

Carlyle Group L.P.  
Form S-1/A  
March 15, 2012

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**As filed with the Securities and Exchange Commission on March 14, 2012.**

**Registration No. 333-176685**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 4  
to  
Form S-1**

**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**The Carlyle Group L.P.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**6282**

*(Primary Standard Industrial  
Classification Code Number)*

**45-2832612**

*(I.R.S. Employer  
Identification Number)*

**1001 Pennsylvania Avenue, NW  
Washington, D.C. 20004-2505  
Telephone: (202) 729-5626**

*(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)*

**Jeffrey W. Ferguson  
General Counsel**

**The Carlyle Group L.P.  
1001 Pennsylvania Avenue, NW  
Washington, D.C. 20004-2505  
Telephone: (202) 729-5626**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after the Registration Statement is declared effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting**

**pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED MARCH 14, 2012  
PRELIMINARY PROSPECTUS**

**Common Units  
Representing Limited Partner Interests**

This is the initial public offering of common units representing limited partner interests in The Carlyle Group L.P. No public market currently exists for our common units. We are offering all of the common units representing limited partner interests in this offering. We anticipate that the initial public offering price will be between \$ and \$ per common unit. We have applied to list the common units on the NASDAQ Global Select Market under the symbol CG.

**Investing in our common units involves risks. See Risk Factors beginning on page 27. These risks include the following:**

We are managed by our general partner, which is owned by our senior Carlyle professionals. Our common unitholders will have only limited voting rights and will have no right to remove our general partner or, except in limited circumstances, elect the directors of our general partner. Moreover, immediately following this offering, our senior Carlyle professionals generally will have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of our limited partners. In addition, our partnership agreement limits the liability of, and reduces or eliminates the duties (including fiduciary duties) owed by, our general partner to our common unitholders and restricts the remedies available to our common unitholders for actions that might otherwise constitute breaches of our general partner's duties. As a limited partnership, we will qualify for and intend to rely on exceptions from certain corporate governance and other requirements under the rules of the NASDAQ Global Select Market. For example, we will not be required to comply with the requirements that a majority of the board of directors of our general partner consist of independent directors and that we have independent director oversight of executive officer compensation and director nominations.

Our business is subject to many risks, including those associated with:

adverse economic and market conditions, which can affect our business and liquidity position in many ways, including by reducing the value or performance of the investments made by our investment funds and reducing the ability of our investment funds to raise or deploy capital;

changes in the debt financing markets, which could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and operations, and could increase the cost of such financing if it is obtained, leading to lower-yielding investments;

the potential volatility of our revenue, income and cash flow;

our dependence on our founders and other key personnel and our ability to attract, retain and motivate high quality employees who will bring value to our operations;

business and regulatory impediments to our efforts to expand into new investment strategies, markets and businesses;

the fact that most of our investment funds invest in illiquid, long-term investments that are not marketable securities, and such investments may lose significant value during an economic downturn;

the potential for poor performance of our investment funds; and

the possibility that we will not be able to continue to raise capital from third-party investors on advantageous terms.

As discussed in Material U.S. Federal Tax Considerations, The Carlyle Group L.P. will be treated as a partnership for U.S. federal income tax purposes, and our common unitholders therefore will be required to take into account their allocable share of items of income, gain, loss and deduction of The Carlyle Group L.P. in computing their U.S. federal income tax liability. Although we currently intend to make annual distributions in an amount sufficient to cover the anticipated U.S. federal, state and local income tax liabilities of holders of common units in respect of their allocable share of our net taxable income, it is possible that such tax liabilities will exceed the cash distributions that holders of common units receive from us. Although not enacted, the U.S. Congress has considered legislation that would have precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations for taxable years after a ten-year transition period and would have taxed individual holders of common units with respect to certain income and gains at increased rates. Similar legislation could be enacted in the future.

	<b>Price to Public</b>	<b>Underwriting Discount</b>	<b>Proceeds, Before Expenses, to The Carlyle Group L.P.</b>
Per Common Unit	\$	\$	\$
Total	\$	\$	\$

To the extent that the underwriters sell more than \_\_\_\_\_ common units, the underwriters have the option to purchase up to an additional \_\_\_\_\_ common units from us at the initial public offering price less the underwriting discount.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units to purchasers on or about \_\_\_\_\_, 2012.

**J.P. Morgan**

**Citigroup**

**Credit Suisse**

**BofA Merrill Lynch  
Goldman, Sachs & Co.**

**Barclays Capital  
Morgan Stanley**

**Deutsche Bank Securities  
UBS Investment Bank**

**ICBC International**

**Sandler O'Neill + Partners, L.P.**

**Keefe Bruyette & Woods**

**CIBC**

**Itaú BBA**

**Nomura**

**Ramirez & Co., Inc.**

**Scotiabank**

**Societe Generale**

**The Williams Capital Group, L.P.**

**Mizuho Securities**

**SMBC Nikko**

, 2012

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**Global Presence**

As of December 31, 2011.

**Assets Under Management (dollars in billions, 2003 – 2011)**

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You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. We and the underwriters are offering to sell, and seeking offers to buy, our common units only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common units.

Through and including \_\_\_\_\_, 2012 (25 days after the date of this prospectus), all dealers that effect transactions in our common units, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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Our business is currently owned by four holding entities: TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. We refer to these four holding entities collectively as the Parent Entities. The Parent Entities are under the common ownership and control of our senior Carlyle professionals and two strategic investors that own minority interests in our business entities affiliated with Mubadala Development Company, an Abu-Dhabi based strategic development and investment company ( Mubadala ), and California Public Employees Retirement System ( CalPERS ). Unless the context suggests otherwise, references in this prospectus to Carlyle, the Company, we, us and our refer (1) prior to the consummation of our reorganization to a holding partnership structure as described under Organizational Structure, to **Carlyle Group**, which is comprised of the Parent Entities and their consolidated subsidiaries and (2) after our reorganization into a holding partnership structure, to **The Carlyle Group L.P.** and its consolidated subsidiaries. In addition, certain individuals engaged in our businesses own interests in the general partners of our existing carry funds. Certain of these individuals will contribute a portion of these interests to us as part of the reorganization. We refer to these individuals, together with the owners of the Parent Entities prior to this offering, collectively as our existing owners. Completion of our reorganization will occur prior to this offering. See Organizational Structure.

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 partners of our firm who are, together with CalPERS and Mubadala, the owners of our Parent Entities prior to the reorganization. References in this prospectus to the ownership of the senior Carlyle professionals include the ownership of personal planning vehicles of these individuals.

Carlyle funds, our funds and our investment funds refer to the investment funds and vehicles advised by Carlyle. Our carry funds refers to those investment funds that we advise, including the buyout funds, growth capital funds, real asset funds and distressed debt and mezzanine funds (but excluding our structured credit funds, hedge funds and fund of funds vehicles), where we receive a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. Our fund of funds vehicles refer to those funds, accounts and vehicles advised by AlpInvest Partners B.V., formerly known as AlpInvest Partners N.V. ( AlpInvest ).

Fee-earning assets under management or Fee-earning AUM refers to the assets we manage from which we derive recurring fund management fees. Our 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 our collateralized loan obligations ( CLOs ) and the reference portfolio notional amount of our synthetic collateralized loan obligations ( synthetic CLOs );
- (d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of our 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.

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

- (a) the fair value of the capital invested in our carry funds, co-investment vehicles and fund of funds vehicles plus the capital that we are entitled to call from investors in those funds and vehicles (including our 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 our CLOs and the reference portfolio notional amount of our synthetic CLOs; and
- (c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds.

We include in our calculation of AUM and fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Investment Group L.L.C. ( Riverstone ).

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 fees. Our definitions 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 advise. See Business Structure and Operation of Our Investment Funds Incentive Arrangements/Fee Structure.

For our carry funds, co-investment vehicles and fund of funds vehicles, 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 at cost, depending on whether the 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.

Unless indicated otherwise, non-financial operational and statistical data in this prospectus is as of December 31, 2011. Compound annual growth in AUM is presented since December 31, 2003, the first period for which comparable information is available. The data presented herein that provides inception to date performance results of our segments relates to the period following the formation of the first fund within each segment. For our Corporate Private Equity segment, our first fund was formed in 1990. For our Real Assets segment, our first fund was formed in 1997.

Until an investment fund (i) has distributed substantially all expected investment proceeds to its fund investors, (ii) is not expected to generate further investment proceeds (e.g., earn-outs), (iii) is no longer paying management fees or accruing performance fees, and (iv) in the case of our structured credit funds, has made a final redemption distribution, we consider such investment fund to be active. The fund performance data presented herein includes the performance of all of our carry funds, including those that are no longer active. All other fund data presented in this prospectus, and all other references to our investment funds, are to our active investment funds.

References herein to active investments are to investments that have not yet been fully realized, meaning that the investment fund continues to own an interest in, and has not yet completely exited, the investment.





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In addition, for purposes of the non-financial operating and statistical data included in this prospectus, including the aggregation of our non-U.S. dollar denominated investment funds, foreign currencies have been converted to U.S. dollars at the spot rate as of the last trading day of the reporting period when presenting period end balances, and the average rate for the period has been utilized when presenting activity during such period. With respect to capital commitments raised in foreign currencies, the conversion to U.S. dollars is based on the exchange rate as of the date of closing of such capital commitment.

Unless indicated otherwise, the information included in this prospectus assumes:

no exercise by the underwriters of the option to purchase up to an additional    common units from us; and  
the common units to be sold in this offering are sold at \$    per common unit, which is the midpoint of the price range indicated on the front cover of this prospectus.

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**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and does not contain all the information you should consider before investing in our common units. You should read this entire prospectus carefully, including the section entitled Risk Factors and the financial statements and the related notes, before you decide to invest in our common units.*

**The Carlyle Group**

We are one of the world's largest and most diversified multi-product global alternative asset management firms. We advise an array of specialized investment funds and other investment vehicles that invest across a range of industries, geographies, asset classes and investment strategies and seek to deliver attractive returns for our fund investors. Since our firm was founded in Washington, D.C. in 1987, we have grown to become a leading global alternative asset manager with more than \$147 billion in AUM across 89 funds and 52 fund of funds vehicles. We have approximately 1,300 employees, including more than 600 investment professionals, in 33 offices across six continents, and we serve over 1,400 active carry fund investors from 72 countries. Across our Corporate Private Equity and Real Assets segments, we have investments in over 200 portfolio companies that employ more than 650,000 people.

The growth and development of our firm has been guided by several fundamental tenets:

*Excellence in Investing.* Our primary goal is to invest wisely and create value for our fund investors. We strive to generate superior investment returns by combining deep industry expertise, a global network of local investment teams who can leverage extensive firm-wide resources and a consistent and disciplined investment process.

*Commitment to our Fund Investors.* Our fund investors come first. This commitment is a core component of our firm culture and informs every aspect of our business. We believe this philosophy is in the long-term best interests of Carlyle and its owners, including our prospective common unitholders.

*Investment in the Firm.* We have invested, and intend to continue to invest, significant resources in hiring and retaining a deep talent pool of investment professionals and in building the infrastructure of the firm, including our expansive local office network and our

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comprehensive investor support team, which provides finance, legal and compliance and tax services in addition to other corporate services.

*Expansion of our Platform.* We innovate continuously to expand our investment capabilities through the creation or acquisition of new asset-, sector- and regionally-focused strategies in order to provide our fund investors a variety of investment options.

*Unified Culture.* We seek to leverage the local market insights and operational capabilities that we have developed across our global platform through a unified culture we call One Carlyle. Our culture emphasizes collaboration and sharing of knowledge and expertise across the firm to create value.

We believe that this offering will enable us to continue to develop and grow our firm; strengthen our infrastructure; create attractive investment products, strategies and funds for the benefit of our fund investors; and attract and retain top quality professionals. We manage our business for the long-term, through economic cycles, leveraging investment and exit opportunities in different parts of the world and across asset classes. We believe it is an opportune time to capitalize on the additional resources and growth prospects that we expect a public offering will provide.

**Our Business**

We operate our business across four segments: (1) Corporate Private Equity, (2) Real Assets, (3) Global Market Strategies and (4) Fund of Funds Solutions. We established our Fund of Funds Solutions segment on July 1, 2011 at the time we completed our acquisition of a 60% equity interest in, and began to consolidate, AlpInvest.

We earn management fees pursuant to contractual arrangements with the investment funds that we manage and fees for transaction advisory and oversight services provided to portfolio companies of these funds. We also typically receive a performance fee from an investment fund, which may be either an incentive fee or a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a significant portion of our revenue. In order to better align the interests of our senior Carlyle professionals and the other individuals who manage our carry funds with our own interests and with those of the investors in these funds, such individuals are allocated directly a portion of the carried interest in our carry funds. See **Organizational Structure Reorganization** for additional information regarding the allocation of carried interest between us and our senior Carlyle professionals before and after the consummation of this offering. See **Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures** for a discussion of the composition of our revenues and expenses, including additional information regarding how our management fees and performance fees are structured and calculated.

The following tables set forth information regarding our segment revenues, economic net income ( ENI ) and distributable earnings by segment for the years ended December 31, 2011 and 2010 and regarding our total revenues, income before provision for income taxes and cash distributions in conformity with U.S. generally accepted accounting principles ( GAAP ) for such periods. Please see **Management's Discussion and Analysis of Financial Condition and Results of**

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Operations Key Financial Measures for a discussion of the composition of our revenues and expenses and Segment Analysis for discussion and analysis of our segment results.

	<b>For the Year Ended December 31, 2011</b>				
	<b>Corporate</b>				<b>Total</b>
	<b>Private</b>	<b>Real Assets</b>	<b>Global Market</b>	<b>Fund of Funds</b>	
	<b>Equity</b>		<b>Strategies (In millions)</b>	<b>Solutions(5)</b>	
<b>Total Revenues (GAAP)</b>					
<b>Income before provision for income taxes (GAAP)</b>					\$ 1,182.8
<b>Cash distributions (GAAP)(1)</b>					\$ 1,498.4
<b>Segment Revenues(2)</b>	\$ 1,483.6	\$ 314.7	\$ 324.9	\$ 26.1	\$ 2,149.3
<b>Economic Net Income(2)(3)</b>	\$ 514.1	\$ 143.9	\$ 161.5	\$ 13.6	\$ 833.1
<b>Distributable Earnings(2)(4)</b>	\$ 566.0	\$ 84.8	\$ 193.4	\$ 20.2	\$ 864.4

	<b>For the Year Ended December 31, 2010</b>				
	<b>Corporate</b>				<b>Total</b>
	<b>Private</b>	<b>Real Assets</b>	<b>Global Market</b>	<b>Fund of Funds</b>	
	<b>Equity</b>		<b>Strategies (In millions)</b>	<b>Solutions</b>	
<b>Total Revenues (GAAP)</b>					
<b>Income before provision for income taxes (GAAP)</b>					\$ 1,479.7
<b>Cash distributions (GAAP)(1)</b>					\$ 787.8
<b>Segment Revenues(2)</b>	\$ 1,897.2	\$ 235.0	\$ 253.6	n/a	\$ 2,385.8
<b>Economic Net Income(2)(3)</b>	\$ 819.3	\$ 90.7	\$ 104.0	n/a	\$ 1,014.0
<b>Distributable Earnings(2)(4)</b>	\$ 307.2	\$ 12.7	\$ 22.6	n/a	\$ 342.5

- (1) Cash distributions, net of compensatory payments, distributions related to co-investments and distributions related to the Mubadala investment in 2010 were \$681.9 million and \$105.8 million for the years ended December 31, 2011 and 2010, respectively. See Cash Distribution Policy.
- (2) Under GAAP, we are required to consolidate certain of the investment funds that we advise. However, for segment reporting purposes, we present revenues and expenses on a basis that deconsolidates these funds.
- (3) ENI, a non-GAAP measure, represents segment net income excluding the impact of income taxes, acquisition-related items including amortization of acquired intangibles and earn-outs, charges associated with equity-based compensation issued in this offering or future acquisitions, corporate actions and infrequently occurring or unusual events (e.g., acquisition related costs, gains and losses on fair value adjustments on contingent consideration, gains and losses from the retirement of our debt, charges associated with lease terminations and employee severance and settlements of legal claims). For a further discussion about ENI and a reconciliation to Income Before Provision for Income Taxes, see Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures Non-GAAP Financial Measures Economic Net Income and Non-GAAP Financial Measures, and Note 14 to our combined and consolidated financial statements appearing elsewhere in this prospectus.
- (4) Distributable Earnings, a non-GAAP measure, is a component of ENI representing total ENI less unrealized performance fees and unrealized investment income plus unrealized performance fee compensation expense. For a further discussion about Distributable Earnings and a reconciliation to Income Before Provision for Income Taxes, see Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures Non-GAAP Financial Measures Distributable Earnings, Non-GAAP Financial Measures and Note 14 to our combined and consolidated financial statements appearing elsewhere in this prospectus. For a discussion of cash distributions and the difference between Distributable Earnings and such cash distribution during the historical periods presented, see Cash Distribution Policy.
- (5) We established our Fund of Funds Solutions segment on July 1, 2011. These results are for the period from July 1, 2011 to December 31, 2011.

**Corporate Private Equity.** Our Corporate Private Equity segment, established in 1990 with our first U.S. buyout fund, advises our buyout and growth capital funds, which pursue a wide variety of corporate investments of different sizes and growth potentials. Our 26 active Corporate Private Equity funds are each carry funds. They are organized and operated by geography or industry and

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are advised by separate teams of local professionals who live and work in the markets where they invest. We believe this diversity of funds allows us to deploy more targeted and specialized investment expertise and strategies and offers our fund investors the ability to tailor their investment choices.

Our Corporate Private Equity teams have two primary areas of focus:

*Buyout Funds.* Our buyout teams advise a diverse group of 17 active funds that invest in transactions that focus either on a particular geography (United States, Europe, Asia, Japan, South America or the Middle East and North Africa ( MENA )) or a particular industry (e.g., financial services). As of December 31, 2011, our buyout funds had, in the aggregate, approximately \$47 billion in AUM.

*Growth Capital Funds.* Our nine active growth capital funds are advised by three regionally-focused teams in the United States, Europe and Asia, with each team generally focused on middle-market and growth companies consistent with specific regional investment considerations. As of December 31, 2011, our growth capital funds had, in the aggregate, approximately \$4 billion in AUM.

The following table presents certain data about our Corporate Private Equity segment as of December 31, 2011 (dollar amounts in billions; compound annual growth is presented since December 31, 2003; amounts invested include co-investments).

AUM	% of		Fee-		Active Funds	Available Capital	Investment Professionals	Amount Invested	Investments
	Total AUM	AUM CAGR	Earning AUM	Active Investments				Since Inception	Since Inception
\$ 51	35%	22%	\$ 38	167	26	\$ 13	254	\$ 49	422

*Real Assets.* Our Real Assets segment, established in 1997 with our first U.S. real estate fund, advises our 17 active carry funds focused on real estate, infrastructure and energy and renewable resources.

Our Real Assets teams have three primary areas of focus:

*Real Estate.* Our 10 active real estate funds pursue real estate investment opportunities in Asia, Europe and the United States and generally focus on acquiring single-property opportunities rather than large-cap companies with real estate portfolios. As of December 31, 2011, our real estate funds had, in the aggregate, approximately \$12 billion in AUM.

*Infrastructure.* Our infrastructure investment team focuses on investments in infrastructure companies and assets. As of December 31, 2011, we advised one infrastructure fund with approximately \$1 billion in AUM.

*Energy & Renewable Resources.* Our energy and renewable resources activities focus on buyouts, growth capital investments and strategic joint ventures in the midstream, upstream, power and oilfield services sectors, as well as the renewable and alternative sectors of the energy industry. We currently conduct these activities with Riverstone, jointly advising six funds with approximately \$17 billion in AUM as of December 31, 2011. We and Riverstone have mutually decided not to pursue additional jointly managed funds (although we will continue to advise jointly with Riverstone the six existing energy and renewable resources funds). We are actively exploring new approaches through which to expand our energy capabilities and intend to augment our significant in-house expertise in this sector.





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The following table presents certain data about our Real Assets segment as of December 31, 2011 (dollar amounts in billions; compound annual growth is presented since December 31, 2003; amounts invested include co-investments; investment professionals excludes Riverstone employees).

AUM	% of Total AUM	AUM CAGR	Fee- Earning AUM	Active Investments	Active Funds	Available Capital	Investment Professionals	Amount Invested Since Inception	Investments Since Inception
\$ 31	21%	37%	\$ 22	330	17	\$ 8	136	\$ 26	552

**Global Market Strategies.** Our Global Market Strategies segment, established in 1999 with our first high yield fund, advises a group of 46 active funds that pursue investment opportunities across various types of credit, equities and alternative instruments, and (with regards to certain macroeconomic strategies) currencies, commodities and interest rate products and their derivatives. These funds include:

**Carry Funds.** We advise six carry funds, with an aggregate of \$3 billion in AUM, in three different strategies: distressed and corporate opportunities (including liquid trading portfolios and control investments); corporate mezzanine (targeting middle market companies); and energy mezzanine opportunities (targeting debt investments in energy and power projects and companies).

**Hedge Funds.** Through our 55% stake in Claren Road Asset Management, LLC ( Claren Road ) we advise two long/short credit hedge funds focusing on the global high grade and high yield markets totaling, in the aggregate, approximately \$6 billion in AUM. Additionally, through our 55% stake in Emerging Sovereign Group LLC ( ESG ), we advise six emerging markets equities and macroeconomic hedge funds with an aggregate AUM of \$2 billion.

**Structured Credit Funds.** Our 32 structured credit funds, with an aggregate AUM of \$13 billion, invest primarily in performing senior secured bank loans through structured vehicles and other investment products.

The following table presents certain data about our Global Market Strategies segment as of December 31, 2011 (dollar amounts in billions; compound annual growth is presented since December 31, 2003).

AUM	% of Total AUM	AUM CAGR	Fee-Earning AUM	Active Funds	Investment Professionals(1)
\$ 24	16%	33%	\$ 23	46	145

(1) Includes 31 middle office and back office professionals.

**Fund of Funds Solutions.** Our Fund of Funds Solutions segment was established on July 1, 2011 when we completed our acquisition of a 60% equity interest in AlpInvest. AlpInvest is one of the world's largest investors in private equity and advises a global private equity fund of funds program and related co-investment and secondary activities. Its anchor clients are two large Dutch pension funds, which were the founders and previous shareholders of the company. Although we maintain ultimate control over AlpInvest, AlpInvest's historical management team (who are our employees) will continue to exercise independent investment authority without involvement by other Carlyle

personnel.

AlpInvest has three primary areas of focus:

*Fund Investments.* AlpInvest fund of funds vehicles make investment commitments directly to buyout, growth capital, venture and other alternative asset funds advised by other general partners ( portfolio funds ). As of December 31, 2011, AlpInvest advised 25 fund of funds vehicles totaling, in the aggregate, approximately \$30 billion in AUM.

*Co-investments.* AlpInvest invests alongside other private equity and mezzanine funds in which it has a fund investment throughout Europe, North America and Asia. As of

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December 31, 2011, AlpInvest co-investments programs were conducted through 15 fund of funds vehicles totaling, in the aggregate, approximately \$5 billion in AUM.

*Secondary Investments.* AlpInvest also advises funds that acquire interests in portfolio funds in secondary market transactions. As of December 31, 2011, AlpInvest's secondary investments program was conducted through 12 fund of funds vehicles totaling, in the aggregate, approximately \$6 billion in AUM.

In addition, although customized separate accounts and co-mingled vehicles for clients other than AlpInvest's anchor clients do not currently represent a significant portion of our AUM, we expect to grow our Fund of Funds Solutions segment with these two products. See Business Structure and Operation of Our Investment Funds Incentive Arrangements/Fee Structure for a discussion of the arrangements with the historical owners and management of AlpInvest regarding the allocation of carried interest in respect of the historical investments of and the historical and certain future commitments to our fund of funds vehicles.

The following table presents certain data about our Fund of Funds Solutions segment as of December 31, 2011 (dollar amounts in billions).

	<b>% of Total</b>	<b>Fee-Earning</b>	<b>Fund of Funds</b>	<b>Available</b>	<b>Amount Invested Since Inception</b>	<b>Investment Professionals(2)</b>
<b>AUM(1)</b>	<b>AUM</b>	<b>AUM</b>	<b>Vehicles</b>	<b>Capital</b>		
\$ 41	28%	\$ 28	52	\$ 15	\$ 38	60

(1) Under our arrangements with the historical owners and management team of AlpInvest, such persons are allocated all carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of December 31, 2010, 85% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 60% of the carried interest in respect of all other commitments (including all future commitments from third parties).

(2) Includes 24 middle office and back office professionals.

**Competitive Strengths**

Since our founding in 1987, Carlyle has grown to become one of the world's largest and most diversified multi-product global alternative asset management firms. We believe the following competitive strengths position us well for future growth:

**Global Presence.** We believe we have a greater presence around the globe and in emerging markets than any other alternative asset manager. We currently operate on six continents and sponsor funds investing in the United States, Asia, Europe, Japan, MENA and South America, with 12 carry funds and their related co-investment vehicles representing approximately \$11 billion in AUM actively investing in emerging markets. Our extensive network of investment professionals is composed primarily of local individuals with the knowledge, experience and relationships that allow them to identify and take advantage of opportunities unavailable to firms with less extensive footprints.

**Diversified and Scalable Multi-Product Platform.** We have created separate geographic, sector and asset specific fund groups, investing significant resources to develop this extensive network of investment professionals and offices.

As a result, we benefit from having 89 different funds (including 49 carry funds) and 52 fund of funds vehicles around the world. We believe this broad fund platform and our investor services infrastructure provide us with a scalable foundation to pursue future investment opportunities in high-growth markets and to expand into new products. Our diverse platform also enhances our resilience to credit market turmoil by enabling us to invest during such times in assets and geographies that are less dependent on leverage than traditional U.S. buyout activity. We believe the breadth of our product offerings also enhances our fundraising by allowing us to offer investors greater flexibility to allocate capital across different geographies, industries and components of a company's capital structure.

***Focus on Innovation.*** We have been at the forefront of many recognized trends within our industry, including the diversification of investment products and asset classes, geographic

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expansion and raising strategic capital from institutional investors. Within 10 years of the launch of our first fund in 1990 to pursue buyout opportunities in the United States, we had expanded our buyout operations to Asia and Europe and added funds focused on U.S. real estate, global energy and power, structured credit and venture and growth capital opportunities in Asia, Europe and the United States. Over the next 10 years, we developed an increasing number of new, diverse products, including funds focused on distressed opportunities, infrastructure, global financial services, mezzanine investments and real estate across Asia and Europe. We continued to innovate in 2010 and 2011 with the significant expansion of our Global Markets Strategies business, which has more than doubled its AUM since the beginning of 2008, the formation of our Fund of Funds Solutions segment and numerous new fund initiatives. We believe our focus on innovation will enable us to continue to identify and capitalize on new opportunities in high-growth geographies and sectors.

***Proven Ability to Consistently Attract Capital from a High-Quality, Loyal Investor Base.*** Since inception, we have raised more than \$117 billion in capital (excluding acquisitions). We have successfully and repeatedly raised long-term, non-redeemable capital commitments to new and successor funds, with a broad and diverse base of over 1,400 active carry fund investors from 72 countries. Despite the recent challenges in the fundraising markets, from December 31, 2007 through December 31, 2011, we had closings for commitments totaling approximately \$32 billion across 30 funds and related co-investment vehicles, as well as net inflows to our hedge funds. We have a demonstrated history of attracting investors to multiple funds, with approximately 91% of commitments to our active carry funds (by dollar amount) coming from investors who are committed to more than one active carry fund, and approximately 58% of commitments to our active carry funds (by dollar amount) coming from investors who are committed to more than five active carry funds (each as of December 31, 2011). We have a dedicated in-house fund investor relations function, which we refer to as our LP relations group, which includes 23 geographically focused investor relations professionals and 31 product and client segment specialists and support staff operating on a global basis. We believe that our constant dialogue with our fund investors and our commitment to providing them with the highest quality service inspires loyalty and aids our efforts to continue to attract investors across our investment platform.

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**Demonstrated Record of Investment Performance.** We have demonstrated a strong and consistent investment track record, producing attractive returns for our fund investors across segments, sectors and geographies, and across economic cycles. The following table summarizes the aggregate investment performance of our Corporate Private Equity, Real Assets, and Fund of Funds Solutions segments. Due to the diversified nature of the strategies in our Global Market Strategies segment, we have included summarized investment performance for the largest carry fund and two of our largest hedge funds in this segment. For additional information, including performance information of other Global Market Strategies funds, see Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Analysis Corporate Private Equity Fund Performance Metrics, Real Assets Fund Performance Metrics Fund of Funds Solutions Fund Performance Metrics, and Global Market Strategies Fund Performance Metrics.

	As of December 31, 2011		Inception to December 31, 2011			
	Cumulative Invested Capital(2)	MOIC(3)	Realized/ Partially Realized MOIC(3)(4) (Dollars in billions)	Gross IRR(5)	Net IRR(6)	Realized/ Partially Realized Gross IRR(4)(5)
Corporate Private Equity(1)	\$ 48.7	1.8x	2.6x	27%	18%	31%
Real Assets(1)	\$ 26.4	1.5x	2.0x	17%	10%	29%
Fund of Funds Solutions(1)	\$ 38.3	1.3x	n/a	10%	9%	n/a

	As of December 31, 2011	Inception to December 31, 2011		
	Total AUM	Gross IRR(5)	Net IRR(6)	Net Annualized Return(7)
Global Market Strategies(8)				
CSP II (carry fund)	\$ 1.6	15%	10%	n/a
Claren Road Master Fund (hedge fund)	\$ 4.7	n/a	n/a	11%
Claren Road Opportunities Fund (hedge fund)	\$ 1.4	n/a	n/a	18%

The returns presented herein represent those of the applicable Carlyle funds and not those of The Carlyle Group L.P. See Risk Factors Risks Related to Our Business Operations The historical returns attributable to our funds, including those presented in this prospectus, should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.

(1) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

(2) Represents the original cost of all capital called for investments since inception.

- (3) Multiple of invested capital ( MOIC ) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (4) 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 proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures.



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- (5) Gross Internal Rate of Return ( IRR ) represents the annualized IRR for the period indicated on limited partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (6) Net IRR represents the annualized IRR for the period indicated on limited partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.
- (7) Net Annualized Return is presented for fee-paying investors on a total return basis, net of all fees and expenses.
- (8) Due to the disparate nature of the underlying asset classes in which our Global Market Strategies funds participate (e.g., syndicated loans, bonds, distressed securities, mezzanine loans, emerging markets equities, macroeconomic products) and the inherent difficulties in aggregating the performance of closed-end and open-end funds, the presentation of aggregate investment performance across this segment would not be meaningful.

***Financial Strength.*** The investment performance across our broad fund base has enabled us to generate Economic Net Income of \$833.1 million in 2011 and \$1.014 billion in 2010 and Distributable Earnings of \$864.4 million and \$342.5 million for the same periods. Our income before provision for income taxes, a GAAP measure, was approximately \$1.2 billion in 2011 and \$1.5 billion in 2010. This performance is also reflected in the rate of appreciation of the investments in our carry funds in recent periods, with a 34% increase in our carry fund value in 2010 and a 16% increase in 2011. Additionally, distributions to our fund investors have been robust, with more than \$8 billion distributed to fund investors in 2010 and approximately \$19 billion in 2011. We believe the investment pace and available capital of our carry funds position us well for the future. Our carry funds invested approximately \$10 billion in 2010 and more than \$11 billion in 2011, and as of December 31, 2011, these funds had approximately \$22 billion in capital commitments that had not yet been invested.

***Stable and Diverse Team of Talented Investment Professionals With a Strong Alignment of Interests.*** We have a talented team of more than 600 investment professionals and we are assisted by our Executive Operations Group of 27 operating executives, with an average of over 40 years of relevant operating, financial and regulatory experience, who are a valuable resource to our portfolio companies and our firm. Our investment professionals are supported by a centralized investor services and support group, which includes more than 400 professionals. The interests of our professionals are aligned with the interests of the investors in our funds and in our firm. Since our inception through December 31, 2011, we and our senior Carlyle professionals, operating executives and other professionals have invested or committed to invest in excess of \$4 billion in or alongside our funds. We have also sought to align the long-term incentives of our senior Carlyle professionals with our common unitholders, including through equity compensation arrangements that include certain vesting, minimum retained ownership and transfer restrictions. See Management Vesting; Minimum Retained Ownership Requirements and Transfer Restrictions.

***Commitment to Responsible Global Citizenship.*** We believe that being a good corporate citizen is part of good business practice and creates long-term value for our fund investors. We have worked to apply the Private Equity Growth Capital Council's Guidelines for Responsible Investment, which we helped to develop in 2008, demonstrating our commitment to environmental, social and governance standards in our investment activities. In addition, we were the first global alternative asset management firm to release a corporate citizenship report, which catalogues and describes our corporate citizenship efforts, including our responsible investment policy and practices and those of our portfolio companies.

**Our Strategy for the Future**

We intend to create value for our common unitholders by seeking to:

continue to generate attractive investment returns for our fund investors across our multi-fund, multi-product global investment platform, including by increasing the value of our current portfolio and leveraging the strong capital position of our investment funds to pursue new investment opportunities;

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continue to inspire the confidence and loyalty of our more than 1,400 active carry fund investors, and further expand our investor base, with a focus on client service and strong investment performance;

continue to grow our AUM by raising follow-on investment funds across our four segments and by broadening our platform, through both organic growth and selective acquisitions, where we believe we can provide investors with differentiated products to meet their needs;

further advance our leadership position in core non-U.S. geographic markets, including high-growth emerging markets such as China, Latin America, India, MENA and Sub-Saharan Africa; and

continue to demonstrate principled industry leadership and to be a responsible and respected member of the global community by demonstrating our commitment to environmental, social and governance standards in our investment activities.

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**Investment Risks**

An investment in our common units involves substantial risks and uncertainties. Some of the more significant challenges and risks relating to an investment in our common units include those associated with:

adverse economic and market conditions, which can affect our business and liquidity position in many ways, including by reducing the value or performance of the investments made by our investment funds and reducing the ability of our investment funds to raise or deploy capital;

changes in the debt financing markets, which could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and operations, and could increase the cost of such financing if it is obtained, leading to lower-yielding investments;

the potential volatility of our revenue, income and cash flow, which is influenced by:

the fact that carried interest is only received when investments are realized and achieve a certain specified return;

changes in the carrying values and performance of our funds' investments; and

the life cycle of our carry funds, which influences the timing of our accrual and realization of carried interest;

the fact that the fees we receive for transaction advisory services are dependent upon the level of transactional activity during the period;

our dependence on our founders and other key personnel and our ability to attract, retain and motivate high quality employees who will bring value to our operations;

business and regulatory impediments to our efforts to expand into new investment strategies, markets and businesses;

the fact that most of our investment funds invest in illiquid, long-term investments that are not marketable securities, and such investments may lose significant value during an economic downturn;

the potential for poor performance of our investment funds; and

the possibility that we will not be able to continue to raise capital from third-party investors on advantageous terms.

As a limited partnership, we will qualify for and intend to rely on exceptions from certain corporate governance and other requirements under the rules of the NASDAQ Global Select Market. For example, we will not be required to comply with the requirements that a majority of the board of directors of our general partner consist of independent directors and that we have independent director oversight of executive officer compensation and director nominations.

In addition, and as discussed in [Material U.S. Federal Tax Considerations](#) :

The Carlyle Group L.P. will be treated as a partnership for U.S. federal income tax purposes, and our common unitholders therefore will be required to take into account their allocable share of items of income, gain, loss

and deduction of The Carlyle Group L.P. in computing their U.S. federal income tax liability;

Although we currently intend to make annual distributions in an amount sufficient to cover the anticipated U.S. federal, state and local income tax liabilities of holders of common units in respect of their allocable share of our net taxable income, it is possible that such tax

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liabilities will exceed the cash distributions that holders of common units receive from us; and

Although not enacted, the U.S. Congress has considered legislation that would have precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations for taxable years after a ten-year transition period and would have taxed individual holders of common units with respect to certain income and gains now taxed at capital gains rates, including gain on disposition of units, at increased rates. Similar legislation could be enacted in the future.

Please see **Risk Factors** for a discussion of these and other factors you should consider before making an investment in our common units.

The Carlyle Group L.P. was formed in Delaware on July 18, 2011. Our principal executive offices are located at 1001 Pennsylvania Avenue, NW, Washington, D.C. 20004-2505, and our telephone number is (202) 729-5626.

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**Organizational Structure**

*Our Current Organizational Structure*

Our business is currently owned by four holding entities: TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. We refer to these four holding entities collectively as the Parent Entities. The Parent Entities are under the common ownership and control of the partners of our firm (who we refer to as our senior Carlyle professionals ) and two strategic investors that own minority interests in our business entities affiliated with Mubadala Development Company, an Abu-Dhabi based strategic development and investment company ( Mubadala ), and California Public Employees Retirement System ( CalPERS ). In addition, certain individuals engaged in our businesses own interests in the general partners of our existing carry funds. Certain of these individuals will, as described below, contribute a portion of these interests to us as part of the reorganization. We refer to these individuals, together with the owners of the Parent Entities prior to this offering, collectively, as our existing owners.

*Reorganization*

Prior to this offering, we will complete a series of transactions pursuant to which our business will be reorganized into a holding partnership structure as described under Organizational Structure. Following the reorganization and this offering, The Carlyle Group L.P. will be a holding partnership and, through wholly-owned subsidiaries, will hold equity interests in three Carlyle Holdings partnerships (which we refer to collectively as Carlyle Holdings ), which in turn will own the four Parent Entities. Through its wholly-owned subsidiaries, The Carlyle Group L.P. will be the sole general partner of each of the Carlyle Holdings partnerships. Accordingly, The Carlyle Group L.P. will operate and control all of the business and affairs of Carlyle Holdings and will consolidate the financial results of Carlyle Holdings and its consolidated subsidiaries, and the ownership interest of the limited partners of Carlyle Holdings will be reflected as a non-controlling interest in The Carlyle Group L.P.'s consolidated financial statements. At the time of this offering, our existing owners will be the only limited partners of the Carlyle Holdings partnerships.

Certain existing and former owners of the Parent Entities (including CalPERS and former and current senior Carlyle professionals) have beneficial interests in investments in or alongside our funds that were funded by such persons indirectly through the Parent Entities. In order to minimize the extent of third party ownership interests in firm assets, prior to the completion of the offering we will (i) distribute a portion of these interests (approximately \$118.5 million as of December 31, 2011) to the beneficial owners so that they are held directly by such persons and are no longer consolidated in our financial statements and (ii) restructure the remainder of these interests (approximately \$84.8 million as of December 31, 2011) so that they are reflected as non-controlling interests in our financial statements. In addition, prior to the offering the Parent Entities will restructure the ownership of certain carried interest rights allocated to retired senior Carlyle professionals so that such carried interest rights will be reflected as non-controlling interests in our financial statements. Such restructured carried interest rights accounted for approximately \$42.3 million of our performance fee revenue for the year ended December 31, 2011. Prior to the date of the offering the Parent Entities will also make one or more cash distributions of previously undistributed earnings and excess accumulated cash to their owners totaling \$ . See Unaudited Pro Forma Financial Information.

Our existing owners will then contribute to the Carlyle Holdings partnerships their interests in the Parent Entities and a portion of the equity interests they own in the general partners of our existing investment funds and other entities that have invested in or alongside our funds.

Accordingly, following the reorganization, subsidiaries of Carlyle Holdings generally will be entitled to:

all management fees payable in respect of all current and future investment funds that we advise, as well as the fees for transaction advisory and oversight services that may be payable



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by these investment funds portfolio companies (subject to certain third party interests, as described below);

all carried interest earned in respect of all current and future carry funds that we advise (subject to certain third party interests, including those described below and to the allocation to our investment professionals who work in these operations of a portion of this carried interest as described below);

all incentive fees (subject to certain interests in Claren Road and ESG and, with respect to other funds earning incentive fees, any performance-related allocations to investment professionals); and

all returns on investments of our own balance sheet capital that we make following this offering (as well as on existing investments with an aggregate value of approximately \$249.3 million as of December 31, 2011).

In certain cases, the entities that receive management fees from our investment funds are owned by Carlyle together with other persons. For example, management fees from our energy and renewables funds are received by an entity we own together with Riverstone, and the Claren Road, ESG and AlpInvest management companies are partially owned by the respective founders and managers of these businesses. We may have similar arrangements with respect to the ownership of the entities that advise our funds in the future.

In order to better align the interests of our senior Carlyle professionals and the other individuals who manage our carry funds with our own interests and with those of the investors in these funds, such individuals are allocated directly a portion of the carried interest in our carry funds. Prior to the reorganization, the level of such allocations vary by fund, but generally are at least 50% of the carried interests in the fund. As a result of the reorganization, the allocations to these individuals will be approximately 45% of all carried interest, on a blended average basis, earned in respect of investments made prior to the date of the reorganization and approximately 45% of any carried interest that we earn in respect of investments made from and after the date of the reorganization, in each case with the exception of the Riverstone funds, where we will retain essentially all of the carry to which we are entitled under our arrangements for those funds. In addition, under our arrangements with the historical owners and management team of AlpInvest, such persons are allocated all carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of December 31, 2010, 85% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 60% of the carried interest in respect of all other commitments (including all future commitments from third parties). See Business Structure and Operation of Our Investment Funds Incentive Arrangements/Fee Structure.

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The diagram below (which omits certain wholly-owned intermediate holding companies) depicts our organizational structure immediately following this offering. As discussed in greater detail below and under [Organizational Structure](#), The Carlyle Group L.P. will hold, through wholly-owned subsidiaries, a number of Carlyle Holdings partnership units that is equal to the number of common units that The Carlyle Group L.P. has issued and will benefit from the income of Carlyle Holdings to the extent of its equity interests in the Carlyle Holdings partnerships. While the holders of common units of The Carlyle Group L.P. will be entitled to all of the economic rights in The Carlyle Group L.P. immediately following this offering, our existing owners will, like the wholly-owned subsidiaries of The Carlyle Group L.P., hold Carlyle Holdings partnership units that entitle them to economic rights in Carlyle Holdings to the extent of their equity interests in the Carlyle Holdings partnerships. Public investors will not directly hold equity interests in the Carlyle Holdings partnerships.

- (1) The Carlyle Group L.P. common unitholders will have only limited voting rights and will have no right to remove our general partner or, except in limited circumstances, elect the directors of our general partner. TCG Carlyle Global Partners L.L.C., an entity wholly-owned by our senior Carlyle professionals, will hold a special voting unit in The Carlyle Group L.P. that will entitle it, on those few matters that may be submitted for a vote of The Carlyle Group L.P. common unitholders, to participate in the vote on the same basis as the common unitholders and provide it with a number of votes that is equal to the aggregate number of vested and unvested partnership units in Carlyle Holdings held by the limited partners of Carlyle Holdings on the relevant record date. See [Material Provisions of The Carlyle Group L.P. Partnership Agreement](#) [Withdrawal or Removal of the General Partner](#), [Meetings; Voting](#) and [Election of Directors of General Partner](#).
- (2) Certain individuals engaged in our business will continue to own interests directly in selected operating subsidiaries, including, in certain instances, entities that receive management fees from funds that we advise. The Carlyle Holdings partnerships will also directly own interests in selected operating subsidiaries. For additional information concerning these interests see [Organizational Structure](#) [Our Organizational Structure Following this Offering](#) [Certain Non-controlling Interests in Operating Subsidiaries](#).

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The Carlyle Group L.P. intends to conduct all of its material business activities through Carlyle Holdings. Each of the Carlyle Holdings partnerships was formed to hold our interests in different businesses. We expect that Carlyle Holdings I L.P. will own all of our U.S. fee-generating businesses and many of our non-U.S. fee-generating businesses, as well as our carried interests (and other investment interests) that are expected to derive income that would not be qualifying income for purposes of the U.S. federal income tax publicly-traded partnership rules and certain of our carried interests (and other investment interests) that do not relate to investments in stock of corporations or in debt, such as equity investments in entities that are pass-through for U.S. federal income tax purposes. We anticipate that Carlyle Holdings II L.P. will hold a variety of assets, including our carried interests in many of the investments by our carry funds in entities that are treated as domestic corporations for U.S. federal income tax purposes and in certain non-U.S. entities. Certain of our non-U.S. fee-generating businesses, as well as our non-U.S. carried interests (and other investment interests) that are expected to derive income that would not be qualifying income for purposes of the U.S. federal income tax publicly-traded partnership rules and certain of our non-U.S. carried interests (and other investment interests) that do not relate to investments in stock of corporations or in debt, such as equity investments in entities that are pass-through for U.S. federal income tax purposes will be held by Carlyle Holdings III L.P.

The Carlyle Group L.P. has formed wholly-owned subsidiaries to serve as the general partners of the Carlyle Holdings partnerships: Carlyle Holdings I GP Inc. (a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes), Carlyle Holdings II GP L.L.C. (a Delaware limited liability company that is a disregarded entity and not an association taxable as a corporation for U.S. federal income tax purposes) and Carlyle Holdings III GP L.P. (a Québec *société en commandite* that is a foreign corporation for U.S. federal income tax purposes) will serve as the general partners of Carlyle Holdings I L.P., Carlyle Holdings II L.P. and Carlyle Holdings III L.P., respectively. Carlyle Holdings I GP Inc. and Carlyle Holdings III GP L.P. will serve as the general partners of Carlyle Holdings I L.P. and Carlyle Holdings III L.P., respectively, either directly or indirectly through wholly-owned subsidiaries that are disregarded for federal income tax purposes. We refer to Carlyle Holdings I GP Inc., Carlyle Holdings II GP L.L.C. and Carlyle Holdings III GP L.P. collectively as the Carlyle Holdings General Partners.

*Holding Partnership Structure*

As discussed in Material U.S. Federal Tax Considerations, The Carlyle Group L.P. will be treated as a partnership and not as a corporation for U.S. federal income tax purposes, although our partnership agreement does not restrict our ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. An entity that is treated as a partnership for U.S. federal income tax purposes is not a taxable entity and incurs no U.S. federal income tax liability. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its U.S. federal income tax liability, whether or not cash distributions are made. Investors in this offering will become limited partners of The Carlyle Group L.P. Accordingly, an investor in this offering generally will be required to pay U.S. federal income taxes with respect to the income and gain of The Carlyle Group L.P. that is allocated to such investor, even if The Carlyle Group L.P. does not make cash distributions. We believe that the Carlyle Holdings partnerships will also be treated as partnerships and not as corporations for U.S. federal income tax purposes. Accordingly, the holders of partnership units in Carlyle Holdings, including The Carlyle Group L.P.'s wholly-owned subsidiaries, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of Carlyle Holdings. See Material U.S. Federal Tax Considerations for more information about the tax treatment of The Carlyle Group L.P. and Carlyle Holdings.

Each of the Carlyle Holdings partnerships will have an identical number of partnership units outstanding, and we use the terms Carlyle Holdings partnership unit or partnership unit in/of Carlyle Holdings to refer collectively to a partnership unit in each of the Carlyle Holdings partnerships. The Carlyle Group L.P. will hold, through

wholly-owned subsidiaries, a number of

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Carlyle Holdings partnership units equal to the number of common units that The Carlyle Group L.P. has issued. The Carlyle Holdings partnership units that will be held by The Carlyle Group L.P.'s wholly-owned subsidiaries will be economically identical to the Carlyle Holdings partnership units that will be held by our existing owners. Accordingly, the income of Carlyle Holdings will benefit The Carlyle Group L.P. to the extent of its equity interest in Carlyle Holdings. Immediately following this offering, The Carlyle Group L.P. will hold Carlyle Holdings partnership units representing % of the total number of partnership units of Carlyle Holdings, or % if the underwriters exercise in full their option to purchase additional common units, and our existing owners will hold Carlyle Holdings partnership units representing % of the total number of partnership units of Carlyle Holdings, or % if the underwriters exercise in full their option to purchase additional common units.

Under the terms of the partnership agreements of the Carlyle Holdings partnerships, all of the Carlyle Holdings partnership units received by our existing owners in the reorganization described in Organizational Structure will be subject to restrictions on transfer and, with the exception of Mubadala and CalPERS, minimum retained ownership requirements. All of the Carlyle Holdings partnership units received by our founders, CalPERS and Mubadala as part of the Reorganization will be fully vested as of the date of issuance. All of the Carlyle Holdings partnership units received by our other existing owners in exchange for their interests in carried interest owned at the fund level relating to investments made by our carry funds prior to the date of the Reorganization will be fully vested as of the date of issuance. Of the remaining Carlyle Holdings partnership units received as part of the Reorganization by our other existing owners, % will be fully vested as of the date of issuance and % will not be vested and, with specified exceptions, will be subject to forfeiture if the employee ceases to be employed by us prior to vesting. See Management Vesting; Minimum Retained Ownership Requirements and Transfer Restrictions.

The Carlyle Group L.P. is managed and operated by our general partner, Carlyle Group Management L.L.C., to whom we refer as our general partner, which is in turn wholly-owned by our senior Carlyle professionals. Our general partner will not have any business activities other than managing and operating us. We will reimburse our general partner and its affiliates for all costs incurred in managing and operating us, and our partnership agreement provides that our general partner will determine the expenses that are allocable to us. Although there are no ceilings on the expenses for which we will reimburse our general partner and its affiliates, the expenses to which they may be entitled to reimbursement from us, such as director fees, are not expected to be material.

### *Certain Corporate Governance Considerations*

*Voting.* Unlike the holders of common stock in a corporation, our common unitholders will have only limited voting rights and will have no right to remove our general partner or, except in the limited circumstances described below, elect the directors of our general partner. In addition, TCG Carlyle Global Partners L.L.C., an entity wholly-owned by our senior Carlyle professionals, will hold a special voting unit that provides it with a number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Carlyle Holdings partnership units held by the limited partners of Carlyle Holdings. Accordingly, immediately following this offering, on those few matters that may be submitted for a vote of the limited partners of The Carlyle Group L.P., such as the approval of amendments to the limited partnership agreement of The Carlyle Group L.P. that the limited partnership agreement does not authorize our general partner to approve without the consent of the limited partners and the approval of certain mergers or sales of all or substantially all of our assets, investors in this offering will collectively have % of the voting power of The Carlyle Group L.P. limited partners, or % if the underwriters exercise in full their option to purchase additional common units, and our existing owners will collectively have % of the voting power of The Carlyle Group L.P. limited partners, or % if the underwriters exercise in full their option to purchase additional common units. These percentages correspond with the percentages of the Carlyle Holdings



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partnership units that will be held by The Carlyle Group L.P. through its wholly-owned subsidiaries, on the one hand, and by our existing owners, on the other hand. We refer to our common units (other than those held by any person whom our general partner may from time to time with such person's consent designate as a non-voting common unitholder) and our special voting units as voting units. Our common unitholders' voting rights will be further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Carlyle Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter.

*Election of Directors.* In general, our common unitholders will have no right to elect the directors of our general partner. However, when our Senior Carlyle professionals and other then-current or former Carlyle personnel hold less than 10% of the limited partner voting power, our common unitholders will have the right to vote in the election of the directors of our general partner. This voting power condition will be measured on January 31, of each year, and will be triggered if the total voting power held by holders of the special voting units in The Carlyle Group L.P. (including voting units held by our general partner and its affiliates) in their capacity as such, or otherwise held by then-current or former Carlyle personnel (treating voting units deliverable to such persons pursuant to outstanding equity awards as being held by them), collectively, constitutes less than 10% of the voting power of the outstanding voting units of The Carlyle Group L.P. Unless and until the foregoing voting power condition is satisfied, our general partner's board of directors will be elected in accordance with its limited liability company agreement, which provides that directors may be appointed and removed by members of our general partner holding a majority in interest of the voting power of the members, which voting power is allocated to each member ratably according to his or her aggregate ownership of our common units and partnership units. See Material Provisions of The Carlyle Group L.P. Partnership Agreement Election of Directors of General Partner.

*Conflicts of Interest and Duties of Our General Partner.* Although our general partner has no business activities other than the management of our business, conflicts of interest may arise in the future between us and our common unitholders, on the one hand, and our general partner and its affiliates, on the other. The resolution of these conflicts may not always be in our best interests or that of our common unitholders. In addition, we have certain duties and obligations to our investment funds and their investors and we expect to regularly take actions with respect to the purchase or sale of investments in our investment funds, the structuring of investment transactions for those funds or otherwise in a manner consistent with such duties and obligations but that might at the same time adversely affect our near-term results of operations or cash flow.

Our partnership agreement limits the liability of, and reduces or eliminates the duties (including fiduciary duties) owed by, our general partner to our common unitholders. Our partnership agreement also restricts the remedies available to common unitholders for actions that might otherwise constitute breaches of our general partner's duties (including fiduciary duties). By purchasing our common units, you are treated as having consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. For a more detailed description of the conflicts of interest and fiduciary responsibilities of our general partner, see Conflicts of Interest and Fiduciary Responsibilities.

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**The Offering**

Common units offered by The Carlyle Group L.P.

common units.

Common units outstanding after the offering transactions

common units (or common units if all outstanding Carlyle Holdings partnership units held by our existing owners were exchanged for newly-issued common units on a one-for-one basis).

Use of proceeds

We estimate that the net proceeds to The Carlyle Group L.P. from this offering, after deducting estimated underwriting discounts, will be approximately \$ , or \$ if the underwriters exercise in full their option to purchase additional common units.

The Carlyle Group L.P. intends to use all of these proceeds to purchase newly issued Carlyle Holdings partnership units from Carlyle Holdings, as described under Organizational Structure Offering Transactions. We intend to cause Carlyle Holdings to use a portion of these proceeds to repay the outstanding indebtedness under the revolving credit facility of our existing senior secured credit facility and the remainder for general corporate purposes, including general operational needs, growth initiatives, acquisitions and strategic investments and to fund capital commitments to, and other investments in and alongside of, our investment funds. We anticipate that the acquisitions we may pursue will be those that would broaden our platform where we believe we can provide investors with differentiated products to meet their needs. Carlyle Holdings will also bear or reimburse The Carlyle Group L.P. for all of the expenses of this offering, which we estimate will be approximately \$ . See Use of Proceeds and Capitalization.

Voting rights

Our general partner, Carlyle Group Management L.L.C., will manage all of our operations and activities. You will not hold an interest in our general partner, which is wholly-owned by our senior Carlyle professionals. Unlike the holders of common stock in a corporation, you will have only limited voting rights and will have no right to remove our general partner or, except in limited circumstances, elect the directors of our general partner.

In addition, TCG Carlyle Global Partners L.L.C., an entity wholly-owned by our senior Carlyle professionals, will hold a special voting unit that provides it with a number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Carlyle Holdings partnership units held by the limited partners of Carlyle Holdings. Accordingly, immediately following this offering our existing owners generally will have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Carlyle Group L.P. Our





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by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Carlyle Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. See Material Provisions of The Carlyle Group L.P. Partnership Agreement Withdrawal or Removal of the General Partner, Meetings; Voting and Election of Directors of General Partner.

Cash distribution policy

Our general partner currently intends to cause The Carlyle Group L.P. to make quarterly distributions to our common unitholders of its share of distributions from Carlyle Holdings, net of taxes and amounts payable under the tax receivable agreement as described below. We currently anticipate that we will cause Carlyle Holdings to make quarterly distributions to its partners, including The Carlyle Group L.P.'s wholly owned subsidiaries, that will enable The Carlyle Group L.P. to pay a quarterly distribution of \$ per common unit. In addition, we currently anticipate that we will cause Carlyle Holdings to make annual distributions to its partners, including The Carlyle Group L.P.'s wholly owned subsidiaries, in an amount that, taken together with the other above-described quarterly distributions, represents substantially all of our Distributable Earnings in excess of the amount determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds or to comply with applicable law or any of our financing agreements. We anticipate that the aggregate amount of our distributions for most years will be less than our Distributable Earnings for that year due to these funding requirements. For a discussion of the difference between Distributable Earnings and cash distributions during the historical periods presented, see Cash Distribution Policy.

Notwithstanding the foregoing, the declaration and payment of any distributions will be at the sole discretion of our general partner, which may change our distribution policy at any time. Our general partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, other constraints on the payment of distributions by us to our common unitholders or by our subsidiaries to us, and such other factors as our general partner may deem relevant.

The Carlyle Group L.P. will be a holding partnership and will have no material assets other than its ownership of partnership units in Carlyle Holdings held through wholly-owned subsidiaries. We intend to cause Carlyle Holdings to make distributions to its partners, including the

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wholly-owned subsidiaries of The Carlyle Group L.P., in order to fund any distributions we may declare on the common units. If Carlyle Holdings makes such distributions, the limited partners of Carlyle Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Carlyle Holdings. Because Carlyle Holdings I GP Inc. must pay taxes and make payments under the tax receivable agreement, the amounts ultimately distributed by The Carlyle Group L.P. to common unitholders are expected to be less, on a per unit basis, than the amounts distributed by the Carlyle Holdings partnerships to the limited partners of the Carlyle Holdings partnerships in respect of their Carlyle Holdings partnership units.

In addition, the partnership agreements of the Carlyle Holdings partnerships will provide for cash distributions, which we refer to as tax distributions, to the partners of such partnerships if our wholly-owned subsidiaries that are the general partners of the Carlyle Holdings partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income). The Carlyle Holdings partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such tax liabilities. The Carlyle Group L.P. is not required to distribute to its common unitholders any of the cash that its wholly-owned subsidiaries may receive as a result of tax distributions by the Carlyle Holdings partnerships.

For limitations on our ability to make distributions, see Cash Distribution Policy.

Exchange rights of holders of Carlyle Holdings partnership units

Prior to this offering we will enter into an exchange agreement with our senior Carlyle professionals and the other limited partners of the Carlyle Holdings partnerships so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Carlyle Holdings partnerships, may on a quarterly basis, from and after the first anniversary of the date of the closing of this offering (subject to the terms of the exchange agreement), exchange their Carlyle Holdings partnership units for The Carlyle Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. In

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addition, subject to certain requirements, CalPERS will generally be permitted to exchange Carlyle Holdings partnership units for common units from and after the closing of this offering. Any common units received by CalPERS in any such exchange during the lock-up period described in Common Units Eligible For Future Sale Lock-Up Arrangements would be subject to the restrictions described in such section. A Carlyle Holdings limited partner must exchange one partnership unit in each of the three Carlyle Holdings partnerships to effect an exchange for a common unit. As the number of Carlyle Holdings partnership units held by the limited partners of the Carlyle Holdings partnerships declines, the number of votes to which TCG Carlyle Global Partners L.L.C. is entitled as a result of its ownership of the special voting unit will be correspondingly reduced. For information concerning transfer restrictions that will apply to holders of Carlyle Holdings partnership units, including our senior Carlyle professionals, see Management Vesting; Minimum Retained Ownership Requirements and Transfer Restrictions.

## Tax receivable agreement

Future exchanges of Carlyle Holdings partnership units are expected to result in increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, primarily attributable to a portion of the goodwill inherent in our business. These increases in tax basis will increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of tax that certain of our subsidiaries, including Carlyle Holdings I GP Inc., which we refer to as the corporate taxpayers, would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. We will enter into a tax receivable agreement with our existing owners whereby the corporate taxpayers will agree to pay to our existing owners 85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax that they realize as a result of these increases in tax basis. The corporate taxpayers will have the right to terminate the tax receivable agreement by making payments to our existing owners calculated by reference to the value of all future payments that our existing owners would have been entitled to receive under the tax receivable agreement using certain valuation assumptions, including that any Carlyle Holdings partnership units that have not been exchanged are deemed exchanged for the market value of the common units at the time of termination, and that the corporate taxpayers will have sufficient taxable income in each future taxable year to fully realize all potential tax savings. Based upon certain assumptions described in greater detail under Certain Relationships and Related Person Transactions Tax Receivable Agreement, we estimate that

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if the corporate taxpayers were to exercise their termination right immediately following this offering, the aggregate amount of these termination payments would be approximately \$ million. See Certain Relationships and Related Person Transactions Tax Receivable Agreement.

Risk factors See Risk Factors for a discussion of risks you should carefully consider before deciding to invest in our common units.

Proposed trading symbol CG.

In this prospectus, unless otherwise indicated, the number of common units outstanding and the other information based thereon does not reflect:

common units issuable upon exercise of the underwriters option to purchase additional common units from us;

common units issuable upon exchange of Carlyle Holdings partnership units that will be held by our existing owners immediately following the offering transactions;

up to common units issuable upon exchange of up to Carlyle Holdings partnership units that may be issued in connection with the contingently issuable equity interests received by the sellers as part of our acquisition of Claren Road, subject to adjustment as described below. See Note 3 to the combined and consolidated financial statements included elsewhere in this prospectus; or

interests that may be granted under the 2012 Carlyle Group Equity Incentive Plan, or our Equity Incentive Plan, consisting of:

deferred restricted common units that we expect to grant to our employees at the time of this offering;

phantom deferred restricted common units that we expect to grant to our employees at the time of this offering, which are settleable in cash; and

additional common units or Carlyle Holdings partnership units available for future grant under our Equity Incentive Plan, which are subject to automatic annual increases.

See Management Equity Incentive Plan and IPO Date Equity Awards.

We have agreed to adjust the Carlyle Holdings partnership units issuable to the Claren Road sellers to the extent necessary to ensure that the implied value of the Carlyle Holdings partnership units received or to be received by them upon fulfillment of the annual performance conditions (inclusive of the contingently issuable equity interests described above), calculated based on the initial public offering price per common unit in this offering, is not less than \$41.0 million and not greater than \$61.6 million (assuming that all annual performance conditions are met). In addition, we have agreed to adjust the consideration to the ESG sellers, which adjustment may be made at our option in cash or Carlyle Holdings partnership units, to the extent necessary to ensure that the value of the Carlyle Holdings partnership units received by them, based on the five-day volume weighted average price per unit of our common units, measured at the expiration of the 180-day restricted period described under Common Units Eligible For Future Sale Lock-Up Arrangements, is not less than \$7.0 million and not greater than \$8.4 million.

See Pricing Sensitivity Analysis to see how some of the information presented above would be affected by an initial public offering price per common unit at the low-, mid- and high-points of the price range indicated on the front cover of this prospectus.

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**Summary Financial and Other Data**

The following summary financial and other data of Carlyle Group, which comprises TC Group, L.L.C., TC Group Cayman L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P., as well as their controlled subsidiaries, which are under common ownership and control by our individual senior Carlyle professionals, entities affiliated with Mubadala and CalPERS, should be read together with Organizational Structure, Unaudited Pro Forma Financial Information, Selected Historical Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and related notes included elsewhere in this prospectus. Carlyle Group is considered our predecessor for accounting purposes, and its combined and consolidated financial statements will be our historical financial statements following this offering.

We derived the summary historical combined and consolidated statements of operations data of Carlyle Group for each of the years ended December 31, 2011, 2010 and 2009 and the summary historical combined and consolidated balance sheet data as of December 31, 2011 and 2010 from our audited combined and consolidated financial statements which are included elsewhere in this prospectus. We derived the summary historical combined and consolidated balance sheet data of Carlyle Group as of December 31, 2009 from our audited combined and consolidated financial statements which are not included in this prospectus. The combined and consolidated financial statements of Carlyle Group have been prepared on substantially the same basis for all historical periods presented; however, the consolidated funds are not the same entities in all periods shown due to changes in U.S. GAAP, changes in fund terms and the creation and termination of funds.

Net income is determined in accordance with U.S. GAAP for partnerships and is not comparable to net income of a corporation. All distributions and compensation for services rendered by Carlyle's individual partners have been reflected as distributions from equity rather than compensation expense in the historical combined and consolidated financial statements. Our non-GAAP presentation of Economic Net Income and Distributable Earnings reflects, among other adjustments, pro forma compensation expense for compensation to our senior Carlyle professionals, which we have historically accounted for as distributions from equity rather than as employee compensation. See Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures Non-GAAP Financial Measures.

The summary historical combined and consolidated financial and other data is not indicative of the expected future operating results of The Carlyle Group L.P. following the Reorganization and the Offering Transactions (as defined below). Prior to this offering, we will complete a series of transactions pursuant to which our business will be reorganized into a holding partnership structure as described in Organizational Structure. See Organizational Structure and Unaudited Pro Forma Financial Information.

The summary unaudited pro forma consolidated statement of operations data for the year ended December 31, 2011 presents our consolidated results of operations giving pro forma effect to the Reorganization and Offering Transactions described under Organizational Structure, and the other transactions described in Unaudited Pro Forma Financial Information, as if such transactions had occurred on January 1, 2011. The summary unaudited pro forma consolidated balance sheet data as of December 31, 2011 presents our consolidated financial position giving pro forma effect to the Reorganization and Offering Transactions described under Organizational Structure, and the other transactions described in Unaudited Pro Forma Financial Information, as if such transactions had occurred on December 31, 2011. The pro forma adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of these transactions on the historical combined and consolidated financial information of Carlyle Group. The unaudited condensed consolidated pro forma financial information is included for informational purposes only and does not purport to reflect the results

of operations or financial position of Carlyle Group that would have occurred had the transactions



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described above occurred on the dates indicated or had we operated as a public company during the periods presented or for any future period or date. The unaudited condensed consolidated pro forma financial information should not be relied upon as being indicative of our results of operations or financial position had the transactions described under Organizational Structure and the use of the estimated net proceeds from this offering as described under Use of Proceeds occurred on the dates assumed. The unaudited pro forma consolidated financial information also does not project our results of operations or financial position for any future period or date.

	<b>Pro Forma<sup>(4)</sup> for the Year Ended December 31, 2011</b>			<b>Year Ended December 31, 2011      2010      2009 (Dollars in millions)</b>			
<b>Statement of Operations Data</b>							
<b>Revenues</b>							
Fund management fees	\$	\$	915.5	\$	770.3	\$	788.1
Performance fees							
Realized			1,307.4		266.4		11.1
Unrealized			(185.8)		1,215.6		485.6
Total performance fees			1,121.6		1,482.0		496.7
Investment income			78.4		72.6		5.0
Interest and other income			15.8		21.4		27.3
Interest and other income of Consolidated Funds			714.0		452.6		0.7
Total Revenues			2,845.3		2,798.9		1,317.8
<b>Expenses</b>							
Compensation and benefits							
Base compensation			374.5		265.2		264.2
Performance fee related							
Realized			225.7		46.6		1.1
Unrealized			(122.3)		117.2		83.1
Total compensation and benefits			477.9		429.0		348.4
General, administrative and other expenses			323.5		177.2		236.6
Interest			60.6		17.8		30.6
Interest and other expenses of Consolidated Funds			453.1		233.3		0.7
Other non-operating expenses			32.0				
Loss (gain) from early extinguishment of debt, net of related expenses					2.5		(10.7)
Equity issued for affiliate debt financing					214.0		
Total Expenses			1,347.1		1,073.8		605.6
<b>Other Income (Loss)</b>							
Net investment losses of Consolidated Funds			(323.3)		(245.4)		(33.8)

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Gain on business acquisition		7.9		
Income before provision for income taxes		1,182.8	1,479.7	678.4
Provision for income taxes		28.5	20.3	14.8
Net income		1,154.3	1,459.4	663.6
Net loss attributable to non-controlling interests in consolidated entities		(202.6)	(66.2)	(30.5)
Net income attributable to Carlyle Group	\$	\$ 1,356.9	\$ 1,525.6	\$ 694.1
<b>Other Data</b>				
Economic Net Income(1)(2)	\$	\$ 833.1	\$ 1,014.0	\$ 416.3
Distributable Earnings(1)(3)	\$	\$ 864.4	\$ 342.5	\$ 165.3
Fee-Earning Assets Under Management (at period end)	\$	\$ 111,024.6	\$ 80,776.5	\$ 75,410.5
Total Assets Under Management (at period end)	\$	\$ 147,022.7	\$ 107,511.8	\$ 89,831.5

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	<b>Pro Forma<sup>(4)</sup> As of December 31, 2011</b>	<b>As of December 31, 2011      2010      2009 (Dollars in millions)</b>		
<b>Balance Sheet Data</b>				
Cash and cash equivalents	\$	\$ 509.6	\$ 616.9	\$ 488.1
Investments and accrued performance fees	\$	\$ 2,644.0	\$ 2,594.3	\$ 1,279.2
Investments of Consolidated Funds <sup>(5)</sup>	\$	\$ 19,507.3	\$ 11,864.6	\$ 163.9
Total assets	\$	\$ 24,651.7	\$ 17,062.8	\$ 2,509.6
Loans payable	\$	\$ 860.9	\$ 597.5	\$ 412.2
Subordinated loan payable to affiliate	\$	\$ 262.5	\$ 494.0	\$
Loans payable of Consolidated Funds	\$	\$ 9,689.9	\$ 10,433.5	\$
Total liabilities	\$	\$ 13,561.1	\$ 14,170.2	\$ 1,796.0
Redeemable non-controlling interests in consolidated entities	\$	\$ 1,923.4	\$ 694.0	\$
Total members' equity	\$	\$ 817.3	\$ 895.2	\$ 437.5
Equity appropriated for Consolidated Funds	\$	\$ 853.7	\$ 938.5	\$
Non-controlling interests in consolidated entities	\$	\$ 7,496.2	\$ 364.9	\$ 276.1
Total equity	\$	\$ 9,167.2	\$ 2,198.6	\$ 713.6

- (1) Under GAAP, we are required to consolidate certain of the investment funds that we advise. However, for segment reporting purposes, we present revenues and expenses on a basis that deconsolidates these investment funds.
- (2) ENI, a non-GAAP measure, represents segment net income excluding the impact of income taxes, acquisition-related items including amortization of acquired intangibles and earn-outs, charges associated with equity-based compensation issued in this offering or future acquisitions, corporate actions and infrequently occurring or unusual events (e.g., acquisition related costs and gains and losses on fair value adjustments on contingent consideration, gains and losses from the retirement of our debt, charges associated with lease terminations and employee severance and settlements of legal claims). For discussion about the purposes for which our management uses ENI and the reasons why we believe our presentation of ENI provides useful information to investors regarding our results of operations as well as a reconciliation of Economic Net Income to Income Before Provision for Income Taxes, see Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures Non-GAAP Financial Measures Economic Net Income and Non-GAAP Financial Measures and Note 14 to our combined and consolidated financial statements appearing elsewhere in this prospectus.
- (3) Distributable Earnings, a non-GAAP measure, is a component of ENI representing total ENI less unrealized performance fees and unrealized investment income plus unrealized performance fee compensation expense. For a discussion about the purposes for which our management uses Distributable Earnings and the reasons why we believe our presentation of Distributable Earnings provides useful information to investors regarding our results

of operations as well as a reconciliation of Distributable Earnings to Income Before Provision for Income Taxes, see Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures Non-GAAP Financial Measures Distributable Earnings and Non-GAAP Financial Measures and Note 14 to our combined and consolidated financial statements appearing elsewhere in this prospectus.

- (4) Refer to Unaudited Pro Forma Financial Information.
- (5) The entities comprising our consolidated funds are not the same entities for all periods presented. Pursuant to revised consolidation guidance that became effective January 1, 2010, we consolidated the existing and any subsequently acquired CLOs where we hold a controlling financial interest. The consolidation of funds during the periods presented generally has the effect of grossing up reported assets, liabilities, and cash flows, and has no effect on net income attributable to Carlyle Group or members' equity.

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**RISK FACTORS**

An investment in our common units involves risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our common units.

**Risks Related to Our Company**

*Adverse economic and market conditions could negatively impact our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital, and impacting our liquidity position, any of which could materially reduce our revenue and cash flow and adversely affect our financial condition.*

Our business may be materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside of our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn, each of our businesses could be affected in different ways.

For example, the unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financing institutions, and had a significant material adverse effect on our Corporate Private Equity, Real Assets and Global Market Strategies businesses. During that period, many economies around the world, including the U.S. economy, experienced significant declines in employment, household wealth and lending. In addition, the recent speculation regarding the inability of Greece and certain other European countries to pay their national debt, the response by Eurozone policy makers to mitigate this sovereign debt crisis and the concerns regarding the stability of the Eurozone currency have created uncertainty in the credit markets. As a result, there has been a strain on banks and other financial services participants, which could adversely affect our ability to obtain credit on favorable terms or at all. Those events led to a significantly diminished availability of credit and an increase in the cost of financing. The lack of credit in 2008 and 2009 materially hindered the initiation of new, large-sized transactions for our Corporate Private Equity and Real Assets segments and adversely impacted our operating results in those periods. While the adverse effects of that period have abated to a degree, global financial markets have experienced significant volatility following the downgrade by Standard & Poor's on August 5, 2011 of the long-term credit rating of U.S. Treasury debt from AAA to AA+. The capital market volatility we are currently experiencing that became more pronounced beginning in August 2011 has continued to impact valuations of a significant number of our funds' investments and fund performance as of and for the year ended December 31, 2011. There continue to be signs of economic weakness such as relatively high levels of unemployment in major markets including the United States and Europe. Further, financial institutions have not yet provided debt financing in amounts and on the terms commensurate with what they provided prior to 2008.

Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, all of which could adversely affect the timing of new funds and our ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries or geographies), our funds' portfolio companies may experience adverse

operating performance, decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our funds portfolio companies may result in lower

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investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. During such periods of weakness, our funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, or in the case of our Real Assets funds, the abandonment or foreclosure of investments, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company or real assets and a significant negative impact to the fund's performance and consequently our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our funds that have significant debt investments, such as our Global Market Strategies funds.

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

Finally, during periods of difficult market conditions or slowdowns, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds and fund of funds vehicles. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

***Changes in the debt financing markets could negatively impact the ability of certain of our funds and their portfolio companies to obtain attractive financing or re-financing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decreasing our net income.***

Any recurrence of the significant contraction in the market for debt financing that occurred in 2008 and 2009 or other adverse change to us relating to the terms of such debt financing with, for example, higher rates, higher equity requirements and/or more restrictive covenants, particularly in the area of acquisition financings for leveraged buyout and real assets transactions, could have a material adverse impact on our business. In the event that certain of our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, certain of our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns of our funds. In addition, to the extent that the markets make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.





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***Our revenue, net income and cash flow are variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis.***

Our revenue, net income and cash flow are variable. For example, our cash flow fluctuates due to the fact that we receive carried interest from our carry funds and fund of funds vehicles only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds can vary from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the carrying values and performance of our funds investments that can result in significant volatility in the carried interest that we have accrued (or as to which we have reversed prior accruals) from period to period, as well as changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. For instance, during the most recent economic downturn, we recorded significant reductions in the carrying values of many of the investments of the investment funds we advise. The carrying value of fund investments may be more variable during times of market volatility. Such variability in the timing and amount of our accruals and realizations of carried interest and transaction fees may lead to volatility in the trading price of our common units and cause our results and cash flow for a particular period not to be indicative of our performance in a future period. We may not achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to adverse movements in the price of our common units or increased volatility in our common unit price generally. The timing and receipt of carried interest also varies with the life cycle of our carry funds. For instance, the significant distributions made by our carry funds during 2010 and 2011 were partly a function of the relatively large portion of our AUM attributable to carry funds and investments that were in their harvesting period during such time, as opposed to the fundraising or investment periods which precede harvesting. During periods in which a significant portion of our AUM is attributable to carry funds and fund of funds vehicles or their investments that are not in their harvesting periods, as has been the case from time to time, we may receive substantially lower distributions. Moreover, even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict precisely when, or if, realizations of investments will occur. For example, for an extended period beginning the latter half of 2007, the global credit crisis made it difficult for potential purchasers to secure financing to purchase companies in our investment funds portfolio, which limited the number of potential realization events. A downturn in the equity markets also makes it more difficult to exit investments by selling equity securities. If we were to have a realization event in a particular quarter, the event may have a significant impact on our quarterly results and cash flow for that particular quarter which may not be replicated in subsequent quarters.

We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue, which could further increase the volatility of our quarterly results and cash flow. Because our carry funds and fund of funds vehicles have preferred investor return thresholds that need to be met prior to us receiving any carried interest, declines in, or failures to increase sufficiently the carrying value of, the investment portfolios of a carry fund or fund of funds vehicle may delay or eliminate any carried interest distributions paid to us in respect of that fund or vehicle, since the value of the assets in the fund or vehicle would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund or vehicle.

With respect to certain of the investment funds and vehicles that we advise, we are entitled to incentive fees that are paid annually, semi-annually or quarterly if the net asset value of a fund has increased. These funds also have high-water mark provisions whereby if the funds have experienced losses in prior periods, we will not be able to earn incentive fees with respect to an investor's account until the net asset value of the investor's account exceeds the highest period end



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value on which incentive fees were previously paid. The incentive fees we earn are therefore dependent on the net asset value of these funds or vehicles, which could lead to volatility in our quarterly results and cash flow.

Our fee revenue may also depend on the pace of investment activity in our funds. In many of our carry funds, the base management fee may be reduced when the fund has invested substantially all of its capital commitments. We may receive a lower management fee from such funds after the investing period and during the period the fund is harvesting its investments. As a result, the variable pace at which many of our carry funds invest capital may cause our management fee revenue to vary from one quarter to the next. For example, the investment periods for many of the large carry funds that we raised during the particularly productive period from 2007 to early 2008 are, unless extended, scheduled to expire beginning in 2012, which will result in step-downs in the applicable management fee rates for certain of these funds. Our management fee revenues will be reduced by these step-downs in management fee rates, as well as by any adverse impact on fee-earning AUM resulting from successful realization activity in our carry funds. Our failure to successfully replace and grow fee-earning AUM through the integration of recent acquisitions and anticipated new fundraising initiatives could have an adverse effect on our management fee revenue.

***We depend on our founders and other key personnel, and the loss of their services or investor confidence in such personnel could have a material adverse effect on our business, results of operations and financial condition.***

We depend on the efforts, skill, reputations and business contacts of our senior Carlyle professionals, including our founders, Messrs. Conway, D Aniello and Rubenstein, and other key personnel, including members of our management committee, operating committee, the investment committees of our investment funds and senior investment teams, the information and deal flow they and others generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals. Our founders currently have no immediate plans to cease providing services to our firm, but our founders and other key personnel are not obligated to remain employed with us. In addition, all of the Carlyle Holdings partnership units received by our founders and a portion of the Carlyle Holdings partnership units that other key personnel will receive in the reorganization, as described in Organizational Structure, will be fully vested upon issuance. Several key personnel have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key personnel will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flow and could harm our ability to maintain or grow AUM in existing funds or raise additional funds in the future. Under the provisions of the partnership agreements governing most of our carry funds, the departure of various key Carlyle personnel could, under certain circumstances, relieve fund investors of their capital commitments to those funds, if such an event is not cured to the satisfaction of the relevant fund investors within a certain amount of time. We have historically relied in part on the interests of these professionals in the investment funds carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and may become a less effective retention tool.

Our senior Carlyle professionals and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds and members of the business community and result in the reduction of AUM or fewer investment opportunities. For example, if any of our senior Carlyle professionals were to join or form a competing firm, that could have a material adverse effect on our business, results of operations and financial condition.

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***Recruiting and retaining professionals may be more difficult in the future, which could adversely affect our business, results of operations and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior Carlyle professionals and other key personnel and to strategically recruit, retain and motivate new talented personnel, including new senior Carlyle professionals. However, we may not be successful in our efforts to recruit, retain and motivate the required personnel as the market for qualified investment professionals is extremely competitive.

Following this offering, we may not be able to provide future senior Carlyle professionals with equity interests in our business to the same extent or with the same economic and tax consequences as those from which our existing senior Carlyle professionals previously benefited. For example, following this offering, our investment professionals and other employees are expected to be incentivized by the receipt of partnership units in Carlyle Holdings, deferred restricted common units granted pursuant to our equity plans, participation interests in carried interest and bonus compensation. The portion of their economic incentives comprising Carlyle Holdings partnership units and grants of restricted units will be greater after the offering than before the offering, and these incentives have different economic and tax characteristics than the blend of financial incentives we used before the offering.

If legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See **Risks Related to U.S. Taxation** Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis and Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations; and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as our distributions to you and the market price of our common units, could be reduced. Moreover, the value of the common units we may issue our senior Carlyle professionals at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the intended incentives.

As a result of the foregoing, in order to recruit and retain existing and future senior Carlyle professionals and other key personnel, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior Carlyle professionals and other key personnel over time or attempt to retain the services of certain of our key personnel, we may increase the level of compensation we pay to these individuals, which could cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. The issuance of equity interests in our business in the future to our senior Carlyle professionals and other personnel would also dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, results of operations and financial condition.

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***Given the priority we afford the interests of our fund investors and our focus on achieving superior investment performance, we may reduce our AUM, restrain its growth, reduce our fees or otherwise alter the terms under which we do business when we deem it in the best interest of our fund investors even in circumstances where such actions might be contrary to the interests of unitholders.***

In pursuing the interests of our fund investors, we may take actions that could reduce the profits we could otherwise realize in the short term. While we believe that our commitment to our fund investors and our discipline in this regard is in the long-term interest of us and our common unitholders, our common unitholders should understand this approach may have an adverse impact on our short-term profitability, and there is no guarantee that it will be beneficial in the long term. One of the means by which we seek to achieve superior investment performance in each of our strategies might include limiting the AUM in our strategies to an amount that we believe can be invested appropriately in accordance with our investment philosophy and current or anticipated economic and market conditions. For instance, in 2009 we released JPY 50 billion (\$542 million) of co-investment commitments associated with our second Japan buyout fund (CJP II) in exchange for an extension of the fund's investment period. In prioritizing the interests of our fund investors, we may also take other actions that could adversely impact our short-term results of operations when we deem such action appropriate. For example, in 2009, we decided to shut down one of our Real Assets funds and guaranteed to reimburse investors of the fund for capital contributions made for investments and fees to the extent investment proceeds did not cover such amounts. Additionally, we may voluntarily reduce management fee rates and terms for certain of our funds or strategies when we deem it appropriate, even when doing so may reduce our short-term revenue. For example, in 2009, we voluntarily increased the transaction fee rebate for our latest U.S. buyout fund (CP V) and our latest European buyout fund (CEP III) from 65% to 80%, and voluntarily reduced CEP III management fees by 20% for the years 2011 and 2012. We have also waived management fees on certain leveraged finance vehicles at various times to improve returns.

***We may not be successful in expanding into new investment strategies, markets and businesses, which could adversely affect our business, results of operations and financial condition.***

Our growth strategy is based, in part, on the expansion of our platform through selective investment in, and development or acquisition of, alternative asset management businesses or other businesses complementary to our business. This strategy can range from smaller-sized lift-outs of investment teams to strategic alliances or acquisitions. This growth strategy involves a number of risks, including the risk that the expected synergies from an acquisition or strategic alliance will not be realized, that the expected results will not be achieved or that the investment process, controls and procedures that we have developed around our existing platform will prove insufficient or inadequate in the new investment strategy. We may also incur significant charges in connection with such acquisitions and investments and they may also potentially result in significant losses and costs. For instance, in 2007, we made an investment in a multi-strategy hedge fund joint venture, which we liquidated at a significant loss in 2008 amid deteriorating market conditions and global financial turmoil. Similarly, in 2006, we established an investment fund, which invested primarily in U.S. agency mortgage-backed securities. Beginning in March 2008, there was an unprecedented deterioration in the market for U.S. agency mortgage backed securities and the fund was forced to enter liquidation, resulting in a recorded loss for us of approximately \$152 million. Such losses could adversely impact our business, results of operations and financial condition, as well as do harm to our professional reputation.

The success of our growth strategy will depend on, among other things:

the availability of suitable opportunities;

the level of competition from other companies that may have greater financial resources;

our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities;

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our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays; and

our ability to successfully negotiate and enter into beneficial arrangements with our counterparties.

Moreover, even if we are able to identify and successfully negotiate and complete an acquisition, these types of transactions can be complex and we may encounter unexpected difficulties or incur unexpected costs including:

the diversion of management's attention to integration matters;

difficulties and costs associated with the integration of operations and systems;

difficulties and costs associated with the assimilation of employees; and

the risk that a change in ownership will negatively impact the relationship between an acquiree and the investors in its investment vehicles.

Each transaction may also present additional unique challenges. For example, our investment in AlpInvest faces the risk that the other asset managers in whose funds AlpInvest invests may no longer be willing to provide AlpInvest with investment opportunities as favorable as in the past, if at all.

***Our organizational documents do not limit our ability to enter into new lines of business, and we may, from time to time, expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

We intend, to the extent that market conditions warrant, to seek to grow our businesses and expand into new investment strategies, geographic markets and businesses. Moreover, our organizational documents do not limit us to the asset management business. To the extent that we make strategic investments or acquisitions in new geographic markets or businesses, undertake other related strategic initiatives or enter into a new line of business, we may face numerous risks and uncertainties, including risks associated with the following:

the required investment of capital and other resources;

the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk;

the combination or integration of operational and management systems and controls; and

the broadening of our geographic footprint, including the risks associated with conducting operations in certain foreign jurisdictions where we currently have no presence.

Further, entry into certain lines of business may subject us to new laws and regulations with which we are not familiar or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenue or if we are unable to efficiently manage our expanded operations, our results of operations may be adversely affected.

Our strategic initiatives may include joint ventures, which may subject us to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and

personnel that are not under our control. We currently participate in several joint ventures and may elect to participate in additional joint venture opportunities in the future if we believe that operating in such a structure is in our best interests. There can be no assurances that our current joint ventures will continue in their current form, or at all, in the future or that we will be able to identify acceptable joint venture partners in the future or that our participation in any additional joint venture opportunities will be successful.



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*Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations; and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as our distributions to you and the market price of our common units, could be reduced.*

Over the past several years, a number of legislative and administrative proposals have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. In May 2010, the U.S. House of Representatives passed legislation, or May 2010 House bill, that would have, in general, treated income and gains now treated as capital gains, including gain on disposition of interests, attributable to an investment services partnership interest ( ISPI ) as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Your interest in us, our interest in Carlyle Holdings II L.P. and the interests that Carlyle Holdings II L.P. holds in entities that are entitled to receive carried interest may have been classified as ISPIs for purposes of this legislation. The U.S. Senate considered but did not pass similar legislation. Recently, on February 14, 2012, Representative Levin introduced similar legislation, or 2012 Levin bill, that would generally tax carried interest at ordinary income rates. Unlike previous proposals, the 2012 Levin bill includes exceptions, including exceptions for interests in publicly traded partnerships like The Carlyle Group L.P., that would not recharacterize all of the gain from a disposition of units as ordinary income. It is unclear when or whether the U.S. Congress will vote on this legislation or what provisions will be included in any legislation, if enacted.

Both the May 2010 House bill and the 2012 Levin bill provide that, for taxable years beginning 10 years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the rules discussed above would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation is enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations, possibly U.S. corporations. If we were taxed as a U.S. corporation or required to hold all ISPIs through corporations, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, you could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, now treated as capital gains, including gain on disposition of interests, attributable to an ISPI at rates higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would be considered to be a qualified capital interest. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the publicly traded partnership rules after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of carried interest. Furthermore, in the American Jobs Act and in the Obama administration's published revenue proposal for 2013, the Obama administration proposed that current law regarding the treatment of carried interest be changed to subject such income to ordinary income tax (which is taxed at a higher rate than the proposed blended tax rate under the House legislation). The Obama administration's published revenue proposals for 2010, 2011 and 2012 contained similar proposals.

More recently, on February 22, 2012, the Obama administration announced its framework of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be. Several parts of the framework if enacted could adversely affect



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us. First, the framework would reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also increase the effective cost of financing by companies in which we invest, which could reduce the value of our carried interest in respect of such companies. The framework suggests some entities currently treated as partnerships for tax purposes should be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. Finally, the framework reiterates the President's support for treatment of carried interest as ordinary income, as provided in the President's revenue proposal for 2013 described above. Because the framework did not include specifics, its effect on us is unclear, but the framework reflects a commitment by the President to try to change the tax law in ways that could be adverse to us.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York considered legislation under which you, even if a non-resident, could be subject to New York state income tax on income in respect of our common units as a result of certain activities of our affiliates in New York. This legislation would have been retroactive to January 1, 2010. It is unclear when or whether similar legislation will be enacted. In addition, states and other jurisdictions have considered legislation to increase taxes involving other aspects of our structure. In addition, states and other jurisdictions have considered and enacted legislation which could increase taxes imposed on our income and gain. For example, the District of Columbia has recently passed legislation that could expand the portion of our income that could be subject to District of Columbia income tax.

***We will expend significant financial and other resources to comply with the requirements of being a public entity.***

As a public entity, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting, which is discussed below. See Our internal controls over financial reporting do not currently meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act, and failure to achieve and maintain effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and common unit price. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight will be required. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We expect to incur significant additional annual expenses related to these steps and, among other things, additional directors and officers' liability insurance, director fees, reporting requirements of the Securities and Exchange Commission (the SEC), transfer agent fees, hiring additional accounting, legal and administrative personnel, increased auditing and legal fees and similar expenses.

***Our internal controls over financial reporting do not currently meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act, and failure to achieve and maintain effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and common unit price.***

We have not previously been required to comply with the requirements of the Sarbanes-Oxley Act, including the internal control evaluation and certification requirements of Section 404 of that



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statute ( Section 404 ), and we will not be required to comply with all of those requirements until we have been subject to the reporting requirements of the Exchange Act for a specified period of time. Accordingly, our internal controls over financial reporting do not currently meet all of the standards contemplated by Section 404 that we will eventually be required to meet. We are in the process of addressing our internal controls over financial reporting and are establishing formal policies, processes and practices related to financial reporting and to the identification of key financial reporting risks, assessment of their potential impact and linkage of those risks to specific areas and activities within our organization.

Additionally, we have begun the process of documenting our internal control procedures to satisfy the requirements of Section 404, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. Because we do not currently have comprehensive documentation of our internal controls and have not yet tested our internal controls in accordance with Section 404, we cannot conclude in accordance with Section 404 that we do not have a material weakness in our internal controls or a combination of significant deficiencies that could result in the conclusion that we have a material weakness in our internal controls. As a public entity, we will be required to complete our initial assessment in a timely manner. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our operations, financial reporting or financial results could be adversely affected, and our independent registered public accounting firm may not be able to certify as to the adequacy of our internal controls over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of applicable stock exchange listing rules, and result in a breach of the covenants under the agreements governing any of our financing arrangements. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements could also suffer if our independent registered public accounting firm were to report a material weakness in our internal controls over financial reporting. This could materially adversely affect us and lead to a decline in our common unit price.

***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, information and other data processing systems. If any of these systems do not operate properly or are disabled or if there is any unauthorized disclosure of data, whether as a result of tampering, a breach of our network security systems, a cyber incident or attack or otherwise, we could suffer substantial financial loss, increased costs, a disruption of our businesses, liability to our funds and fund investors regulatory intervention or reputational damage. In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in Washington, D.C., where most of our administrative and operations personnel are located, and our office in Arlington, Virginia, which houses our treasury and finance functions, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.



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In addition, sustaining our growth will also require us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. Due to the fact that the market for hiring talented professionals is competitive, we may not be able to grow at the pace we desire.

***Extensive regulation in the United States and abroad affects our activities and creates the potential for significant liabilities and penalties.***

Our business is subject to extensive regulation, including periodic examinations, by governmental agencies and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing fund investors or fail to gain new investors or discourage others from doing business with us. Some of our investment funds invest in businesses that operate in highly regulated industries, including in businesses that are regulated by the U.S. Federal Communications Commission and U.S. federal and state banking authorities. The regulatory regimes to which such businesses are subject may, among other things, condition our funds' ability to invest in those businesses upon the satisfaction of applicable ownership restrictions or qualification requirements. Moreover, our failure to obtain or maintain any regulatory approvals necessary for our funds to invest in such industries may disqualify our funds from participating in certain investments or require our funds to divest themselves of certain assets. In addition, we regularly rely on exemptions from various requirements of the Securities Act of 1933, as amended (the Securities Act), the Exchange Act, the Investment Company Act of 1940, as amended (the 1940 Act), and the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), in conducting our asset management activities in the United States. Similarly, in conducting our asset management activities outside the United States, we rely on available exemptions from the regulatory regimes of various foreign jurisdictions. These exemptions from regulation within the United States and abroad are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our business could be materially and adversely affected. Moreover, the requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements. See Business Regulatory and Compliance Matters.

We may become subject to additional regulatory and compliance burdens as we expand our product offerings and investment platform. For example, if we were to sponsor a registered investment company under the 1940 Act, such registered investment company and our subsidiary that serves as its investment adviser would be subject to the 1940 Act and the rules thereunder, which, among other things, regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions. This could increase our compliance costs and create the potential for additional liabilities and penalties.

***Regulatory changes in the United States could adversely affect our business and the possibility of increased regulatory focus could result in additional burdens and expenses on our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the domestic regulatory environment in which we operate in the United States. There has been an active debate over the





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appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Regulatory focus on our industry is likely to intensify if, as has happened from time to time, the alternative asset management industry falls into disfavor in popular opinion or with state and federal legislators, as the result of negative publicity or otherwise.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), which imposes significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions, which could have an adverse impact on our ability to conduct our business:

The Dodd-Frank Act establishes the Financial Stability Oversight Council (the FSOC ), a federal agency acting as the financial system's systemic risk regulator with the authority to review the activities of nonbank financial companies predominantly engaged in financial activities that are designated as systemically important. Such designation is applicable to companies where material financial distress could pose risk to the financial stability of the United States or if the nature, scope, size, scale, concentration, interconnectedness or mix of their activities could pose a threat to U.S. financial stability. On October 11, 2011, the FSOC issued a proposed rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The regulation details a three-stage process, with the level of scrutiny increasing at each stage. During Stage 1, the FSOC will apply a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC will consider whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets of 10%. A company that meets both the asset test and one of the other thresholds will be subject to additional review. Although it is unlikely that we would be designated as systemically important under the process outlined in the proposed rule, the designation criteria could evolve over time. If the FSOC were to determine that we were a systemically important nonbank financial company, we would be subject to a heightened degree of regulation, which could include a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve.

The Dodd-Frank Act, under what has become known as the Volcker Rule, generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule is currently scheduled to become effective on July 21, 2012 and is subject to certain transition periods and exceptions for certain permitted activities that would enable certain institutions subject to the Volcker Rule to continue investing in private equity funds under certain conditions. Although we do not currently anticipate that the Volcker Rule will adversely affect our fundraising to any significant extent, there is uncertainty regarding the implementation of the Volcker Rule and its practical implications and there could be adverse implications on our ability to raise funds from the types of entities mentioned above as a result of this prohibition. On October 11, 2011, the Federal Reserve and other federal regulatory agencies issued a proposed rule implementing the Volcker Rule.

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The Dodd-Frank Act requires many private equity and hedge fund advisers to register with the SEC under the Advisers Act, to maintain extensive records and to file reports with information that the regulators identify as necessary for monitoring systemic risk. Although a Carlyle subsidiary has been registered as an investment adviser for over 15 years, the Dodd-Frank Act will affect our business and operations, including increasing regulatory costs, imposing additional burdens on our staff and potentially requiring the disclosure of sensitive information.

The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. Such restrictions could limit our ability to recruit and retain investment professionals and senior management executives.

The Dodd-Frank Act requires public companies to adopt and disclose policies requiring, in the event the company is required to issue an accounting restatement, the clawback of related incentive compensation from current and former executive officers.

The Dodd-Frank Act amends the Exchange Act to compensate and protect whistleblowers who voluntarily provide original information to the SEC and establishes a fund to be used to pay whistleblowers who will be entitled to receive a payment equal to between 10% and 30% of certain monetary sanctions imposed in a successful government action resulting from the information provided by the whistleblower.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding pay to play practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. The rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser's employees and engagement of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state-level regarding pay to play practices by investment advisers. For example, in May 2009, we reached resolution with the Office of the Attorney General of the State of New York (the NYAG) regarding its inquiry into the use of placement agents by various asset managers, including Carlyle, to solicit New York public pension funds for private equity and hedge fund investment commitments. We made a \$20 million payment to New York State as part of this resolution in November 2009 and agreed to adopt the NYAG's Code of Conduct.

In September 2010, California enacted legislation, which became effective in January 2011, requiring placement agents who solicit funds from the California state retirement systems, such as CalPERS and the California State Teachers' Retirement System, to register as lobbyists. In addition to increased reporting requirements, the legislation prohibits placement agents from receiving contingent compensation for soliciting investments from California state retirement systems. New York City has enacted similar measures, which became effective on January 1, 2011, that require asset management firms and their employees that solicit investments from New York City's five public pension systems to register as lobbyists. Like the California legislation, the New York City measures impose significant compliance obligations on registered lobbyists and their employers, including annual registration fees, periodic

disclosure reports and internal recordkeeping, and also prohibit the acceptance of contingent fees. Moreover, other states or municipalities may consider

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similar legislation as that enacted in California and New York City or adopt regulations or procedures with similar effect. These types of measures could materially and adversely impact our business.

It is impossible to determine the extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

In October 2010, the EU Council of Ministers adopted a directive to amend the revised Capital Requirements Directive ( CRD III ), which, among other things, requires European Union ( EU ) member states to introduce stricter control on remuneration of key employees and risk takers within specific credit institutions and investment firms. The Financial Services Authority (the FSA ) has implemented CRD III by amending its remuneration code although the extent of the regulatory impact will differ depending on a firm s size and the nature of its activities.

In addition, in November 2010, the European Parliament voted to approve the EU Directive on Alternative Investment Fund Managers (the EU Directive ), which establishes a new EU regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. The EU Directive generally applies to managers with a registered office in the EU (or managing an EU-based fund vehicle), as well as non-EU-based managers that market securities of alternative investment funds in the European Union. In general, the EU Directive will have a staged implementation over a period of years beginning in mid-2013 for EU-based managers (or EU-based funds) and no later than 2018 for non-EU-based managers marketing non-EU-based funds into the European Union. Compliance with the EU Directive will subject us to a number of additional requirements, including rules relating to the remuneration of certain personnel (principally adopting the provisions of CRD III referred to above), certain capital requirements for alternative investment fund managers, leverage oversight for each investment fund, liquidity management and retention of depositories for each investment fund. Compliance with the requirements of the EU Directive will impose additional compliance expense for us and could reduce our operating flexibility and fund raising opportunities.

In December 2011, China s National Development and Reform Commission issued a new circular regulating the activities of private equity funds established in China. The circular includes new rules relating to the establishment, fundraising and investment scope of such funds; risk control mechanisms; basic responsibilities and duties of fund managers; information disclosure systems; and record filing. Compliance with these requirements may impose additional expense, affect the manner in which we conduct our business and adversely affect our profitability.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. The reporting related to such



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initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

See **Risks Related to Our Business Operations** Our funds make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investments in companies that are based in the United States and **Business Regulatory and Compliance Matters** for more information.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject them and us to the risk of third-party litigation arising from investor dissatisfaction with the performance of those investment funds, the activities of our portfolio companies and a variety of other litigation claims and regulatory inquiries and actions. From time to time we and our portfolio companies have been and may be subject to regulatory actions and shareholder class action suits relating to transactions in which we have agreed to acquire public companies.

For example, on February 14, 2008, a private class action lawsuit challenging club bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts. The complaint alleges, among other things, that certain private equity firms, including Carlyle, violated Section 1 of the Sherman Antitrust Act of 1890 (the Sherman Act) by forming multi-sponsor consortiums for the purpose of bidding collectively in corporate buyout auctions in certain going private transactions, which the plaintiffs allege constitutes a conspiracy in restraint of trade. It is difficult to determine what impact, if any, this litigation (and any future related litigation), together with any increased governmental scrutiny or regulatory initiatives, will have on the private equity industry generally or on us and our funds specifically. As a result, the foregoing could have an adverse impact on us or otherwise impede our ability to effectively achieve our asset management objectives. See **Business Legal Proceedings** for more information on this and other proceedings.

In addition, to the extent that investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our principals or our affiliates under the federal securities laws and/or state law. The general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified with respect to their conduct in connection with the management of the business and affairs of our private equity funds. For example, we have agreed to indemnify directors and officers of Carlyle Capital Corporation Limited in connection with the matters involving that fund discussed under **Business Legal Proceedings**. However, such indemnity generally does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, the lawsuit could materially adversely affect our business, results of operations or financial condition or cause significant reputational harm to us, which could materially impact our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or

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regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

In addition, with a workforce composed of many highly paid professionals, we face the risk of litigation relating to claims for compensation, which may, individually or in the aggregate, be significant in amount. The cost of settling any such claims could negatively impact our business, results of operations and financial condition.

***Employee misconduct could harm us by impairing our ability to attract and retain investors in our funds and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. Our ability to attract and retain investors and to pursue investment opportunities for our funds depends heavily upon the reputation of our professionals, especially our senior Carlyle professionals. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which our funds may invest. If our employees were to use or disclose confidential information improperly, we could suffer serious harm to our reputation, financial position and current and future business relationships, as well as face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees were to engage in misconduct or were to be accused of such misconduct, whether or not substantiated, our business and our reputation could be adversely affected and a loss of investor confidence could result, which would adversely impact our ability to raise future funds.

We will also be adversely affected if there is misconduct by senior management of portfolio companies in which our funds invest. Such misconduct might undermine our due diligence efforts with respect to such companies and it might negatively affect the valuation of a fund's investments.

In recent years, the U.S. Department of Justice (the "DOJ") and the SEC have devoted greater resources to enforcement of the Foreign Corrupt Practices Act (the "FCPA"). In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

***Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses and inhibit our ability to maintain our collaborative culture.***

We consider our "One Carlyle" philosophy and the ability of our professionals to communicate and collaborate across funds, industries and geographies one of our significant competitive strengths. As a result of the expansion of our platform into various lines of business in the alternative asset management industry we are currently, and as we continue to develop our managed account business and expand we will be, subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would





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otherwise be subject if we had just one line of business. In addition, as we expand our platform, the allocation of investment opportunities among our investment funds may become more complex. In addressing these conflicts and regulatory requirements across our various businesses, we have and may continue to implement certain policies and procedures (for example, information barriers) that may reduce the positive synergies that we cultivate across these businesses through our "One Carlyle" approach. For example, although we maintain ultimate control over AlpInvest, AlpInvest's historical management team (who are our employees) will continue to exercise independent investment authority without involvement by other Carlyle personnel. See "Risks Related to Our Business Operations" Our Fund of Funds Solutions business is subject to additional risks. In addition, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that benefit from such information.

### **Risks Related to Our Business Operations**

***Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.***

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow could decline. In some of our funds, such as our hedge funds, a reduction in the value of our AUM in such funds could result in a reduction in management fees and incentive fees we earn. In other funds managed by us, such as our private equity funds, a reduction in the value of the portfolio investments held in such funds could result in a reduction in the carried interest we earn. Moreover, we could experience losses on our investments of our own capital as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund's or fund of funds vehicle's life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds the amount to which we are ultimately entitled. These repayment obligations may be related to amounts previously distributed to our senior Carlyle professionals prior to the completion of this offering, with respect to which our common unitholders did not receive any benefit. See "We may need to pay 'giveback' obligations if and when they are triggered under the governing agreements with our investors."

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds and fund of funds vehicles might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of the poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds' performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds' continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee income. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue.

***Our asset management business depends in large part on our ability to raise capital from third-party investors. If we are unable to raise capital from third-party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.***

Our ability to raise capital from third-party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market,



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the pace of distributions from our funds and from the funds of other asset managers or the asset allocation rules or regulations or investment policies to which such third-party investors are subject, could inhibit or restrict the ability of third-party investors to make investments in our investment funds. For example, during 2008 and 2009, many third-party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real assets, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of distributions from their existing private equity and real assets portfolios, many of these investors were left with disproportionately outsized remaining commitments to, and invested capital in, a number of investment funds, which significantly limited their ability to make new commitments to third-party managed investment funds such as those advised by us. Although economic conditions have improved and many investors have increased the amount of commitments they are making to alternative investment funds, there can be no assurance that this will continue. Moreover, as some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new investors in order to maintain or increase the size of our investment funds. There can be no assurances that we can find or secure commitments from those new investors. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pensions are significantly underfunded and their funding problems have been exacerbated by the recent economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. In addition, the evolving preferences of our fund investors may necessitate that alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles, become a larger part of our business going forward. This could increase our cost of raising capital at the scale we have historically achieved.

The failure to successfully raise capital commitments to new investment funds may also expose us to credit risk in respect of financing that we may provide such funds. When existing capital commitments to a new investment fund are insufficient to fund in full a new investment fund's participation in a transaction, we may lend money to or borrow money from financial institutions on behalf of such investment funds to bridge this difference and repay this financing with capital from subsequent investors to the fund. Our inability to identify and secure capital commitments from new investors to these funds may expose us to losses (in the case of money that we lend directly to such funds) or adversely impact our ability to repay such borrowings or otherwise have an adverse impact on our liquidity position. Finally, if we seek to expand into other business lines, we may also be unable to raise a sufficient amount of capital to adequately support such businesses.

The failure of our investment funds to raise capital in sufficient amounts could result in a decrease in our AUM as well as management fee and transaction fee revenue, or could result in a decline in the rate of growth of our AUM and management fee and transaction fee revenue, any of which could have a material adverse impact on our revenues and financial condition. Our past experience with growth of AUM provides no assurance with respect to the future. For example, our next generation of large buyout and other funds could be smaller in overall size than our current large buyout and other funds. There can be no assurance that any of our business segments will continue to experience growth in AUM.

Some of our fund investors may have concerns about the prospect of our becoming a publicly traded company, including concerns that as a public company we will shift our focus from the interests of our fund investors to those of our common unitholders. Some of our fund investors may believe that we will strive for near-term profit instead of superior risk-adjusted returns for our fund investors over time or



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grow our AUM for the purpose of generating additional management fees without regard to whether we believe there are sufficient investment opportunities to effectively deploy the additional capital. There can be no assurance that we will be successful in our efforts to address such concerns or to convince fund investors that our decision to pursue this offering will not affect our longstanding priorities or the way we conduct our business. A decision by a significant number of our fund investors not to commit additional capital to our funds or to cease doing business with us altogether could inhibit our ability to achieve our investment objectives and could have a material adverse effect on our business and financial condition.

***Our investors in future funds may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues.***

In connection with raising new funds or securing additional investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than the terms of prior funds we have advised or funds advised by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, reduce fee revenues we earn, reduce the percentage of profits on third-party capital that we share in or add expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our profitability. For instance, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of transaction fees we share with our investors (or to decline to receive any transaction fees from portfolio companies owned by our funds). To the extent we accommodate such requests, it would result in a decrease in the amount of fee revenue we earn. Moreover, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees. We have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees and to modify our carried interest and incentive fee structures, which could result in a reduction in or delay in the timing of receipt of the fees and carried interest and incentive fees we earn. Any modification of our existing fee or carry arrangements or the fee or carry structures for new investment funds could adversely affect our results of operations. See The alternative asset management business is intensely competitive.

In addition, we believe that certain institutional investors, including sovereign wealth funds and public pension funds, could in the future demonstrate an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles. There can be no assurance that such alternatives will be as efficient as the traditional investment fund structure, or as to the impact such a trend could have on the cost of our operations or profitability if we were to implement these alternative investment structures. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

***Valuation methodologies for certain assets in our funds can involve subjective judgments, and the fair value of assets established pursuant to such methodologies may be incorrect, which could result in the misstatement of fund performance and accrued performance fees.***

There are often no readily ascertainable market prices for a substantial majority of illiquid investments of our investment funds. We determine the fair value of the investments of each of our investment funds at least quarterly based on the fair value guidelines set forth by generally accepted accounting principles in the United States. The fair value measurement accounting guidance establishes a hierarchical disclosure framework that ranks the observability of market inputs used in measuring financial instruments at fair value. The observability of inputs is impacted by a number of factors, including the type of financial instrument, the characteristics specific to the financial



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instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily quoted prices, or for which fair value can be measured from quoted prices in active markets, generally will have a higher degree of market price observability and a lesser degree of judgment applied in determining fair value.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, comparable values in public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar models. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, replacement costs and capitalization rates ( cap rates ) analysis. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment s carrying value. The fair values of credit-oriented investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. Specifically, for investments in distressed debt and corporate loans and bonds, the fair values are generally determined by valuations of comparable investments. In some instances, other valuation techniques, including the discounted cash flow method, may be used to value illiquid investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment, which could cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in an investment fund s net asset value do not necessarily reflect the prices that would be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in reduced earnings or losses for the applicable fund, the loss of potential carried interest and incentive fees and in the case of our hedge funds, management fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which could in turn result in difficulty in raising additional funds.

***The historical returns attributable to our funds, including those presented in this prospectus, should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

We have presented in this prospectus information relating to the historical performance of our investment funds. The historical and potential future returns of the investment funds that we advise are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we advise will not necessarily result in positive returns on





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an investment in our common units. However, poor performance of the investment funds that we advise would cause a decline in our revenue from such investment funds, and could therefore have a negative effect on our performance, our ability to raise future funds and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

market conditions at times were significantly more favorable for generating positive performance, particularly in our Corporate Private Equity and Real Assets businesses, than the market conditions we experienced in recent years and may continue to experience for the foreseeable future;

the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

unitholders will not benefit from any value that was created in our funds prior to your investment in our common units to the extent such value has been realized;

in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in alternative investment funds and high liquidity in debt markets, and the increased competition for investments may reduce our returns in the future;

the rates of returns of some of our funds in certain years have been positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments;

our investment funds' returns in some years have benefited from investment opportunities and general market conditions that may not repeat themselves (including, for example, particularly favorable borrowing conditions in the debt markets during 2005, 2006 and early 2007), and our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions; and

we may create new funds in the future that reflect a different asset mix and different investment strategies, as well as a varied geographic and industry exposure as compared to our present funds, and any such new funds could have different returns than our existing or previous funds.

In addition, future returns will be affected by the applicable risks described elsewhere in this prospectus, including risks related to the industries and businesses in which our funds may invest. See Management's Discussion and Analysis of Financial Condition and Results of Operations' Segment Analysis' Fund Performance Metrics' for additional information.

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Many of our carry funds' and fund of funds vehicles' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute and historically has constituted up to 70% or more of a portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient debt financing for extended periods of time could therefore materially and adversely affect our Corporate Private Equity and Real Assets businesses. In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness, such as the increase we experienced during 2009, would make it more

expensive to finance those businesses

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investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment. Finally, the interest payments on the indebtedness used to finance our carry funds and fund of funds vehicles investments are generally deductible expenses for income tax purposes, subject to limitations under applicable tax law and policy. Any change in such tax law or policy to eliminate or substantially limit these income tax deductions, as has been discussed from time to time in various jurisdictions, would reduce the after-tax rates of return on the affected investments, which may have an adverse impact on our business and financial results. See Our funds make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.

Investments in highly leveraged entities are also inherently more sensitive to declines in revenue, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- subject the entity to a number of restrictive covenants, terms and conditions, any violation of which could be viewed by creditors as an event of default and could materially impact our ability to realize value from the investment;

- allow even moderate reductions in operating cash flow to render the entity unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it;

- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;

- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors that have relatively less debt;

- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or other general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, a number of investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenue and cash flow precipitated by the subsequent downturn during 2008 and 2009. Similarly, the leveraged nature of the investments of our Real Assets funds increases the risk that a decline in the fair value of the underlying real estate or tangible assets will result in their abandonment or foreclosure. For example, in 2009 and 2010, several investments of our real estate funds were foreclosed, resulting in aggregate write-offs of approximately \$198 million in 2009 and \$19 million in 2010.



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When our private equity funds' existing portfolio investments reach the point when debt incurred to finance those investments matures in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have not generated sufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our Corporate Private Equity and Real Assets funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of our Global Market Strategies funds may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost, and the timing and magnitude of such losses may be accelerated or exacerbated, in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings. Increases in interest rates could also decrease the value of fixed-rate debt investment that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our results of operations, financial condition and cash flow.

***A decline in the pace or size of investments by our carry funds or fund of funds vehicles could result in our receiving less revenue from transaction fees.***

The transaction fees that we earn are driven in part by the pace at which our funds make investments and the size of those investments. Any decline in that pace or the size of such investments could reduce our transaction fees and could make it more difficult for us to raise capital on our anticipated schedule. Many factors could cause such a decline in the pace of investment, including:

the inability of our investment professionals to identify attractive investment opportunities;

competition for such opportunities among other potential acquirers;

decreased availability of capital on attractive terms; and

our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets.

For example, the more limited financing options for large Corporate Private Equity and Real Assets investments resulting from the credit market dislocations in 2008 and 2009 reduced the pace and size of investments by our Corporate Private Equity and Real Assets funds.

In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of transaction fees we share with our investors (or to decline to receive transaction fees from portfolio companies held by our funds). To the extent we accommodate such requests, it would result in a decrease in the amount of fee revenue we earn. See Our investors in future funds may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of

our existing funds, which could adversely affect our revenues.

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***The alternative asset management business is intensely competitive.***

The alternative asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, business relationships, quality of service provided to investors, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our alternative asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, corporate buyers, traditional asset managers, real estate development companies, commercial banks, investment banks and other financial institutions (as well as sovereign wealth funds). For instance, Carlyle and Riverstone have mutually decided not to pursue another jointly managed fund as co-sponsors. Accordingly, we expect that our future energy and renewable funds will compete with Riverstone, among other alternative asset managers, for investment opportunities and fund investors in the energy and renewable space. A number of factors serve to increase our competitive risks:

a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do;

some of our funds may not perform as well as competitors' funds or other available investment products;

a significant number of investors have materially decreased or temporarily suspended making new fund investments recently because of the global economic downturn and poor returns in their overall investment portfolios in 2008 and 2009;

several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that otherwise could be exploited;

some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;

some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds than us, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make;

some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we do and/or bear less compliance expense than we do;

some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors;

some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do;

our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;

there are relatively few barriers to entry impeding the formation of new alternative asset management firms, and the successful efforts of new entrants into our various businesses, including former star portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to

result in increased competition;

some investors may prefer to invest with an asset manager that is not publicly traded or is smaller with only one or two investment products that it manages; and



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other industry participants may, from time to time, seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by our competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by our competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative asset management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability. See Our investors in future funds may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow. See Our investors in future funds may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and, in the case of private equity investments, prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence process may at times be subjective with respect to newly-organized companies for which only limited information is available. Accordingly, we cannot be certain that the due diligence investigation that we carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Instances of fraud, accounting irregularities and other deceptive practices can be difficult to detect, and fraud and other deceptive practices can be widespread in certain jurisdictions. Several of our funds invest in emerging market countries that may not have established laws and regulations that are as stringent as in more developed nations, or where existing laws and regulations may not be consistently enforced. For example, our funds invest throughout China, Latin America and MENA, and we have recently hired investment professionals to facilitate investment in Sub-Saharan Africa. Due diligence on investment opportunities in these jurisdictions is frequently more complicated because consistent and uniform commercial practices in such locations may not have developed. Fraud, accounting irregularities and deceptive practices can be especially difficult to detect in such locations. For example, two Chinese companies in which we have minority investments have recently been made the subject of internal investigations in



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connection with allegations of financial or accounting irregularities, and a purported class action has been brought against one of the Chinese companies and certain of its present and former officers and directors, including a Carlyle employee who is a former director of such entity. We do not have sufficient information at this time to give an assessment of the likely outcome of these matters or as to the ultimate impact these allegations, if true, may have on the value of our investments.

We cannot be certain that our due diligence investigations will result in investments being successful or that the actual financial performance of an investment will not fall short of the financial projections we used when evaluating that investment. Failure to identify risks associated with our investments could have a material adverse effect on our business.

***Our funds invest in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our private equity funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer, potentially for a considerable period of time, sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is subject to significant risks, and we may lose some or all of the principal amount of our investments.

***The investments of our private equity funds are subject to a number of inherent risks.***

Our results are highly dependent on our continued ability to generate attractive returns from our investments. Investments made by our private equity funds involve a number of significant risks inherent to private equity investing, including the following:

we advise funds that invest in businesses that operate in a variety of industries that are subject to extensive domestic and foreign regulation, such as the telecommunications industry, the aerospace, defense and government services industry and the healthcare industry (including companies that supply equipment and services to governmental agencies), that may involve greater risk due to rapidly changing market and governmental conditions in those sectors;

significant failures of our portfolio companies to comply with laws and regulations applicable to them could affect the ability of our funds to invest in other companies in certain industries in the future and could harm our reputation;

companies in which private equity investments are made may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

companies in which private equity investments are made are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death,

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disability, resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects and the investment made;

companies in which private equity investments are made may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

companies in which private equity investments are made generally have less predictable operating results;

instances of fraud and other deceptive practices committed by senior management of portfolio companies in which our funds invest may undermine our due diligence efforts with respect to such companies and, upon the discovery of such fraud, negatively affect the valuation of a fund's investments as well as contribute to overall market volatility that can negatively impact a fund's investment program;

our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise, resulting in a lower than expected return on the investments and, potentially, on the fund itself;

our funds generally establish the capital structure of portfolio companies on the basis of the financial projections based primarily on management judgments and assumptions, and general economic conditions and other factors may cause actual performance to fall short of these financial projections, which could cause a substantial decrease in the value of our equity holdings in the portfolio company and cause our funds performance to fall short of our expectations; and

executive officers, directors and employees of an equity sponsor may be named as defendants in litigation involving a company in which a private equity investment is made or is being made.

***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate-related businesses and assets. These risks include the following:

those associated with the burdens of ownership of real property;

general and local economic conditions;

changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding);

fluctuations in the average occupancy and room rates for hotel properties;

the financial resources of tenants;

changes in building, environmental and other laws;

energy and supply shortages;

various uninsured or uninsurable risks;

natural disasters;

changes in government regulations (such as rent control);

changes in real property tax rates;

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changes in interest rates;

the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable;

negative developments in the economy that depress travel activity;

environmental liabilities;

contingent liabilities on disposition of assets; and

terrorist attacks, war and other factors that are beyond our control.

During 2008 and 2009, real estate markets in the United States, Europe and Japan generally experienced increases in capitalization rates and declines in value as a result of the overall economic decline and the limited availability of financing. As a result, the value of investments in our real estate funds declined significantly. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. Additionally, our funds' properties may be managed by a third party, which makes us dependent upon such third parties and subjects us to risks associated with the actions of such third parties. Any of these factors may cause the value of the investments in our real estate funds to decline, which may have a material impact on our results of operations.

***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other asset managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

***Our investment funds make investments in companies that we do not control.***

Investments by many of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our funds may acquire minority equity interests in large transactions, which may be structured as consortium transactions due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by our firm over the investment because governance rights must be shared with the other consortium sponsors. Accordingly, we may not be able to control decisions relating to a consortium investment, including decisions relating to the management and operation of the company and the timing and nature of any exit. Our funds may also dispose of a portion of their majority equity investments in portfolio

companies over time in a manner that results in the funds retaining a minority investment. Those investments may be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not



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agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the value of investments by our funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

*Our funds make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.*

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers that are based outside of the United States. A substantial amount of these investments consist of investments made by our carry funds. For example, as of December 31, 2011, approximately 41% of the equity invested by our carry funds was attributable to foreign investments. Investments in non-U.S. securities involve risks not typically associated with investing in U.S. securities, including:

certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments;

the imposition of non-U.S. taxes on gains from the sale of investments by our funds;

the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation;

changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments;

differences in the legal and regulatory environment or enhanced legal and regulatory compliance;

limitations on borrowings to be used to fund acquisitions or dividends;

political hostility to investments by foreign or private equity investors;

less liquid markets;

reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms;

adverse fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;

higher rates of inflation;

higher transaction costs;

less government supervision of exchanges, brokers and issuers;

less developed bankruptcy, corporate, partnership and other laws;

difficulty in enforcing contractual obligations;

less stringent requirements relating to fiduciary duties;

fewer investor protections; and

greater price volatility.

We operate in numerous national and subnational jurisdictions throughout the world and are subject to complex taxation requirements that could result in the imposition of taxes upon us that exceed the amounts we reserve for such purposes. In addition, the portfolio companies of our funds

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are typically subject to taxation in the jurisdictions in which they operate. In Denmark, Germany and France, for example, the deductibility of interest and other financing expenses in companies in which our funds have invested or may invest in the future may be limited. This could adversely affect portfolio companies that operate in those countries and limit the benefit of additional investments in those countries.

Our funds' investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may be exposed to additional risks associated with such transactions. See **Risks Related to Our Business Operations** Risk management activities may adversely affect the return on our funds' investments.

***We may need to pay giveback obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds), the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives net profits over the life of the fund in excess of its allocable share under the applicable partnership agreement, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled. These repayment obligations may be related to amounts previously distributed to our senior Carlyle professionals prior to the completion of this offering, with respect to which our common unitholders did not receive any benefit. This obligation is known as a giveback obligation. As of December 31, 2011, we had accrued a giveback obligation of \$136.5 million, representing the giveback obligation that would need to be paid if the carry funds were liquidated at their current fair values at that date. If, as of December 31, 2011, all of the investments held by our carry funds were deemed worthless, the amount of realized and distributed carried interest subject to potential giveback would have been \$856.7 million, on an after-tax basis where applicable. Although a giveback obligation is several to each person who received a distribution, and not a joint obligation, the governing agreements of our funds generally provide that to the extent a recipient does not fund his or her respective share, then we may have to fund such additional amounts beyond the amount of carried interest we retained, although we generally will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have historically withheld a portion of the cash from carried interest distributions to individual senior Carlyle professionals and other employees as security for their potential giveback obligations. However, we have not at this time set aside cash reserves relating to our secondary liability for such giveback obligations or in respect of giveback obligations related to carried interest we may receive and retain in the future. We intend to monitor our giveback obligations and may need to use or reserve cash to repay such giveback obligations instead of using the cash for other purposes. See **Business Structure and Operation of Our Investment Funds** Incentive Arrangements / Fee Structure and **Management's Discussion and Analysis of Financial Condition and Results of Operations** Contractual Obligations Contingent Obligations (Giveback) and Notes 2 and 10 to the combined and consolidated financial statements appearing elsewhere in this prospectus.

***Our investment funds often make common equity investments that rank junior to preferred equity and debt in a company's capital structure.***

In most cases, the companies in which our investment funds invest have, or are permitted to have, outstanding indebtedness or equity securities that rank senior to our fund's investment. By their terms,



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such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which