

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

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

OR

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

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

Commission File Number: 001-35538

The Carlyle Group L.P.

(Exact name of registrant as specified in its charter)

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

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

Not Applicable

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

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

Emerging growth company ☐

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

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

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

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### Forward-Looking Statements

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

### Website and Social Media Disclosure

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

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

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

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

Corporate Private Equity: Buyout & growth funds advised by Carlyle

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

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

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

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

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

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

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

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

- (a) the fair value of the capital invested in carry funds and related co-investment vehicles and NGP management fee funds plus the capital that Carlyle is entitled to call from investors in those funds and vehicles (including Carlyle commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles;
- (b) the amount of aggregate collateral balance and principal cash at par or aggregate principal amount of the notes of our CLOs and other structured products (inclusive of all positions);
- (c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic, fund of hedge funds vehicles, mutual fund and other hedge funds; and
- (d) the gross assets (including assets acquired with leverage) of our business development companies.

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

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

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

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

Changes to Disclosure and Presentation of Key Performance Metrics

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

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



## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## The Carlyle Group L.P.

## Condensed Consolidated Balance Sheets

(Dollars in millions)

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

See accompanying notes.

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

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

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Weighted-average common units

Basic	95,198,103	82,602,503	89,815,182	102,062,633
Diluted	334,392,424	414,534,968	97,538,130	306,981,103
Distributions declared per common unit	\$0.42	\$ 0.63	\$0.68	\$ 1.18

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

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

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

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

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

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Payments on debt obligations	(15.0	) —
Proceeds from debt obligations	202.6	20.6
Net payments on loans payable of a real estate VIE	(14.3	) (27.3 )
Net (payments) borrowings on loans payable of Consolidated Funds	(312.7	) 339.7
Payments of contingent consideration	(0.4	) (3.3 )
Distributions to common unitholders	(63.0	) (98.5 )
Distributions to non-controlling interest holders in Carlyle Holdings	(163.1	) (300.9 )
Contributions from non-controlling interest holders	87.7	75.3
Distributions to non-controlling interest holders	(74.0	) (87.3 )
Common units repurchased	(0.2	) (53.6 )
Change in due to/from affiliates financing activities	38.5	62.0
Net cash provided by (used in) financing activities	73.7	(73.3 )
Effect of foreign exchange rate changes	61.7	9.1
Increase in cash and cash equivalents	684.8	51.8
Cash and cash equivalents, beginning of period	670.9	991.5
Cash and cash equivalents, end of period	\$1,355.7	\$1,043.3
Supplemental non-cash disclosures		
Net increase in partners' capital and accumulated other comprehensive income related to reallocation of ownership interest in Carlyle Holdings	\$23.8	\$12.4
Net asset impact of deconsolidation of Consolidated Funds	\$—	\$(7,170.2)
Tax effect from acquisition of Carlyle Holdings partnership units:		
Deferred tax asset	\$24.3	\$2.5
Tax receivable agreement liability	\$21.1	\$2.2
Total partners' capital	\$3.2	\$0.3
See accompanying notes.		

## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements (Unaudited)

#### 1. Organization and Basis of Presentation

The Carlyle Group L.P., together with its consolidated subsidiaries, is one of the world's largest global alternative asset management firms that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, growth capital financings, real estate opportunities, bank loans, high-yield debt, distressed assets, mezzanine debt and other investment opportunities. The Carlyle Group L.P. is a Delaware limited partnership formed on July 18, 2011, which is managed and operated by its general partner, Carlyle Group Management L.L.C., which is in turn wholly-owned and controlled by Carlyle's founders and other senior Carlyle professionals. Except as otherwise indicated by the context, references to the "Partnership" or "Carlyle" refer to The Carlyle Group L.P., together with its consolidated subsidiaries.

Carlyle provides investment management services to, and has transactions with, various private equity funds, real estate funds, private credit funds, collateralized loan obligations ("CLOs"), and other investment products sponsored by the Partnership for the investment of client assets in the normal course of business. Carlyle typically serves as the general partner, investment manager or collateral manager, making day-to-day investment decisions concerning the assets of these products. Carlyle operates its business through four reportable segments: Corporate Private Equity, Real Assets, Global Market Strategies, and Investment Solutions (see Note 16).

#### Basis of Presentation

The accompanying financial statements include the accounts of the Partnership and its consolidated subsidiaries. In addition, certain Carlyle-affiliated funds, related co-investment entities, certain CLOs managed by the Partnership (collectively the "Consolidated Funds") and a real estate development company have been consolidated in the accompanying financial statements pursuant to accounting principles generally accepted in the United States ("U.S. GAAP"), as described in Note 2. The accounts of the real estate development company have been deconsolidated as of September 30, 2017 (see Note 15). The consolidation of the Consolidated Funds generally has a gross-up effect on assets, liabilities and cash flows, and generally has no effect on the net income attributable to the Partnership. The economic ownership interests of the other investors in the Consolidated Funds are reflected as non-controlling interests in consolidated entities in the accompanying condensed consolidated financial statements (see Note 2).

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. These statements, including notes, have not been audited, exclude some of the disclosures required for annual financial statements, and should be read in conjunction with the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission ("SEC"). The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for the fair presentation of the financial condition and results of operations for the interim periods presented.

#### 2. Summary of Significant Accounting Policies

##### Principles of Consolidation

The Partnership consolidates all entities that it controls either through a majority voting interest or as the primary beneficiary of variable interest entities ("VIEs"). On January 1, 2016, the Partnership adopted ASU 2015-2, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which provides a revised consolidation model for all reporting entities to use in evaluating whether to consolidate certain types of legal entities.

The Partnership evaluates (1) whether it holds a variable interest in an entity, (2) whether the entity is a VIE, and (3) whether the Partnership's involvement would make it the primary beneficiary. In evaluating whether the Partnership holds a variable interest, fees (including management fees and performance fees) that are customary and commensurate with the level of services provided, and where the Partnership does not hold other economic interests in



the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, are not considered variable interests. The Partnership considers all economic interests, including indirect interests, to determine if a fee is considered a variable interest.

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For those entities where the Partnership holds a variable interest, the Partnership determines whether each of these entities qualifies as a VIE and, if so, whether or not the Partnership is the primary beneficiary. The assessment of whether the entity is a VIE is generally performed qualitatively, which requires judgment. These judgments include: (a) determining whether the equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) evaluating whether the equity holders, as a group, can make decisions that have a significant effect on the economic performance of the entity, (c) determining whether two or more parties' equity interests should be aggregated, and (d) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive returns from an entity.

For entities that are determined to be VIEs, the Partnership consolidates those entities where it has concluded it is the primary beneficiary. The primary beneficiary is defined as the variable interest holder with (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. In evaluating whether the Partnership is the primary beneficiary, the Partnership evaluates its economic interests in the entity held either directly or indirectly by the Partnership.

As of September 30, 2017, assets and liabilities of the consolidated VIEs reflected in the unaudited condensed consolidated balance sheets were \$4.5 billion and \$4.3 billion, respectively. Except to the extent of the consolidated assets of the VIEs, the holders of the consolidated VIEs' liabilities generally do not have recourse to the Partnership. Substantially all of our Consolidated Funds are CLOs, which are VIEs that issue loans payable that are backed by diversified collateral asset portfolios consisting primarily of loans or structured debt. In exchange for managing the collateral for the CLOs, the Partnership earns investment management fees, including in some cases subordinated management fees and contingent incentive fees. In cases where the Partnership consolidates the CLOs (primarily because of a retained interest that is significant to the CLO), those management fees have been eliminated as intercompany transactions. As of September 30, 2017, the Partnership held \$191.6 million of investments in these consolidated CLOs which represents its maximum risk of loss. The Partnership's investments in these CLOs are generally subordinated to other interests in the entities and entitle the Partnership to receive a pro rata portion of the residual cash flows, if any, from the entities. Investors in the CLOs have no recourse against the Partnership for any losses sustained in the CLO structure.

Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities. Under the voting interest entity model, the Partnership consolidates those entities it controls through a majority voting interest. All significant inter-entity transactions and balances of entities consolidated have been eliminated.

#### Investments in Unconsolidated Variable Interest Entities

The Partnership holds variable interests in certain VIEs that are not consolidated because the Partnership is not the primary beneficiary, including its investments in certain CLOs and strategic investment in NGP Management Company, L.L.C. ("NGP Management" and, together with its affiliates, "NGP"). Refer to Note 5 for information on the strategic investment in NGP. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by the Partnership relating to its variable interests in these unconsolidated entities. The assets recognized in the Partnership's unaudited condensed consolidated balance sheets related to the Partnership's variable interests in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to unconsolidated VIEs were as follows:

As of	
September	December
30,	31, 2016
2017	

(Dollars in  
millions)

Investments	\$828.5	\$ 664.2
Due from affiliates, net	—	1.8
Maximum Exposure to Loss	\$828.5	\$ 666.0

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Additionally, as of September 30, 2017, the Partnership had \$51.9 million and \$12.8 million recognized in the condensed consolidated balance sheet related to accrued carry and management fee receivables, respectively, related to the unconsolidated VIEs.

Basis of Accounting

The accompanying financial statements are prepared in accordance with U.S. GAAP. Management has determined that the Partnership's Funds are investment companies under U.S. GAAP for the purposes of financial reporting. U.S. GAAP for an investment company requires investments to be recorded at estimated fair value and the unrealized gains and/or losses in an investment's fair value are recognized on a current basis in the statements of operations. Additionally, the Funds do not consolidate their majority-owned and controlled investments (the "Portfolio Companies"). In the preparation of these condensed consolidated financial statements, the Partnership has retained the specialized accounting for the Funds.

All of the investments held and notes issued by the Consolidated Funds are presented at their estimated fair values in the Partnership's condensed consolidated balance sheets. Interest and other income of the Consolidated Funds as well as interest expense and other expenses of the Consolidated Funds are included in the Partnership's condensed consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates are based on historical experiences and other factors, including expectations of future events that management believes to be reasonable under the circumstances. It also requires management to exercise judgment in the process of applying the Partnership's accounting policies. Assumptions and estimates regarding the valuation of investments and their resulting impact on performance fees involve a higher degree of judgment and complexity and these assumptions and estimates may be significant to the consolidated financial statements and the resulting impact on performance fees. Actual results could differ from these estimates and such differences could be material.

Revenue Recognition

Fund Management Fees

The Partnership provides management services to funds in which it holds a general partner interest or has a management agreement.

For closed-end carry funds in the Corporate Private Equity, Real Assets and Global Market Strategies segments, management fees generally range from 1.0% to 2.0% of commitments during the fund's investment period based on limited partners' capital commitments to the funds. Following the expiration or termination of the investment period, management fees generally are based on the lower of cost or fair value of invested capital and the rate charged may also be reduced to between 0.6% and 2.0%. For certain managed accounts and longer-dated carry funds, with expected terms greater than ten years, management fees generally range from 0.2% to 1.0% based on contributions for unrealized investments or the current value of the investment. The Partnership will receive management fees during a specified period of time, which is generally ten years from the initial closing date, or, in some instances, from the final closing date, but such termination date may be earlier in certain limited circumstances or later if extended for successive one-year periods, typically up to a maximum of two years. Depending upon the contracted terms of investment advisory or investment management and related agreements, these fees are generally called semi-annually in advance and are recognized as earned over the subsequent six month period. For certain longer-dated carry funds, management fees are called quarterly over the life of the funds.

Within the Global Market Strategies segment, for CLOs and other structured products, management fees generally range from 0.3% to 0.6% based on the total par amounts of assets or the aggregate principal amount of the notes in the

CLO and are due quarterly or semi-annually based on the terms and recognized over the respective period. Management fees for the CLOs and other structured products are governed by indentures and collateral management agreements. The Partnership will receive management fees for the CLOs until redemption of the securities issued by the CLOs, which is generally five to ten years after issuance. Management fees for the business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of gross assets, excluding cash and cash equivalents.

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Management fees for the Partnership's private equity and real estate carry fund vehicles in the Investment Solutions segment generally range from 0.25% to 1.0% of the vehicle's capital commitments during the commitment fee period of the relevant fund or the weighted-average investment period of the underlying funds. Following the expiration of the commitment fee period or weighted-average investment period of such funds, the management fees generally range from 0.25% to 1.0% of the lower of cost or fair value of the capital invested, the net asset value for unrealized investments, or the contributions for unrealized investments; however, certain managed accounts earn management fees at all times on contributions for unrealized investments. Management fees for the Investment Solutions carry fund vehicles are generally due quarterly and recognized over the related quarter.

The Partnership also provides transaction advisory and portfolio advisory services to the portfolio companies, and where covered by separate contractual agreements, recognizes fees for these services when the service has been provided and collection is reasonably assured. Fund management fees includes transaction and portfolio advisory fees of \$10.2 million and \$5.2 million for the three months ended September 30, 2017 and 2016, respectively, and \$28.0 million and \$37.1 million for the nine months ended September 30, 2017 and 2016, respectively, net of any offsets as defined in the respective partnership agreements. Fund management fees exclude the reimbursement of any partnership expenses paid by the Partnership on behalf of the Carlyle funds pursuant to the limited partnership agreements, including amounts related to the pursuit of actual, proposed, or unconsummated investments, professional fees, expenses associated with the acquisition, holding and disposition of investments, and other fund administrative expenses.

Performance Fees

Performance fees consist principally of the allocation of profits from certain of the funds to which the Partnership is entitled (commonly known as carried interest).

For closed-end carry funds in the Corporate Private Equity, Real Assets and Global Market Strategies segments, the Partnership is generally entitled to a 20% allocation (or 10% to 20% on certain longer-dated carry funds and external co-investment vehicles, or approximately 2% to 10% in the majority of the Investment Solutions segment carry fund vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns of generally 7% to 9% (or 4% to 7% for certain longer-dated carry funds) and return of certain fund costs (generally subject to catch-up provisions as set forth in the fund limited partnership agreement). Carried interest is recognized upon appreciation of the funds' investment values above certain return hurdles set forth in each respective partnership agreement. The Partnership recognizes revenues attributable to performance fees based upon the amount that would be due pursuant to the fund partnership agreement at each period end as if the funds were terminated at that date. Accordingly, the amount recognized as performance fees reflects the Partnership's share of the gains and losses of the associated funds' underlying investments measured at their then-current fair values relative to the fair values as of the end of the prior period. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material.

Carried interest is ultimately realized when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the fund's cumulative returns are in excess of the preferred return and (iv) the Partnership has decided to collect carry rather than return additional capital to limited partner investors. Realized carried interest may be required to be returned by the Partnership in future periods if the funds' investment values decline below certain levels. When the fair value of a fund's investments remains constant or falls below certain return hurdles, previously recognized performance fees are reversed. In all cases, each fund is considered separately in this regard, and for a given fund, performance fees can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments at their then-current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential giveback

obligation. As of September 30, 2017 and December 31, 2016, the Partnership has recognized \$67.6 million and \$160.8 million, respectively, for giveback obligations.

The Partnership is also entitled to receive performance fees pursuant to management contracts from certain of its Global Market Strategies funds when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees are recognized when the performance benchmark has been achieved, and are included in performance fees in the accompanying unaudited condensed consolidated statements of operations.

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Investment Income (Loss)

Investment income (loss) represents the unrealized and realized gains and losses resulting from the Partnership's equity method investments and other principal investments, including CLOs. Equity method investment income (loss) includes the related amortization of the basis difference between the Partnership's carrying value of its investment and the Partnership's share of underlying net assets of the investee, as well as the compensation expense associated with compensatory arrangements provided by the Partnership to employees of its equity method investee, as it relates to its investments in NGP (see Note 5). Investment income (loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives or is due cash income, such as dividends or distributions. Unrealized investment income (loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

Interest Income

Interest income is recognized when earned. For debt securities representing non-investment grade beneficial interests in securitizations, the effective yield is determined based on the estimated cash flows of the security. Changes in the effective yield of these securities due to changes in estimated cash flows are recognized on a prospective basis as adjustments to interest income in future periods. Interest income earned by the Partnership is included in interest and other income in the accompanying unaudited condensed consolidated statements of operations. Interest income of the Consolidated Funds was \$41.8 million and \$40.0 million for the three months ended September 30, 2017 and 2016, respectively, and \$124.1 million and \$101.6 million for the nine months ended September 30, 2017 and 2016, respectively, and is included in interest and other income of Consolidated Funds in the accompanying unaudited condensed consolidated statements of operations.

Compensation and Benefits

Base Compensation – Base compensation includes salaries, bonuses (discretionary awards and guaranteed amounts), performance payment arrangements and benefits paid and payable to Carlyle employees. Bonuses are accrued over the service period to which they relate.

Equity-Based Compensation – Compensation expense relating to the issuance of equity-based awards to Carlyle employees is measured at fair value on the grant date. The compensation expense for awards that vest over a future service period is recognized over the relevant service period on a straight-line basis. The compensation expense for awards that do not require future service is recognized immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period. The compensation expense for awards that contain performance conditions is recognized when it is probable that the performance conditions will be achieved; in certain instances, such compensation expense may be recognized prior to the grant date of the award.

Equity-based awards issued to non-employees are generally recognized as general, administrative and other expenses, except to the extent they are recognized as part of our equity method earnings because they are issued to employees of our equity method investees. The grant-date fair value of equity-based awards granted to Carlyle's non-employee directors is expensed on a straight-line basis over the vesting period. The cost of services received in exchange for an equity-based award issued to non-employees who are not directors is measured at each vesting date, and is not measured based on the grant-date fair value of the award unless the award is vested at the grant date. Equity-based awards that require the satisfaction of future service criteria are recognized over the relevant service period based on the fair value of the award on each reporting date and adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of the award will not be finalized until the vesting date.

On January 1, 2017, the Partnership adopted ASU 2016-9, Compensation - Stock Compensation (Topic 718). In accordance with ASU 2016-9, the Partnership elected to recognize equity-based award forfeitures in the period they occur as a reversal of previously recognized compensation expense. The reduction in compensation expense is determined based on the specific awards forfeited during that period. Furthermore, the Partnership is required to



recognize prospectively all excess tax benefits and deficiencies as income tax benefit or expense in the statement of operations.

Performance Fee Related Compensation – A portion of the performance fees earned is due to employees and advisors of the Partnership. These amounts are accounted for as compensation expense in conjunction with the recognition of the related performance fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Accordingly, upon a reversal of performance fee revenue, the related compensation expense, if any, is also reversed. As of September 30, 2017 and December 31, 2016, the Partnership had recorded a liability of \$1.8 billion and \$1.3 billion related to

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the portion of accrued performance fees due to employees and advisors, respectively, which was included in accrued compensation and benefits in the accompanying unaudited condensed consolidated financial statements.

**Income Taxes**

Certain of the wholly-owned subsidiaries of the Partnership and the Carlyle Holdings partnerships are subject to federal, state, local and foreign corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income is reflected in the unaudited condensed consolidated financial statements. Based on applicable federal, foreign, state and local tax laws, the Partnership records a provision for income taxes for certain entities. Tax positions taken by the Partnership are subject to periodic audit by U.S. federal, state, local and foreign taxing authorities.

The Partnership accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement reporting and the tax basis of assets and liabilities using enacted tax rates in effect for the period in which the difference is expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the change in the provision for income taxes. Further, deferred tax assets are recognized for the expected realization of available net operating loss and tax credit carry forwards. A valuation allowance is recorded on the Partnership's gross deferred tax assets when it is "more likely than not" that such asset will not be realized. When evaluating the realizability of the Partnership's deferred tax assets, all evidence, both positive and negative, is evaluated. Items considered in this analysis include the ability to carry back losses, the reversal of temporary differences, tax planning strategies, and expectations of future earnings.

Under U.S. GAAP for income taxes, the amount of tax benefit to be recognized is the amount of benefit that is "more likely than not" to be sustained upon examination. The Partnership analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, the Partnership determines that uncertainties in tax positions exist, a liability is established, which is included in accounts payable, accrued expenses and other liabilities in the unaudited condensed consolidated financial statements. The Partnership recognizes accrued interest and penalties related to unrecognized tax positions in the provision for income taxes. If recognized, the entire amount of unrecognized tax positions would be recorded as a reduction in the provision for income taxes.

**Tax Receivable Agreement**

Exchanges of Carlyle Holdings partnership units for the Partnership's common units that are executed by the limited partners of the Carlyle Holdings partnerships result in transfers of and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, primarily attributable to a portion of the goodwill inherent in the business. These transfers and increases in tax basis will increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of the Partnership's subsidiaries, including Carlyle Holdings I GP Inc., which are referred 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. The Partnership has entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships whereby the corporate taxpayers have agreed to pay to the limited partners of the Carlyle Holdings partnerships involved in any exchange transaction 85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax or foreign or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and, in limited cases, transfers or prior increases in tax basis. The corporate taxpayers expect to benefit from the remaining 15% of cash tax savings, if any, in income tax they realize. Payments under the tax receivable agreement will be based on the tax reporting positions that the Partnership will determine. The corporate taxpayers will not be reimbursed for any payments previously made under the tax receivable agreement if a

tax basis increase is successfully challenged by the Internal Revenue Service.

The Partnership records an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the exchange. To the extent that the Partnership estimates that the corporate taxpayers will not realize the full benefit represented by the deferred tax asset, based on an analysis that will consider, among other things, its expectation of future earnings, the Partnership will reduce the deferred tax asset with a valuation allowance and will assess the probability that the related liability owed under the tax receivable agreement will be paid. The Partnership records 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement, which is included in due to affiliates

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in the accompanying condensed consolidated financial statements. The remaining 15% of the estimated realizable tax benefit is initially recorded as an increase to the Partnership's partners' capital.

All of the effects to the deferred tax asset of changes in any of the Partnership's estimates after the tax year of the exchange will be reflected in the provision for income taxes. Similarly, the effect of subsequent changes in the enacted tax rates will be reflected in the provision for income taxes.

Non-controlling Interests

Non-controlling interests in consolidated entities represent the component of equity in consolidated entities held by third-party investors. These interests are adjusted for general partner allocations and by subscriptions and redemptions in hedge funds which occur during the reporting period. Any change in ownership of a subsidiary while the controlling financial interest is retained is accounted for as an equity transaction between the controlling and non-controlling interests. Transaction costs incurred in connection with such changes in ownership of a subsidiary are recorded as a direct charge to partners' capital.

Non-controlling interests in Carlyle Holdings relate to the ownership interests of the other limited partners of the Carlyle Holdings partnerships. The Partnership, through wholly-owned subsidiaries, is the sole general partner of Carlyle Holdings. Accordingly, the Partnership consolidates Carlyle Holdings into its consolidated financial statements, and the other ownership interests in Carlyle Holdings are reflected as non-controlling interests in the Partnership's unaudited condensed consolidated financial statements. Any change to the Partnership's ownership interest in Carlyle Holdings while it retains the controlling financial interest in Carlyle Holdings is accounted for as a transaction within partners' capital as a reallocation of ownership interests in Carlyle Holdings.

Earnings Per Common Unit

The Partnership computes earnings per common unit in accordance with ASC 260, Earnings Per Share ("ASC 260"). Basic earnings per common unit is calculated by dividing net income (loss) attributable to the common units of the Partnership by the weighted-average number of common units outstanding for the period. Diluted earnings per common unit reflects the assumed conversion of all dilutive securities. Net income (loss) attributable to the common units excludes net income (loss) and dividends attributable to any participating securities under the two-class method of ASC 260.

Investments

Investments include (i) the Partnership's ownership interests (typically general partner interests) in the Funds, (ii) strategic investments made by the Partnership (both of which are accounted for as equity method investments), (iii) the investments held by the Consolidated Funds (which are presented at fair value in the Partnership's unaudited condensed consolidated financial statements), and (iv) investments in the CLOs and certain credit-oriented investments (which are accounted for as trading securities).

The valuation procedures utilized for investments of the Funds vary depending on the nature of the investment. The fair value of investments in publicly-traded securities is based on the closing price of the security with adjustments to reflect appropriate discounts if the securities are subject to restrictions.

The fair value of non-equity securities or other investments, which may include instruments that are not listed on an exchange, considers, among other factors, external pricing sources, such as dealer quotes or independent pricing services, recent trading activity or other information that, in the opinion of the Partnership, may not have been reflected in pricing obtained from external sources.

When valuing private securities or assets without readily determinable market prices, the Partnership gives consideration to operating results, financial condition, economic and/or market events, recent sales prices and other pertinent information. These valuation procedures may vary by investment, but include such techniques as comparable public market valuation, comparable acquisition valuation and discounted cash flow analysis. Because of the inherent

uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material. Furthermore, there is no assurance that, upon liquidation, the Partnership will realize the values presented herein. Upon the sale of a security or other investment, the realized net gain or loss is computed on a weighted average cost basis, with the exception of the investments held by the CLOs, which compute the realized net gain or loss on a first in, first out basis. Securities transactions are recorded on a trade date basis.

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Equity Method Investments

The Partnership accounts for all investments in which it has or is otherwise presumed to have significant influence, including investments in the unconsolidated Funds and strategic investments, using the equity method of accounting. The carrying value of equity method investments is determined based on amounts invested by the Partnership, adjusted for the equity in earnings or losses of the investee allocated based on the respective partnership agreement, less distributions received. The Partnership evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

Cash and Cash Equivalents

Cash and cash equivalents include cash held at banks and cash held for distributions, including temporary investments with original maturities of less than three months when purchased.

Cash and Cash Equivalents Held at Consolidated Funds

Cash and cash equivalents held at Consolidated Funds consists of cash and cash equivalents held by the Consolidated Funds, which, although not legally restricted, is not available to fund the general liquidity needs of the Partnership.

Restricted Cash

Restricted cash primarily represents cash held by the Partnership's foreign subsidiaries due to certain government regulatory capital requirements.

Corporate Treasury Investments

Corporate treasury investments represent investments in U.S. Treasury and government agency obligations, commercial paper, certificates of deposit, other investment grade securities and other investments with original maturities of greater than three months when purchased. These investments are accounted for as trading securities in which changes in the fair value of each investment are recorded through investment income (loss). Any interest earned on debt investments is recorded through interest and other income.

Derivative Instruments

The Partnership uses derivative instruments primarily to reduce its exposure to changes in foreign currency exchange rates. Derivative instruments are recognized at fair value in the unaudited condensed consolidated balance sheets with changes in fair value recognized in the unaudited condensed consolidated statements of operations for all derivatives not designated as hedging instruments.

Fixed Assets

Fixed assets consist of furniture, fixtures and equipment, leasehold improvements, and computer hardware and software and are stated at cost, less accumulated depreciation and amortization. Depreciation is recognized on a straight-line method over the assets' estimated useful lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, and three to seven years for other fixed assets. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Intangible Assets and Goodwill

The Partnership's intangible assets consist of acquired contractual rights to earn future fee income, including management and advisory fees, customer relationships, and acquired trademarks. Finite-lived intangible assets are amortized over their estimated useful lives, which range from five to ten years, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Goodwill represents the excess of cost over the identifiable net assets of businesses acquired and is recorded in the functional currency of the acquired entity. Goodwill is recognized as an asset and is reviewed for impairment annually as of October 1st and between annual tests when events and circumstances indicate that impairment may have occurred.



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Deferred Revenue

Deferred revenue represents management fees and other revenue received prior to the balance sheet date, which has not yet been earned.

Accumulated Other Comprehensive Income (Loss)

The Partnership's accumulated other comprehensive income (loss) is comprised of foreign currency translation adjustments and gains and losses on defined benefit plans sponsored by AlpInvest. The components of accumulated other comprehensive income (loss) as of September 30, 2017 and December 31, 2016 were as follows:

	As of September 30, 2017	December 31, 2016
	(Dollars in millions)	
Currency translation adjustments	\$(65.4)	\$ (91.7 )
Unrealized losses on defined benefit plans	(4.0 )	(3.5 )
Total	\$(69.4)	\$ (95.2 )

Foreign Currency Translation

Non-U.S. dollar denominated assets and liabilities are translated at period-end rates of exchange, and the unaudited condensed consolidated statements of operations are translated at rates of exchange in effect throughout the period. Foreign currency (gains) losses resulting from transactions outside of the functional currency of an entity of \$0.7 million and \$7.9 million for the three months ended September 30, 2017 and 2016, respectively, and \$2.2 million and \$30.8 million for the nine months ended September 30, 2017 and 2016, respectively, are included in general, administrative and other expenses in the unaudited condensed consolidated statements of operations.

Recent Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12, among other things, permits hedge accounting for risk components in hedging relationships to now involve nonfinancial risk components and requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedge item is reported. The guidance is effective for the Partnership on January 1, 2019 and requires cash flow hedges and net investment hedges existing at the date of adoption to apply a cumulative effect adjustment to eliminate the measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of partners' capital as of the beginning of the fiscal year that an entity adopts the guidance. The amended presentation and disclosure guidance is required only prospectively. Early adoption is permitted. While the Partnership is still assessing the guidance in ASU 2017-12, it does not expect the impact of this guidance to be material.

In January 2017, the FASB issued ASU 2017-1, Business Combinations (Topic 805) - Clarifying the Definition of a Business. ASU 2017-01 changes the criteria for determining whether a group of assets acquired is a business. Specifically, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the assets acquired would not be considered a business. The guidance is effective for the Partnership on January 1, 2018 and is required to be applied prospectively, however, early adoption is permitted. This guidance will impact the Partnership's analysis of the accounting for any future acquisitions occurring



after the date of adoption.

In January 2017, the FASB issued ASU 2017-4, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies an entity's annual goodwill test for impairment by eliminating the requirement to calculate the implied fair value of goodwill, and instead an entity should compare the fair value of a reporting unit with its carrying amount. The impairment charge will then be the amount by which the carrying amount exceeds the reporting unit's fair value. An entity would still have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for the Partnership on January 1, 2020 and requires the guidance to be applied using a prospective transition method. Early adoption is permitted. The Partnership does not expect the impact of this guidance to be material.

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In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. ASU 2016-18 clarifies the presentation of restricted cash in the statement of cash flows by requiring the amounts described as restricted cash be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. If cash and cash equivalents and restricted cash are presented separately on the statement of financial position, a reconciliation of these separate line items to the total cash amount included in the statement of cash flows will be required either in the footnotes or on the face of the statement of cash flows. The guidance is effective for the Partnership on January 1, 2018 and ASU 2016-18 requires the guidance to be applied using a retrospective transition method. Early adoption is permitted; however, the Partnership expects to reflect this change in presentation of restricted cash in its first quarter 2018 condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the classification of several discrete cash flow issues, including the treatment of cash distributions from equity method investments. The guidance is effective for the Partnership on January 1, 2018 and ASU 2016-15 requires the guidance to be applied using a retrospective transition method. Early adoption is permitted, provided that all of the amendments for all of the topics are adopted in the same period. The Partnership is currently assessing the potential impact of this guidance to its consolidated statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, Accounting for Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Currently, GAAP requires an "incurred loss" methodology that delays recognition until it is probable a loss has been incurred. Under the new standard, the allowance for credit losses must be deducted from the amortized cost of the financial asset to present the net amount expected to be collected. The income statement will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This provision of the guidance requires a modified retrospective transition method and will result in a cumulative-effect adjustment in retained earnings upon adoption. This guidance is effective for the Partnership on January 1, 2020 and early adoption is permitted. The Partnership is currently assessing the potential impact of this guidance.

In March 2016, the FASB issued ASU 2016-9, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-9 changes certain aspects of accounting for share-based payments to employees. ASU 2016-9 requires the income tax effects of awards to be recognized through the income statement when the awards vest or are settled. Previously, an entity was required to determine for each award whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes resulted in either an excess tax benefit or a tax deficiency. Excess tax benefits were recognized in partners' capital, while tax deficiencies were recognized as an offset to accumulated excess tax benefits or in the income statement. Under ASU 2016-9, all excess tax benefits and tax deficiencies are required to be recognized as income tax benefit or expense in the income statement. This provision of the guidance is required to be applied prospectively. Additionally, ASU 2016-9 allows an employer to withhold employee shares upon vest up to maximum statutory tax rates without causing an award to be classified as a liability. This provision of the guidance requires a modified retrospective transition method. Finally, the previous equity-based compensation guidance required cost to be measured based on the number of awards that are expected to vest. Under ASU 2016-9, an accounting policy election

can be made to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This guidance was effective for the Partnership on January 1, 2017. The Partnership adopted this guidance on that date by recording an adjustment for the cumulative effect of adoption in partners' capital on January 1, 2017. The impact of the adjustment was not material to total partners' capital.

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842). ASU 2016-2 requires lessees to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and a lease liability. The lease liability will be measured at the present value of lease payments and the right-of-use asset will be based on the lease liability value, subject to adjustments. Leases can be classified as either operating leases or finance leases. Operating leases will result in straight-line lease expense, while finance leases will result in front-loaded expense. This guidance is effective for the Partnership on January 1, 2019 and ASU 2016-2 requires the guidance to be applied using a modified retrospective method. Early adoption is permitted. The Partnership is currently assessing the potential impact of this guidance, however, the Partnership's total assets and total liabilities on its consolidated balance sheet will increase upon adoption of this guidance.

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The FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-9”) in May 2014 and subsequently issued several amendments to the standard. ASU 2014-9, and related amendments, provide comprehensive guidance for recognizing revenue from contracts with customers. Entities will be able to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation. The guidance in ASU 2014-9, and the related amendments, is effective for the Partnership beginning on January 1, 2018, and the Partnership plans to adopt this guidance on that date.

Upon adoption of ASU 2014-9, performance fees that represent a performance-based capital allocation from fund limited partners to the Partnership (commonly known as “carried interest”, which comprised over 80% of the Partnership's performance fee revenues for each of the years ended December 31, 2016, 2015 and 2014) will be accounted for as earnings from financial assets within the scope of ASC 323, Investments - Equity Method and Joint Ventures, and therefore will not be in the scope of ASU 2014-9. In accordance with ASC 323, the Partnership will record equity method income (losses) as a component of investment income based on the change in our proportionate claim on net assets of the investment fund, including performance-based capital allocations, assuming the investment fund was liquidated as of each reporting date pursuant to each fund's governing agreements. The Partnership will apply this change in accounting on a full retrospective basis. This change in accounting will result in a reclassification from performance fee revenues to investment income (losses).

The Partnership is currently in the process of implementing ASU 2014-9 and its related amendments. The Partnership does not expect significant changes to our historical pattern of recognizing revenue for management fees and performance fees (both for arrangements within the scope of ASC 323 and arrangements within the scope of ASU 2014-9). Additionally, while the determination of who is the customer in a contractual arrangement will be made on a contract-by-contract basis, the Partnership expects that the customer will generally be the investment fund for our significant management and advisory contracts. The Partnership is still, however, evaluating its method of adoption for ASU 2014-9 and how ASU 2014-9 and its related amendments will impact principal versus agent considerations, which would affect whether certain transactions are reported gross or net in the consolidated statement of operations.

### 3. Fair Value Measurement

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

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I – inputs to the valuation methodology are quoted prices available in active markets for identical instruments as of the reporting date. The type of financial instruments included in Level I include unrestricted securities, including equities and derivatives, listed in active markets. The Partnership does not adjust the quoted price for these instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Level II – inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. The type of financial instruments in this category includes less liquid and restricted securities listed in active markets, securities traded in other than active markets, government and agency securities, and certain over-the-counter derivatives where the fair value is based on observable inputs.

Level III – inputs to the valuation methodology are unobservable and significant to overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category include investments in privately-held entities, non-investment grade residual interests in securitizations, collateralized loan obligations, and certain over-the-counter derivatives where the fair value is based on unobservable inputs.

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In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments.

The following table summarizes the Partnership's assets and liabilities measured at fair value on a recurring basis by the above fair value hierarchy levels as of September 30, 2017:

(Dollars in millions)	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ —	\$ —	\$26.8	\$26.8
Bonds	—	—	347.0	347.0
Loans	—	—	3,861.7	3,861.7
Other	—	—	0.3	0.3
	—	—	4,235.8	4,235.8
Investments in CLOs and other	—	—	322.7	322.7
Corporate treasury investments				
Bonds	—	87.6	—	87.6
Commercial paper and other	—	29.8	—	29.8
	—	117.4	—	117.4
Foreign currency forward contracts	—	0.3	—	0.3
Total	\$ —	\$117.7	\$4,558.5	\$4,676.2
<b>Liabilities</b>				
Loans payable of Consolidated Funds <sup>(1)</sup>	\$ —	\$ —	\$3,794.8	\$3,794.8
Contingent consideration <sup>(2)</sup>	—	—	1.3	1.3
Foreign currency forward contracts	—	3.9	—	3.9
Total	\$ —	\$3.9	\$3,796.1	\$3,800.0

Senior and subordinated notes issued by CLO vehicles are classified based on the more observable fair value of the (1) CLO financial assets, less (i) the fair value of any beneficial interests held by the Partnership and (ii) the carrying value of any beneficial interests that represent compensation for services.

(2) Related to contingent consideration associated with the Partnership's acquisitions, excluding employment-based contingent consideration.

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The following table summarizes the Partnership's assets and liabilities measured at fair value on a recurring basis by the above fair value hierarchy levels as of December 31, 2016:

(Dollars in millions)	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ —	\$ —	\$ 10.3	\$ 10.3
Bonds	—	—	396.4	396.4
Loans	—	—	3,485.6	3,485.6
Other	—	—	1.4	1.4
	—	—	3,893.7	3,893.7
Investments in CLOs and other	—	—	152.6	152.6
Corporate treasury investments				
Bonds	—	91.3	—	91.3
Commercial paper and other	—	98.9	—	98.9
	—	190.2	—	190.2
Foreign currency forward contracts	—	2.5	—	2.5
<b>Total</b>	<b>\$ —</b>	<b>\$ 192.7</b>	<b>\$ 4,046.3</b>	<b>\$ 4,239.0</b>
<b>Liabilities</b>				
Loans payable of Consolidated Funds <sup>(1)</sup>	\$ —	\$ —	\$ 3,866.3	\$ 3,866.3
Contingent consideration <sup>(2)</sup>	—	—	1.5	1.5
Loans payable of a real estate VIE	—	—	79.4	79.4
Foreign currency forward contracts	—	10.0	—	10.0
<b>Total</b>	<b>\$ —</b>	<b>\$ 10.0</b>	<b>\$ 3,947.2</b>	<b>\$ 3,957.2</b>

Senior and subordinated notes issued by CLO vehicles are classified based on the more observable fair value of the (1) CLO financial assets, less (i) the fair value of any beneficial interests held by the Partnership and (ii) the carrying value of any beneficial interests that represent compensation for services.

(2) Related to contingent consideration associated with the Partnership's acquisitions, excluding employment-based contingent consideration.

There were no transfers from Level II to Level I during the nine months ended September 30, 2017 and 2016.

Investment professionals with responsibility for the underlying investments are responsible for preparing the investment valuations pursuant to the policies, methodologies and templates prepared by the Partnership's valuation group, which is a team made up of dedicated valuation professionals reporting to the Partnership's chief accounting officer. The valuation group is responsible for maintaining the Partnership's valuation policy and related guidance, templates and systems that are designed to be consistent with the guidance found in ASC 820, Fair Value Measurement. These valuations, inputs and preliminary conclusions are reviewed by the fund accounting teams. The valuations are then reviewed and approved by the respective fund valuation subcommittees, which are comprised of the respective fund head(s), segment head, chief financial officer and chief accounting officer, as well as members of the valuation group. The valuation group compiles the aggregate results and significant matters and presents them for review and approval by the global valuation committee, which is comprised of the Partnership's co-chief executive officers, president and chief operating officer, chief risk officer, chief financial officer, chief accounting officer,

deputy chief investment officers for Corporate Private Equity, the business segment heads, and observed by the chief compliance officer, the director of internal audit and the Partnership's audit committee. Additionally, each quarter a sample of valuations is reviewed by external valuation firms.

In the absence of observable market prices, the Partnership values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private



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investments in the equity of operating companies and real estate properties, and certain debt positions. The valuation technique for each of these investments is described below:

**Private Equity and Real Estate Investments** – The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (“EBITDA”), the discounted cash flow method, public market or private transactions, valuations for comparable companies or sales of comparable assets, and other measures which, in many cases, are unaudited at the time received. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rate (“cap rate”) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., applying a key performance metric of the investment such as EBITDA or net operating income to a relevant valuation multiple or cap rate 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. Adjustments to observable valuation measures are frequently made upon the initial investment to calibrate the initial investment valuation to industry observable inputs. Such adjustments are made to align the investment to observable industry inputs for differences in size, profitability, projected growth rates, geography and capital structure if applicable. The adjustments are reviewed with each subsequent valuation to assess how the investment has evolved relative to the observable inputs. Additionally, the investment may be subject to certain specific risks and/or development milestones which are also taken into account in the valuation assessment. Option pricing models and similar tools do not currently drive a significant portion of private equity or real estate valuations and are used primarily to value warrants, derivatives, certain restrictions and other atypical investment instruments.

**Credit-Oriented Investments** – The fair values of credit-oriented investments (including corporate treasury investments) are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments. 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, the Partnership may utilize other valuation techniques, including the discounted cash flow method.

**CLO Investments and CLO Loans Payable** – The Partnership measures the financial liabilities of its consolidated CLOs based on the fair value of the financial assets of its consolidated CLOs, as the Partnership believes the fair value of the financial assets are more observable. The fair values of the CLO loan and bond assets are primarily based on quotations from reputable dealers or relevant pricing services. In situations where valuation quotations are unavailable, the assets are valued based on similar securities, market index changes, and other factors. The Partnership corroborates quotations from pricing services either with other available pricing data or with its own models. Generally, the loan and bond assets of the CLOs are not actively traded and are classified as Level III. The fair values of the CLO structured asset positions are determined based on both discounted cash flow analyses and third party quotes. Those analyses consider the position size, liquidity, current financial condition of the CLOs, the third party financing environment, reinvestment rates, recovery lags, discount rates and default forecasts and are compared to broker quotations from market makers and third party dealers.

The Partnership measures the CLO loan payables held by third party beneficial interest holders on the basis of the fair value of the financial assets of the CLO and the beneficial interests held by the Partnership. The Partnership continues to measure the CLO loans payable that it holds at fair value based on both discounted cash flow analyses and third-party quotes, as described above.

**Loans Payable of a Real Estate VIE** – Prior to September 30, 2017, the Partnership elected the fair value option to measure the loans payable of a real estate VIE at fair value. The fair values of the loans are primarily based on

discounted cash flows analyses, which consider the liquidity and current financial condition of the real estate VIE. These loans are classified as Level III.

Fund Investments – The Partnership’s investments in external funds are valued based on its proportionate share of the net assets provided by the third party general partners of the underlying fund partnerships based on the most recent available information which typically has a lag of up to 90 days. The terms of the investments generally preclude the ability to redeem the investment. Distributions from these investments will be received as the underlying assets in the funds are liquidated, the timing of which cannot be readily determined.

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The changes in financial instruments measured at fair value for which the Partnership has used Level III inputs to determine fair value are as follows (Dollars in millions):

Financial Assets Three Months Ended September 30, 2017 Investments of Consolidated Funds						
	Equity securities	Bonds	Loans	Other	Investments in CLOs and other	Total
Balance, beginning of period	\$9.7	\$395.9	\$3,500.1	\$2.0	\$ 222.9	\$4,130.6
Purchases	0.1	15.5	599.3	—	114.0	728.9
Sales and distributions	—	(71.2 )	(98.3 )	(3.1 )	(20.5 )	(193.1 )
Settlements	—	—	(216.3 )	—	—	(216.3 )
Realized and unrealized gains (losses), net Included in earnings	16.8	(7.4 )	(9.6 )	1.3	0.4	1.5
Included in other comprehensive income	0.2	14.2	86.5	0.1	5.9	106.9
Balance, end of period	\$26.8	\$347.0	\$3,861.7	\$0.3	\$ 322.7	\$4,558.5
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$16.8	\$(5.6 )	\$0.8	\$0.1	\$ 1.3	\$13.4

Financial Assets Nine Months Ended September 30, 2017 Investments of Consolidated Funds						
	Equity securities	Bonds	Loans	Other	Investments in CLOs and other	Total
Balance, beginning of period	\$10.3	\$396.4	\$3,485.6	\$1.4	\$ 152.6	\$4,046.3
Purchases	0.1	132.3	1,997.4	—	174.8	2,304.6
Sales and distributions	(1.6 )	(227.5 )	(1,101.8 )	(3.0 )	(23.6 )	(1,357.5 )
Settlements	—	—	(801.7 )	—	—	(801.7 )
Realized and unrealized gains (losses), net Included in earnings	17.1	(1.7 )	16.3	1.7	6.5	39.9
Included in other comprehensive income	0.9	47.5	265.9	0.2	12.4	326.9
Balance, end of period	\$26.8	\$347.0	\$3,861.7	\$0.3	\$ 322.7	\$4,558.5
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$22.1	\$0.8	\$22.5	\$0.1	\$ 7.4	\$52.9

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## Financial Assets

Three Months Ended September 30, 2016

Investments of Consolidated  
Funds

	Equity securities	Bonds	Loans	Other	Investments in CLOs and other	Total
Balance, beginning of period	\$ 11.9	\$ 407.8	\$ 2,933.1	\$ 0.1	\$ 152.7	\$ 3,505.6
Purchases	—	45.3	352.0	—	1.0	398.3
Sales and distributions	0.1	(66.3 )	(122.0 )	—	(2.2 )	(190.4 )
Settlements	—	—	(220.7 )	—	—	(220.7 )
Realized and unrealized gains (losses), net						
Included in earnings	(1.5 )	4.1	18.4	1.6	8.7	31.3
Included in other comprehensive income	—	5.5	21.5	—	(2.9 )	24.1
Balance, end of period	\$ 10.5	\$ 396.4	\$ 2,982.3	\$ 1.7	\$ 157.3	\$ 3,548.2
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$(1.3 )	\$ 3.5	\$ 15.7	\$ 0.3	\$ 8.4	\$ 26.6

## Financial Assets

Nine Months Ended September 30, 2016

## Investments of Consolidated Funds

	Equity securities	Bonds	Loans	Partnership and LLC interests <sup>(2)</sup>	Other	Investments in CLOs and other	Restricted securities of Consolidated Funds	Total
Balance, beginning of period	\$ 575.3	\$ 1,180.9	\$ 15,686.7	\$ 59.6	\$ 5.0	\$ 1.4	\$ 8.7	\$ 17,517.6
Deconsolidation of funds <sup>(1)</sup>	(562.1 )	(890.7 )	(13,506.9 )	(74.3 )	(5.0 )	123.8	(8.7 )	(14,923.9 )
Purchases	11.1	194.3	1,490.0	12.4	—	25.9	—	1,733.7
Sales and distributions	(5.1 )	(103.6 )	(249.9 )	—	—	(6.4 )	—	(365.0 )
Settlements	—	—	(516.9 )	—	—	—	—	(516.9 )
Realized and unrealized gains (losses), net								
Included in earnings	(9.0 )	5.9	42.3	2.3	1.7	26.9	—	70.1
Included in other comprehensive income	0.3	9.6	37.0	—	—	(14.3 )	—	32.6
Balance, end of period	\$ 10.5	\$ 396.4	\$ 2,982.3	\$ —	\$ 1.7	\$ 157.3	\$ —	\$ 3,548.2
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$(7.0 )	\$ 5.1	\$ 36.6	\$ —	\$ 1.8	\$ 26.9	\$ —	\$ 63.4

As a result of the adoption of ASU 2015-2 and the deconsolidation of certain CLOs on January 1, 2016, \$123.8 (1) million of investments that the Partnership held in those CLOs are no longer eliminated in consolidation and are now included in investments in CLOs and other for the nine months ended September 30, 2016.

As a result of the retrospective adoption of ASU 2015-7, the beginning balance of Partnership and LLC interests (2) that are measured at fair value using the NAV per share practical expedient have been revised to reflect their exclusion from the fair value hierarchy.

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	Financial Liabilities			
	Three Months Ended September 30, 2017			
	Loans Payable of Consolidated Funds	Contingent Consideration	Loans Payable of a real estate VIE	Total
Balance, beginning of period	\$3,721.2	\$ 1.3	\$ 72.6	\$3,795.1
Paydowns	(2.3 )	—	—	(2.3 )
Deconsolidation of a real estate VIE	—	—	(72.6 )	(72.6 )
Realized and unrealized (gains) losses, net				
Included in earnings	(21.1 )	—	—	(21.1 )
Included in other comprehensive income	97.0	—	—	97.0
Balance, end of period	\$3,794.8	\$ 1.3	\$ —	\$3,796.1
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$(24.1 )	\$ —	\$ —	\$(24.1 )

	Financial Liabilities			
	Nine Months Ended September 30, 2017			
	Loans Payable of Consolidated Funds	Contingent Consideration	Loans Payable of a real estate VIE	Total
Balance, beginning of period	\$3,866.3	\$ 1.5	\$ 79.4	\$3,947.2
Borrowings	1,569.0	—	—	1,569.0
Paydowns	(1,881.7 )	(0.4 )	(14.3 )	(1,896.4 )
Deconsolidation of a real estate VIE	—	—	(72.6 )	(72.6 )
Realized and unrealized (gains) losses, net				
Included in earnings	(49.4 )	0.1	3.3	(46.0 )
Included in other comprehensive income	290.6	0.1	4.2	294.9
Balance, end of period	\$3,794.8	\$ 1.3	\$ —	\$3,796.1
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$(53.6 )	\$ 0.1	\$ —	\$(53.5 )

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	Financial Liabilities				
	Three Months Ended September 30, 2016				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a real estate VIE	Total
Balance, beginning of period	\$3,284.7	\$ 0.3	\$ 25.0	\$ 81.7	\$3,391.7
Initial consolidation of funds	—	—	—	—	—
Borrowings	26.4	—	—	—	26.4
Paydowns	(99.0 )	—	(10.0 )	(10.4 )	(119.4 )
Sales	—	(1.7 )	—	—	(1.7 )
Realized and unrealized (gains) losses, net					
Included in earnings	15.8	1.4	(3.7 )	7.1	20.6
Included in other comprehensive income	25.5	—	0.1	10.5	36.1
Balance, end of period	\$3,253.4	\$ —	\$ 11.4	\$ 88.9	\$3,353.7
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$19.5	\$ —	\$ 0.1	\$ 7.1	\$26.7

	Financial Liabilities				
	Nine Months Ended September 30, 2016				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a real estate VIE	Total
Balance, beginning of period	\$17,046.7	\$ 29.1	\$ 20.8	\$ 75.4	\$17,172.0
Initial consolidation / deconsolidation of funds	(14,221.3 )	(29.0 )	—	—	(14,250.3 )
Borrowings	671.1	—	—	—	671.1
Paydowns	(331.4 )	—	(10.3 )	(27.3 )	(369.0 )
Sales	—	(1.7 )	—	—	(1.7 )
Realized and unrealized (gains) losses, net					
Included in earnings	43.8	1.6	0.8	20.9	67.1
Included in other comprehensive income	44.5	—	0.1	19.9	64.5
Balance, end of period	\$3,253.4	\$ —	\$ 11.4	\$ 88.9	\$3,353.7
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$36.6	\$ —	\$ 0.5	\$ 20.9	\$58.0

Realized and unrealized gains and losses included in earnings for Level III investments for investments in CLOs and other investments are included in investment income (loss), and such gains and losses for investments of Consolidated Funds and loans payable and derivative instruments of the CLOs are included in net investment gains (losses) of Consolidated Funds in the condensed consolidated statements of operations.

Realized and unrealized gains and losses included in earnings for Level III contingent consideration liabilities are included in other non-operating expense (income), and such gains and losses for loans payable of a real estate VIE are included in interest and other expenses of a real estate VIE in the condensed consolidated statement of operations.

Gains and losses included in other comprehensive income for all Level III financial asset and liabilities are included in accumulated other comprehensive loss, non-controlling interests in consolidated entities and non-controlling interests in Carlyle Holdings in the condensed consolidated balance sheets.



## The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited)

The following table summarizes quantitative information about the Partnership's Level III inputs as of September 30, 2017:

(Dollars in millions)	Fair Value at September 30, 2017	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
<b>Assets</b>				
<b>Investments of Consolidated Funds:</b>				
Equity securities	\$ 24.9	Discounted Cash Flow	Discount Rates	6% - 10% (6%)
			Exit Cap Rate	7% - 10% (7%)
	1.9	Consensus Pricing	Indicative Quotes (\$ per share)	28 - 28 (28)
Bonds	347.0	Consensus Pricing	Indicative Quotes (% of Par)	65 - 110 (99)
Loans	3,861.7	Consensus Pricing	Indicative Quotes (% of Par)	49 - 102 (100)
Other	0.3	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	11 - 11 (11)
	4,235.8			
<b>Investments in CLOs and other:</b>				
Senior secured notes	275.8	Discounted Cash Flow with Consensus Pricing	Discount Rates	1% - 9% (3%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 70% (60%)
			Indicative Quotes (% of Par)	95 - 102 (100)
Subordinated notes and preferred shares	44.0	Discounted Cash Flow with Consensus Pricing	Discount Rates	8% - 10% (9%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 70% (60%)
			Indicative Quotes (% of Par)	71 - 97 (87)
Other	2.9	Comparable Multiple	LTM EBITDA Multiple	6.3x - 6.3x (6.3x)
Total	\$ 4,558.5			
<b>Liabilities</b>				
<b>Loans payable of Consolidated Funds:</b>				
Senior secured notes <sup>(1)</sup>	\$ 3,621.3	Other	N/A	N/A
Subordinated notes and preferred shares <sup>(1)</sup>	27.3	Other	N/A	N/A
	146.2	Discounted Cash Flow with Consensus Pricing	Discount Rates	8% - 10% (9%)

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			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 70% (60%)
			Indicative Quotes (% of Par)	79 - 94 (86)
Contingent consideration <sup>(2)</sup>	1.3	Other	N/A	N/A
Total	\$ 3,796.1			

(1) Beginning on January 1, 2016, CLO loan payables held by third party beneficial interest holders are measured on the basis of the fair value of the financial assets of the CLO and the beneficial interests held by the Partnership.

(2) Relates to contingent consideration associated with the Partnership's acquisitions.

## The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited)

The following table summarizes quantitative information about the Partnership's Level III inputs as of December 31, 2016:

(Dollars in millions)	Fair Value at December 31, 2016	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
Investments of Consolidated Funds:				
Equity securities	\$9.6	Discounted Cash Flow	Discount Rates	9% - 10% (9%)
			Exit Cap Rate	7% - 9% (7%)
	0.7	Consensus Pricing	Indicative Quotes (\$ per share)	10 - 10 (10)
Bonds	396.4	Consensus Pricing	Indicative Quotes (% of Par)	74 - 108 (99)
Loans	3,485.6	Consensus Pricing	Indicative Quotes (% of Par)	31 - 102 (99)
Other	1.4	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	6 - 8 (7)
	3,893.7			
Investments in CLOs and other				
Senior secured notes	115.9	Discounted Cash Flow with Consensus Pricing	Discount Rate	1% - 11% (2%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 74% (71%)
			Indicative Quotes (% of Par)	82 - 102 (99)
Subordinated notes and preferred shares	35.4	Discounted Cash Flow with Consensus Pricing	Discount Rate	9% - 14% (12%)
			Default Rates	1% - 10% (2%)
			Recovery Rates	50% - 74% (64%)
			Indicative Quotes (% of Par)	2 - 101 (96)
Other	1.3	Comparable Multiple	LTM EBITDA Multiple	5.7 x - 5.7x (5.7x)
Total	\$4,046.3			
Liabilities				
Loans payable of Consolidated Funds:				
Senior secured notes <sup>(1)</sup>	\$3,672.5	Other	N/A	N/A

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Subordinated notes and preferred shares <sup>(1)</sup>	26.9	Other	N/A	N/A
	166.9	Discounted Cash Flow with Consensus Pricing	Discount Rates	9% - 14% (12%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 74% (66%)
			Indicative Quotes (% of Par)	7 - 90 (68)
Loans payable of a real estate VIE	79.4	Discounted Cash Flow	Discount to Expected Payment	10% - 55% (37%)
			Discount Rate	20% - 30% (23%)
Contingent consideration <sup>(2)</sup>	1.5	Other	N/A	N/A
Total	\$3,947.2			

(1) Beginning on January 1, 2016, CLO loan payables held by third party beneficial interest holders are measured on the basis of the fair value of the financial assets of the CLOs and the beneficial interests held by the Partnership.

(2) Relates to contingent consideration associated with the Partnership's acquisitions.

The significant unobservable inputs used in the fair value measurement of the Partnership's investments in equity securities include EBITDA multiples, indicative quotes, discount rates and exit cap rates. Significant decreases in EBITDA multiples or indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount rates or exit cap rates in isolation would result in a significantly lower fair value measurement.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements  
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The significant unobservable inputs used in the fair value measurement of the Partnership's investments in bonds and loans are market yields and indicative quotes. Significant increases in market yields in isolation would result in a significantly lower fair value measurement. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's investments in CLOs and other investments include EBITDA multiples, discount rates, default rates, recovery rates and indicative quotes. Significant decreases in EBITDA multiples, recovery rates or indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount rates or default rates in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of Consolidated Funds are discount rates, default rates, recovery rates and indicative quotes. Significant increases in discount rates or default rates in isolation would result in a significantly lower fair value measurement, while a significant increase in recovery rates or indicative quotes in isolation would result in a significantly higher fair value.

4. Accrued Performance Fees

The components of accrued performance fees are as follows:

	As of September 30, 2017	December 31, 2016
	(Dollars in millions)	
Corporate Private Equity	\$2,130.9	\$ 1,375.4
Real Assets	624.3	483.4
Global Market Strategies	84.9	68.6
Investment Solutions	658.5	553.7
Total	\$3,498.6	\$ 2,481.1

Approximately 31% of accrued performance fees at September 30, 2017 are related to Carlyle Partners V, L.P. and Carlyle Partners VI, L.P., two of the Partnership's Corporate Private Equity funds.

Approximately 27% of accrued performance fees at December 31, 2016, are related to Carlyle Partners V, L.P. and Carlyle Asia Partners III, L.P., two of the Partnership's Corporate Private Equity funds.

Accrued performance fees are shown gross of the Partnership's accrued performance fee-related compensation (see Note 8), and accrued giveback obligations, which are separately presented in the condensed consolidated balance sheets. The components of the accrued giveback obligations are as follows:

	As of September 30, 2017	December 31, 2016
	(Dollars in millions)	
Corporate Private Equity	\$(9.8 )	\$(3.9 )
Real Assets	(57.8 )	(156.9 )
Total	\$(67.6 )	\$(160.8 )



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Notes to the Condensed Consolidated Financial Statements