits and other	58.5	39.4
Other assets of a real estate VIE	—	31.5
Intangible assets, net	38.0	42.0
Deferred tax assets	263.5	234.4
Total assets	\$ 11,686.6	\$ 9,973.0
Liabilities and partners' capital		
Debt obligations	\$ 1,515.6	\$ 1,265.2
Loans payable of Consolidated Funds	3,794.8	3,866.3
Loans payable of a real estate VIE at fair value (principal amount of \$144.4 million as of December 31, 2016)	—	79.4
Accounts payable, accrued expenses and other liabilities	308.9	369.8
Accrued compensation and benefits	2,175.1	1,661.8
Due to affiliates	264.3	223.6
Deferred revenue	236.0	54.0
Deferred tax liabilities	77.1	76.6
Other liabilities of Consolidated Funds	475.4	637.0
Other liabilities of a real estate VIE	—	124.5
Accrued giveback obligations	67.6	160.8
Total liabilities	8,914.8	8,519.0
Commitments and contingencies		
Series A preferred units (16,000,000 units issued and outstanding as of September 30, 2017)	387.6	—
Partners' capital (common units 97,805,907 and 84,610,951 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	660.4	403.1
Accumulated other comprehensive loss	(69.4	) (95.2
Non-controlling interests in consolidated entities	374.7	277.8
Non-controlling interests in Carlyle Holdings	1,418.5	868.3
Total partners' capital	2,771.8	1,454.0
Total liabilities and partners' capital	\$ 11,686.6	\$ 9,973.0

See accompanying notes.

5

---

Edgar Filing: Carlyle Group L.P. - Form 10-Q

The Carlyle Group L.P.  
Condensed Consolidated Statements of Operations  
(Unaudited)  
(Dollars in millions, except unit and per unit data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues				
Fund management fees	\$262.5	\$ 255.1	\$747.6	\$ 817.1
Performance fees				
Realized	411.8	383.4	852.7	905.1
Unrealized	(126.2 )	(168.7 )	658.1	(334.3 )
Total performance fees	285.6	214.7	1,510.8	570.8
Investment income				
Realized	15.5	40.7	42.0	92.2
Unrealized	21.7	29.8	100.5	34.0
Total investment income	37.2	70.5	142.5	126.2
Interest and other income	9.9	5.3	25.9	15.0
Interest and other income of Consolidated Funds	44.7	43.0	132.6	107.8
Revenue of a real estate VIE	—	18.7	109.0	61.5
Total revenues	639.9	607.3	2,668.4	1,698.4
Expenses				
Compensation and benefits				
Base compensation	174.1	154.3	471.1	470.5
Equity-based compensation	81.0	81.4	241.8	265.8
Performance fee related				
Realized	189.4	189.0	401.9	423.0
Unrealized	(51.8 )	(78.1 )	309.9	(146.1 )
Total compensation and benefits	392.7	346.6	1,424.7	1,013.2
General, administrative and other expenses	(18.7 )	188.9	170.9	362.6
Interest	16.9	15.6	48.4	46.3
Interest and other expenses of Consolidated Funds	37.2	32.3	160.9	87.3
Interest and other expenses of a real estate VIE and loss on deconsolidation	64.5	82.1	202.5	157.9
Other non-operating (income) expenses	—	(3.7 )	0.1	0.8
Total expenses	492.6	661.8	2,007.5	1,668.1
Other income				
Net investment gains of Consolidated Funds	18.6	4.8	76.4	3.1
Income (loss) before provision for income taxes	165.9	(49.7 )	737.3	33.4
Provision (benefit) for income taxes	(1.3 )	1.0	17.7	32.7
Net income (loss)	167.2	(50.7 )	719.6	0.7
Net income (loss) attributable to non-controlling interests in consolidated entities	27.6	(29.1 )	47.4	(29.8 )
Net income (loss) attributable to Carlyle Holdings	139.6	(21.6 )	672.2	30.5
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	95.0	(22.4 )	487.0	15.2
Net income attributable to The Carlyle Group L.P.	\$44.6	\$ 0.8	\$185.2	\$ 15.3
Net income attributable to The Carlyle Group L.P. per common unit (see Note 13)				
Basic	\$0.47	\$ 0.01	\$2.06	\$ 0.19
Diluted	\$0.43	\$ (0.02 )	\$1.90	\$ 0.08

Edgar Filing: Carlyle Group L.P. - Form 10-Q

Weighted-average common units

Basic	95,198,103	<del>83,602,503</del>	89,815,182	<del>106,633</del>
Diluted	334,392,424	<del>414,534,968</del>	97,538,130	<del>106,981,103</del>
Distributions declared per common unit	\$0.42	\$ 0.63	\$0.68	\$ 1.18

Substantially all revenue is earned from affiliates of the Partnership. See accompanying notes.

6

---

The Carlyle Group L.P.  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)  
 (Dollars in millions)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2016	2017	2016	2017
Net income (loss)	\$167.2	\$(50.7)	\$719.6	\$0.7
Other comprehensive income (loss)				
Foreign currency translation adjustments	38.4	5.9	87.8	(11.3 )
Cash flow hedges				
Reclassification adjustment for loss included in interest expense	—	0.6	—	1.8
Defined benefit plans				
Unrealized gain (loss) for the period	(0.3 )	0.4	(1.3 )	0.9
Less: reclassification adjustment for loss during the period, included in base compensation expense	0.3	0.1	0.9	0.1
Other comprehensive income (loss)	38.4	-7.0	-87.4	-(8.5 )
Comprehensive income (loss)	205.6	(43.7 )	807.0	(7.8 )
Comprehensive (income) loss attributable to non-controlling interests in consolidated entities	(38.6 )	46.2	(68.5 )	71.0
Comprehensive income attributable to redeemable non-controlling interests in consolidated entities	—	(0.2 )	—	(0.1 )
Comprehensive income attributable to Carlyle Holdings	167.0	2.3	738.5	63.1
Comprehensive (income) loss attributable to non-controlling interests in Carlyle Holdings	(114.3 )	4.7	(534.5 )	(39.2 )
Comprehensive income attributable to The Carlyle Group L.P.	\$52.7	\$7.0	\$204.0	\$23.9
See accompanying notes.				

Edgar Filing: Carlyle Group L.P. - Form 10-Q

The Carlyle Group L.P.  
 Condensed Consolidated Statements of Cash Flows  
 (Unaudited)  
 (Dollars in millions)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$719.6	\$0.7
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	30.9	52.6
Equity-based compensation	241.8	265.8
Non-cash performance fees	(561.5 )	108.0
Other non-cash amounts	(4.2 )	(19.2 )
Consolidated Funds related:		
Realized/unrealized gain on investments of Consolidated Funds	(27.1 )	(45.0 )
Realized/unrealized (gain) loss from loans payable of Consolidated Funds	(49.3 )	43.8
Purchases of investments by Consolidated Funds	(2,129.7 )	(1,707.8 )
Proceeds from sale and settlements of investments by Consolidated Funds	2,135.6	873.9
Non-cash interest income, net	(4.3 )	(3.6 )
Change in cash and cash equivalents held at Consolidated Funds	566.1	622.5
Change in other receivables held at Consolidated Funds	(30.9 )	(4.8 )
Change in other liabilities held at Consolidated Funds	(208.5 )	(178.9 )
Investment income	(138.9 )	(124.2 )
Purchases of investments	(412.4 )	(218.6 )
Proceeds from the sale of investments	297.7	219.7
Payments of contingent consideration	(22.5 )	(82.6 )
Deconsolidation of Claren Road (see Note 9)	(23.3 )	—
Deconsolidation of Urbplan (see Note 15)	14.0	—
Changes in deferred taxes, net	(8.7 )	3.7
Change in due from affiliates and other receivables	(78.2 )	2.8
Change in receivables and inventory of a real estate VIE	(14.5 )	45.1
Change in deposits and other	(7.1 )	5.0
Change in other assets of a real estate VIE	1.6	33.1
Change in accounts payable, accrued expenses and other liabilities	1.9	71.8
Change in accrued compensation and benefits	42.2	32.4
Change in due to affiliates	15.0	(22.4 )
Change in other liabilities of a real estate VIE	47.9	(1.2 )
Change in deferred revenue	178.6	154.9
Net cash provided by operating activities	571.8	127.5
Cash flows from investing activities		
Change in restricted cash	3.6	1.8
Purchases of fixed assets, net	(26.0 )	(13.3 )
Net cash used in investing activities	(22.4 )	(11.5 )
Cash flows from financing activities		
Proceeds from issuance of preferred units, net of offering costs and expenses	387.6	—
Borrowings under credit facility	250.0	—
Repayments under credit facility	(250.0 )	—

Edgar Filing: Carlyle Group L.P. - Form 10-Q

Payments on debt obligations	(15.0	)	—
Proceeds from debt obligations	202.6		20.6
Net payments on loans payable of a real estate VIE	(14.3	)	(27.3 )
Net (payments) borrowings on loans payable of Consolidated Funds	(312.7	)	339.7
Payments of contingent consideration	(0.4	)	(3.3 )
Distributions to common unitholders	(63.0	)	(98.5 )
Distributions to non-controlling interest holders in Carlyle Holdings	(163.1	)	(300.9 )
Contributions from non-controlling interest holders	87.7		75.3
Distributions to non-controlling interest holders	(74.0	)	(87.3 )
Common units repurchased	(0.2	)	(53.6 )
Change in due to/from affiliates financing activities	38.5		62.0
Net cash provided by (used in) financing activities	73.7		(73.3 )
Effect of foreign exchange rate changes	61.7		9.1
Increase in cash and cash equivalents	684.8		51.8
Cash and cash equivalents, beginning of period	670.9		991.5
Cash and cash equivalents, end of period	\$1,355.7		\$1,043.3
Supplemental non-cash disclosures			
Net increase in partners' capital and accumulated other comprehensive income related to reallocation of ownership interest in Carlyle Holdings	\$23.8		\$12.4
Net asset impact of deconsolidation of Consolidated Funds	\$—		\$(7,170.2)
Tax effect from acquisition of Carlyle Holdings partnership units:			
Deferred tax asset	\$24.3		