Carlyle Group L.P.
Form 10-Q
October 31, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
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 incorporation or organization)	(I.R.S. Employer 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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	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 ý

The number of the registrant’s common units representing limited partner interests outstanding as of October 26, 2018 was 107,748,095.

TABLE OF CONTENTS

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," "wil "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of these w 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, 2017 filed with the United States Securities and Exchange Commission ("SEC") on February 15, 2018, 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. 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), 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. 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 (all): buyout & growth funds advised by Carlyle

- 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 Credit: Structured credit, direct lending, distressed credit, energy credit, opportunistic credit and corporate mezzanine funds, and other closed-end credit funds advised by Carlyle
- Investment Solutions: Funds and vehicles advised by AlpInvest Partners B.V. (“AlpInvest”) and Metropolitan Real Estate Equity Management, LLC (“Metropolitan), which include primary fund, secondary and co-investment strategies

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

For an explanation of the fund acronyms used throughout this Quarterly Report, refer to "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation - Our Family of Funds."
"Fee-earning assets under management" or "Fee-earning AUM" refers to the assets we manage or advise from which we derive recurring fund management fees. Our Fee-earning AUM is generally based on one of the following, once fees have been activated:

(a) the amount of limited partner capital commitments, generally for carry funds where the original investment period has not expired, for AlpInvest carry funds during the commitment fee period and for Metropolitan carry funds during the weighted-average investment period of the underlying funds;

(b) the remaining amount of limited partner invested capital at cost, generally for carry funds and certain co-investment vehicles where the original investment period has expired, Metropolitan carry funds after the expiration of the weighted-average investment period of the underlying funds, and one of our business development companies;

(c) the amount of aggregate fee-earning collateral balance at par of our CLOs, as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO;

(d) the external investor portion of the net asset value of our hedge fund and fund of hedge funds vehicles (pre redemptions and subscriptions), as well as certain carry funds;

(e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents, of one of our business development companies and certain carry funds; or

(f) the lower of cost or fair value of invested capital, generally for AlpInvest carry funds where the commitment fee period has expired and certain carry funds where the investment period has expired.

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

(a) the aggregate fair value of our carry funds and related co-investment vehicles, NGP management fee funds and separately managed accounts, 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, plus the capital that Carlyle is entitled to call from investors in those vehicles pursuant to the terms of their capital commitments to those vehicles.

We include in our calculation of AUM and Fee-earning AUM certain NGP management fee funds and carry funds that are advised by NGP and certain energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. ("Riverstone"). Energy II, Energy III, Energy IV, and Renew II (collectively, the "Legacy Energy Funds"), are managed with Riverstone Holdings LLC and its affiliates. Affiliates of both Carlyle and Riverstone act as investment advisers to each of the Legacy Energy Funds. Carlyle has a minority representation on the management committees of Energy IV and Renew II. Carlyle and Riverstone each hold half of the seats on the management committees of Energy II and Energy III, but the investment period for these funds has expired and the remaining investments in such funds are being disposed of in the ordinary course of business.
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 fees, incentive fees or performance allocations. 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.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
The Carlyle Group L.P.
Condensed Consolidated Balance Sheets
(Dollars in millions)

	September 30, 2018 (Unaudited)	December 31, 2017 (As Adjusted)
Assets		
Cash and cash equivalents	$ 1,238.2	$ 1,000.1
Cash and cash equivalents held at Consolidated Funds	241.8	377.6
Restricted cash	1.4	28.7
Corporate treasury investments	224.0	376.3
Investments, including accrued performance allocations of $3,952.7 million and $3,664.3 million as of September 30, 2018 and December 31, 2017, respectively	5,808.3	5,288.6
Investments of Consolidated Funds	5,095.4	4,534.3
Due from affiliates and other receivables, net	321.8	263.4
Due from affiliates and other receivables of Consolidated Funds, net	132.6	50.8
Fixed assets, net	93.4	100.4
Deposits and other	62.8	54.1
Intangible assets, net	27.2	35.9
Deferred tax assets	186.8	170.4
Total assets	$ 13,433.7	$ 12,280.6
Liabilities and partners' capital		
Debt obligations	$ 1,558.4	$ 1,573.6
Loans payable of Consolidated Funds	4,774.6	4,303.8
Accounts payable, accrued expenses and other liabilities	475.7	355.1
Accrued compensation and benefits	2,532.0	2,222.6
Due to affiliates	160.7	229.9
Deferred revenue	266.5	82.1
Deferred tax liabilities	78.0	75.6
Other liabilities of Consolidated Funds	445.4	422.1
Accrued giveback obligations	63.2	66.8
Total liabilities	10,354.5	9,331.6
Commitments and contingencies		
Series A preferred units (16,000,000 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)	387.5	387.5
Partners' capital (common units 107,748,095 and 100,100,650 issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)	741.0	701.8
Accumulated other comprehensive loss	(83.8)	(72.7)
Non-controlling interests in consolidated entities	378.3	404.7
Non-controlling interests in Carlyle Holdings	1,656.2	1,527.7
Total partners' capital	3,079.2	2,949.0
Total liabilities and partners' capital	$ 13,433.7	$ 12,280.6

See accompanying notes.

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,	
	2018	2017 (As Adjusted)	2018	2017 (As Adjusted)
Revenues				
Fund management fees	$328.8	$ 262.5	$894.6	$ 747.6
Incentive fees	6.8	10.4	20.5	27.1
Investment income (loss)				
Performance allocations				
Realized	266.6	401.4	584.6	825.6
Unrealized	(52.4)	(126.2)	362.8	658.1
Principal investment income (loss)				
Realized	30.7	15.5	94.5	42.0
Unrealized	13.7	21.7	82.2	100.5
Total investment income	258.6	312.4	1,124.1	1,626.2
Interest and other income	24.4	9.9	74.9	25.9
Interest and other income of Consolidated Funds	60.5	44.7	161.4	132.6
Revenue of a real estate VIE	—	—	—	109.0
Total revenues	679.1	639.9	2,275.5	2,668.4
Expenses				
Compensation and benefits				
Cash-based compensation and benefits	186.6	174.1	549.9	471.1
Equity-based compensation	49.7	81.0	199.5	241.8
Performance allocations and incentive fee related compensation				
Realized	134.5	189.4	294.6	401.9
Unrealized	11.5	(51.8)	231.4	309.9
Total compensation and benefits	382.3	392.7	1,275.4	1,424.7
General, administrative and other expenses	166.2	(18.7)	388.0	170.9
Interest	26.3	16.9	62.6	48.4
Interest and other expenses of Consolidated Funds	40.5	37.2	121.7	160.9
Interest and other expenses of a real estate VIE and loss on deconsolidation	—	64.5	—	202.5
Other non-operating expenses	0.3	—	0.9	0.1
Total expenses	615.6	492.6	1,848.6	2,007.5
Other income				
Net investment gains (losses) of Consolidated Funds	(2.9)	18.6	12.0	76.4
Income before provision for income taxes	60.6	165.9	438.9	737.3
Provision (benefit) for income taxes	17.4	(1.3)	36.8	17.7
Net income	43.2	167.2	402.1	719.6
Net income attributable to non-controlling interests in consolidated entities	14.5	27.6	42.2	47.4
Net income attributable to Carlyle Holdings	28.7	139.6	359.9	672.2
Net income attributable to non-controlling interests in Carlyle Holdings	11.2	95.0	233.3	487.0
Net income attributable to The Carlyle Group L.P.	17.5	44.6	126.6	185.2
Net income attributable to Series A Preferred Unitholders	5.9	—	17.7	—
Net income attributable to The Carlyle Group L.P. Common Unitholders	$11.6	$ 44.6	$108.9	$ 185.2

Net income attributable to The Carlyle Group L.P. per common unit (see Note 11)				
Basic	$0.11	$ 0.47	$1.06	$ 2.06
Diluted	$0.10	$ 0.43	$0.96	$ 1.90
Weighted-average common units				
Basic	105,560,195	93,198,102	102,936,894	94,815,112
Diluted	346,930,037	314,392,424	112,851,925	97,738,190
Distributions declared per common unit	$0.22	$ 0.42	$0.82	$ 0.68

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

6

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$43.2	$167.2	$402.1	$719.6
Other comprehensive income				
Foreign currency translation adjustments	(9.0)	38.4	(34.7)	87.8
Defined benefit plans				
Unrealized loss for the period	(0.1)	(0.3)	(0.4)	(1.3)
Less: reclassification adjustment for gain during the period, included in cash-based compensation and benefits expense	0.2	0.3	0.7	0.9
Other comprehensive income (loss)	(8.9)	38.4	(34.4)	87.4
Comprehensive income	34.3	205.6	367.7	807.0
Comprehensive income attributable to non-controlling interests in consolidated entities	(8.2)	(38.6)	(28.7)	(68.5)
Comprehensive income attributable to Carlyle Holdings	26.1	167.0	339.0	738.5
Comprehensive income attributable to non-controlling interests in Carlyle Holdings	(9.5)	(114.3)	(218.8)	(534.5)
Comprehensive income attributable to The Carlyle Group L.P.	$16.6	$52.7	$120.2	$204.0

See accompanying notes.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	$402.1	$719.6
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	34.3	30.9
Equity-based compensation	199.5	241.8
Non-cash net performance allocations and incentive fees	(225.9)	(561.5)
Other non-cash amounts	3.7	(4.2)
Consolidated Funds related:		
Realized/unrealized (gain) loss on investments of Consolidated Funds	52.1	(27.1)
Realized/unrealized gain from loans payable of Consolidated Funds	(64.1)	(49.3)
Purchases of investments by Consolidated Funds	(2,914.4)	(2,129.7)
Proceeds from sale and settlements of investments by Consolidated Funds	2,159.8	2,135.6
Non-cash interest income, net	(3.0)	(4.3)
Change in cash and cash equivalents held at Consolidated Funds	408.9	566.1
Change in other receivables held at Consolidated Funds	(90.5)	(30.9)
Change in other liabilities held at Consolidated Funds	(231.1)	(208.5)
Principal investment income	(175.2)	(138.9)
Purchases of investments	(371.8)	(412.4)
Proceeds from the sale of investments	571.9	297.7
Payments of contingent consideration	(37.5)	(22.5)
Deconsolidation of Claren Road	—	(23.3)
Deconsolidation of Urbplan	—	14.0
Changes in deferred taxes, net	1.4	(8.7)
Change in due from affiliates and other receivables	(1.8)	(78.2)
Change in receivables and inventory of a real estate VIE	—	(14.5)
Change in deposits and other	(17.9)	(7.1)
Change in other assets of a real estate VIE	—	1.6
Change in accounts payable, accrued expenses and other liabilities	115.3	1.9
Change in accrued compensation and benefits	132.8	42.2
Change in due to affiliates	(39.3)	15.0
Change in other liabilities of a real estate VIE	—	47.9
Change in deferred revenue	185.7	178.6
Net cash provided by operating activities	95.0	571.8
Cash flows from investing activities		
Purchases of fixed assets, net	(20.1)	(26.0)
Net cash used in investing activities	(20.1)	(26.0)
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)
Issuance of 5.650% senior notes due 2048, net of financing costs	346.6	—

Repurchase of 3.875% senior notes due 2023	(254.8)	—
Payments on debt obligations	(149.8)	(15.0)
Proceeds from debt obligations	40.8	202.6
Net payments on loans payable of a real estate VIE	—	(14.3)
Net borrowings (payments) on loans payable of Consolidated Funds	662.3	(312.7)
Payments of contingent consideration	—	(0.4)
Distributions to common unitholders	(84.3)	(63.0)
Distributions to preferred unitholders	(17.7)	—
Distributions to non-controlling interest holders in Carlyle Holdings	(191.7)	(163.1)
Contributions from non-controlling interest holders	17.6	87.7
Distributions to non-controlling interest holders	(72.7)	(74.0)
Common units repurchased	(87.5)	(0.2)
Change in due to/from affiliates financing activities	(58.5)	38.5
Net cash provided by financing activities	150.3	73.7
Effect of foreign exchange rate changes	(14.4)	61.8
Increase in cash, cash equivalents and restricted cash	210.8	681.3
Cash, cash equivalents and restricted cash, beginning of period	1,028.8	684.0
Cash, cash equivalents and restricted cash, end of period	$1,239.6	$1,365.3
Supplemental non-cash disclosures		
Net increase in partners' capital and accumulated other comprehensive income related to reallocation of ownership interest in Carlyle Holdings	$19.9	$23.8
Tax effect from acquisition of Carlyle Holdings partnership units:		
Deferred tax asset	$10.8	$24.3
Tax receivable agreement liability	$9.0	$21.1
Total partners' capital	$1.8	$3.2
Reconciliation of cash, cash equivalents and restricted cash, end of period:		
Cash and cash equivalents	$1,238.2	$1,355.7
Restricted cash	1.4	9.6
Total cash, cash equivalents and restricted cash, end of period	$1,239.6	$1,365.3
Cash and cash equivalents held at Consolidated Funds	$241.8	$195.4

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 Credit, and Investment Solutions (see Note 13).

Basis of Presentation

The accompanying condensed consolidated 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 (until its deconsolidation in the third quarter of 2017) have been consolidated in the accompanying condensed consolidated financial statements pursuant to accounting principles generally accepted in the United States ("U.S. GAAP"), as described in Note 2. 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, 2017 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. Certain amounts within the financial statements of each individual prior period presented have been adjusted to reflect the Partnership's change in accounting principle for performance-based capital allocations (see Note 2). Accordingly, the applicable prior period column headings are labeled "As Adjusted."

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").

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, incentive fees and performance allocations) 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.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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, 2018, assets and liabilities of the consolidated VIEs reflected in the unaudited condensed consolidated balance sheets were $5.5 billion and $5.3 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, 2018, the Partnership held $240.3 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 4 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 Partnership's maximum exposure to loss relates to the Partnership's investments in the unconsolidated VIEs and was $1,199.2 million as of September 30, 2018 and $1,066.3 million as of December 31, 2017.

Additionally, as of September 30, 2018, the Partnership had $81.5 million and $11.3 million recognized in the condensed consolidated balance sheet related to accrued performance allocations 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

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

consolidate their majority-owned and controlled investments (the “Portfolio Companies”). In the preparation of these unaudited 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 unaudited 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 allocations and incentive 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 allocations and incentive fees. Actual results could differ from these estimates and such differences could be material.

Revenue Recognition

On January 1, 2018, the Partnership adopted ASU 2014-9, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-9”) under the modified retrospective method. ASU 2014-9, and related amendments, provide comprehensive guidance for recognizing revenue from contracts with customers. Revenue is recognized 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) allocated the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation.

Upon adoption of ASU 2014-9, performance allocations that represent a performance-based capital allocation from fund limited partners to the Partnership (commonly known as “carried interest”, which comprises substantially all of the Partnership's previously reported performance fee revenues) are accounted for as earnings from financial assets within the scope of ASC 323, Investments - Equity Method and Joint Ventures, and therefore are not in the scope of ASU 2014-9. In accordance with ASC 323, the Partnership records 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 allocations, assuming the investment fund was liquidated as of each reporting date pursuant to each fund's governing agreements. The Partnership applied this change in accounting principle on a full retrospective basis, which resulted in a reclassification of amounts previously reported as accrued performance fees to investments in the accompanying consolidated balance sheets and amounts previously reported as performance fees to performance allocations within investment income (loss) in the accompanying consolidated statements of operations. See Note 4 for additional information on the components of investments and investment income following this change in accounting principle. Amounts previously reported as performance fees that do not meet the definition of performance-based capital allocations are in the scope of ASU 2014-9 and are included in incentive fees in the consolidated statements of operations.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

The following table shows the impact of this reclassification to our previously reported amounts in the unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2017:

	Three Months Ended September 30, 2017		
	As Previously Reported	Reclassifications	As Adjusted
	(Dollars in millions)		
Performance fees[1]			
Realized	$411.8	$ (401.4)	$ 10.4
Unrealized	(126.2)	126.2	—
Total performance fees[1]	$285.6	$ (275.2)	$ 10.4
Investment income (loss)[2]			
Realized	$15.5	$ 401.4	$ 416.9
Unrealized	21.7	(126.2)	(104.5)
Total investment income[2]	$37.2	$ 275.2	$ 312.4

	Nine Months Ended September 30, 2017		
	As Previously Reported	Reclassifications	As Adjusted
	(Dollars in millions)		
Performance fees[1]			
Realized	$852.7	$ (825.6)	$ 27.1
Unrealized	658.1	(658.1)	—
Total performance fees[1]	$1,510.8	$ (1,483.7)	$ 27.1
Investment income (loss)[2]			
Realized	$42.0	$ 825.6	$ 867.6
Unrealized	100.5	658.1	758.6
Total investment income[2]	$142.5	$ 1,483.7	$ 1,626.2

(1) As adjusted, amounts now labeled as incentive fees in the unaudited condensed consolidated statements of operations.

(2) As adjusted, amounts now labeled as performance allocations and principal investment income within investment income (loss) in the unaudited condensed consolidated statements of operations.

The adoption of ASU 2014-9 did not materially change our historical pattern of recognizing revenue for management fees, incentive fees, and performance allocations (for arrangements within the scope of ASC 323). The Partnership has applied the guidance in ASU 2014-9 only to contracts that are not completed as of January 1, 2018. The Partnership recorded an adjustment of $0.8 million for the cumulative effect of adoption in partners' capital on January 1, 2018, which reduced total partners' capital. Additionally, while the determination of who is the customer in a contractual arrangement will be made on a contract-by-contract basis, the customer will generally be the investment fund for our significant management and advisory contracts. The customer determination impacts the Partnership's analysis of the accounting for contract costs. Also, the recovery of certain costs incurred on behalf of Carlyle funds, primarily travel and entertainment costs, that were previously presented net in our unaudited condensed consolidated statements of operations are presented gross beginning on January 1, 2018 as the Partnership controls the inputs to its investment management performance obligation. For the three and nine months ended September 30, 2018, these costs were approximately $6.7 million and $21.0 million, respectively, and are presented in interest and other income and general, administrative and other expenses in our unaudited condensed consolidated statements of operations.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Fund Management Fees

The Partnership provides management services to funds in which it holds a general partner interest or has a management agreement. The Partnership considers the performance obligations in its contracts with its funds to be the promise to provide (or to arrange for third parties to provide) investment management services related to the management, policies and operations of the funds.

As it relates to the Partnership's performance obligation to provide investment management services, the Partnership typically satisfies this performance obligation over time as the services are rendered (under the output method described in ASC 606), since the funds simultaneously receive and consume the benefits provided as the Partnership performs the service. The transaction price is the amount of consideration to which the Partnership expects to be entitled in exchange for transferring the promised services to the funds. Management fees earned from each investment management contract over the contract life represent variable consideration because the consideration the Partnership is entitled to varies based on fluctuations in the basis for the management fee, for example fund net asset value ("NAV") or AUM. Given that the management fee basis is susceptible to market factors outside of the Partnership's influence, management fees are constrained. Accordingly, estimates of future period management fees are generally not included in the transaction price because these estimates are constrained. The transaction price for the investment management services provided is generally the amount determined at the end of the period because that is when the uncertainty for that period is resolved.

For closed-end carry funds in the Corporate Private Equity, Real Assets and Global Credit 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 separately 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 Credit 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 1.25% of invested capital to 1.5% of gross assets, excluding cash and cash equivalents.

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% on (i) the lower of cost or fair value of the capital invested, (ii) the net asset value for unrealized investments, or (iii) the contributions for unrealized investments; however, certain separately managed accounts earn management fees at all times on contributions for unrealized investments or on the initial commitment amount. Management fees for the Investment Solutions carry fund vehicles are generally due quarterly and recognized over the related quarter.

As of September 30, 2018 and December 31, 2017, management fee receivables were $56.3 million and $47.7 million, respectively, and are included in due from affiliates and other receivables, net, in our unaudited condensed consolidated balance sheets.

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 performance obligation has been satisfied and collection is reasonably assured. Fund management fees includes transaction and portfolio advisory fees of $7.7

million and $10.2 million for the three months ended September 30, 2018 and 2017, respectively, and $21.3 million and $28.0 million for the nine months ended September 30, 2018 and 2017, respectively, net of any offsets as defined in the respective partnership agreements. Fund management fees generally 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. For the professional fees that the Partnership arranges for the investment funds, the Partnership concluded that the nature of its promise is to arrange for the services to be provided and it does not control the services provided by third parties before they are transferred to the customer. Therefore, the Partnership concluded it is acting in the capacity of an agent. Accordingly, the reimbursement for these professional fees paid on behalf of the investment funds is presented on a net basis in general, administrative and other expenses in our unaudited condensed consolidated statements of operations.

The Partnership also incurs certain costs, primarily employee travel and entertainment costs, employee compensation and systems costs, for which it receives reimbursement from the investment funds in connection with its performance obligation to provide investment and management services. For reimbursable travel, compensation and systems costs, the Partnership concluded it controls the services provided by its employees and the resources used to develop applicable systems before they are transferred to the customer and therefore is a principal. Accordingly, the reimbursement for these costs incurred by the Partnership to manage the fund limited partnerships are presented on a gross basis in interest and other income in our unaudited condensed consolidated statements of operations and the expense in general, administrative and other expenses or cash-based compensation and benefits expenses in our unaudited condensed consolidated statements of operations.

Incentive Fees

In connection with management contracts from certain of its Global Credit funds, the Partnership is also entitled to receive performance-based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, incentive fees are recognized when the performance benchmark has been achieved. Incentive fees are variable consideration because they are contingent upon the investment vehicle achieving stipulated investment return hurdles. Investment returns are highly susceptible to market factors outside of the Partnership's influence. Accordingly, incentive fees are constrained until all uncertainty is resolved. Estimates of future period incentive fees are generally not included in the transaction price because these estimates are constrained. The transaction price for incentive fees is generally the amount determined at the end of each accounting period to which they relate because that is when the uncertainty for that period is resolved, as these fees are not subject to clawback.

Investment Income (Loss), including Performance Allocations

Investment income (loss) represents the unrealized and realized gains and losses resulting from the Partnership's equity method investments, including any associated general partner performance allocations, and other principal investments, including CLOs.

General partner performance allocations consist 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 Credit segments, the Partnership is generally entitled to a 20% allocation (or 10% to 20% on certain longer-dated carry funds, certain credit funds, and external co-investment vehicles, or approximately 2% to 10% for most 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 allocations 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 investment income for performance allocations 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.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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 allocations are reversed. In all cases, each fund is considered separately in this regard, and for a given fund, performance allocations 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.

Principal 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 4). Principal 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 principal 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 $57.9 million and $41.8 million for the three months ended September 30, 2018 and 2017, respectively, $155.9 million and $124.1 million for the nine months ended September 30, 2018 and 2017, respectively, and is included in interest and other income of Consolidated Funds in the accompanying unaudited condensed consolidated statements of operations.

Compensation and Benefits

Cash-based Compensation and Benefits – Cash-based compensation and benefits 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 and non-employees is measured at fair value on the grant date. In June 2018, the Partnership adopted ASU 2018-7, which aligned the accounting for non-employee equity-based awards with the accounting for employee equity-based awards, retroactive to January 1, 2018. 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 Partnership recognizes 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 recognizes all excess tax benefits and deficiencies as income tax benefit or expense in the unaudited condensed consolidated statement of operations.

Performance Allocations and Incentive Fee Related Compensation – A portion of the performance allocations and incentive 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 allocations and incentive fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Accordingly, upon a reversal of performance allocations or incentive fee revenue, the related compensation expense, if any, is also reversed. As of September 30, 2018 and December 31, 2017, the Partnership had recorded a liability of $2.1 billion and $1.9 billion, respectively, related to the portion of accrued performance allocations and incentive fees due to employees and advisors, respectively, which was included in accrued compensation and benefits in the accompanying unaudited condensed consolidated balance sheets.

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 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 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, including any associated general partner accrued performance allocations 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.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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.

Principal 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 (including performance allocations) 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 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 as well as certain amounts held on behalf of Carlyle funds.

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. Intangible asset amortization expense was $2.6 million during both the three months ended September 30, 2018 and

2017, and $7.9 million and $7.6 million during the

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

nine months ended September 30, 2018 and 2017, respectively, and is included in general, administrative, and other expenses in the unaudited condensed consolidated statements of operations.

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.

Deferred Revenue

Deferred revenue represents management fees and other revenue received prior to the balance sheet date, which has not yet been earned. The increase in the deferred revenue balance for the nine months ended September 30, 2018 was primarily driven by cash payments received in advance of satisfying our performance obligations, partially offset by revenues recognized that were included in the deferred revenue balance at the beginning of the period.

Accumulated Other Comprehensive Loss

The Partnership's accumulated other comprehensive 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 loss as of September 30, 2018 and December 31, 2017 were as follows:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Currency translation adjustments	$(79.8)	$ (68.8)
Unrealized losses on defined benefit plans	(4.0)	(3.9)
Total	$(83.8)	$ (72.7)

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 resulting from transactions outside of the functional currency of an entity of $3.2 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively, and $1.6 million and $2.2 million for the nine months ended September 30, 2018 and 2017, respectively, are included in general, administrative and other expenses in the unaudited condensed consolidated statements of operations.

Recent Accounting Pronouncements

In August 2018, the SEC adopted amendments to certain disclosure requirements in Securities Act Release No. 33-10532, Disclosure Update and Simplification. The amendments will become effective on November 5, 2018. Among the amendments is the requirement to present the changes in shareholders' equity in the interim financial statements (either in a separate statement or footnote) in quarterly reports on Form 10-Q. In light of the timing of effectiveness of the amendments and proximity of effectiveness to the filing date for most filers' quarterly reports, the SEC Staff have indicated that they would not object if a filer's first presentation of the changes in shareholders' equity is included in Form 10-Q for the quarter that begins after the effective date of the amendments. The Partnership will include disclosure of the changes in partners' capital in its quarterly reports on Form 10-Q beginning in 2019. The Partnership is currently assessing the impacts of other areas amended by the disclosure update and simplification.

Recently Issued Accounting Standards Adopted as of January 1, 2018

In June 2018, the FASB issued ASU 2018-7, Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-7 aligns the measurement and classification for share-based payments to non-employees with the accounting guidance for share-based payments to employees. Among other requirements, the measurement of non-employee awards will now be fixed at the grant date, rather than remeasured at every reporting date. The guidance is effective for the Partnership on January 1, 2019, however early adoption is permitted. The Partnership adopted this standard retroactive to January 1, 2018 and the impact of this guidance was not material to the unaudited condensed consolidated financial statements.

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 was effective for the Partnership on January 1, 2018, and ASU 2016-18 required the guidance to be applied using a retrospective transition method. The Partnership reflected this change in presentation of restricted cash in the unaudited condensed consolidated statement of cash flows included in these financial statements.

Recently Issued Accounting Standards Effective on January 1, 2019

In February 2018, the FASB issued ASU 2018-2, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-2 allows a reclassification from accumulated other comprehensive income to partners’ capital for stranded effects resulting from the Tax Cuts and Jobs Act. The guidance is effective for the Partnership on January 1, 2019, however early adoption is permitted. The Partnership does not expect the impact of this guidance to be material.

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 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. The Partnership is continuing to assess the impact of this guidance, and the Partnership's total assets and total liabilities on its consolidated balance sheet will increase upon adoption of this guidance. The Partnership does not expect the adoption of this guidance to have a material impact on operating results. The Partnership expects to elect to use the practical expedients available under the transition provisions under which we would not need to reassess whether an arrangement is or contains a lease, lease classification, and the accounting for initial direct costs. The Partnership also expects to elect the recent transition option provided by the FASB, which allows entities to not apply ASC 842 in the comparative periods presented in the financial statements in the year of adoption.

Recently Issued Accounting Standards Effective on January 1, 2020

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. 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 to the fair value disclosures.

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.

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.

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 types of financial instruments in this category include unrestricted securities, such as 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 types of financial instruments in this category include 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. The types of financial instruments 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 fair value is based on unobservable inputs.

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 Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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, 2018:

(Dollars in millions)	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Funds:				
Equity securities	$ —	$—	$6.5	$6.5
Bonds	—	—	620.9	620.9
Loans	—	—	4,468.0	4,468.0
	—	—	5,095.4	5,095.4
Investments in CLOs and other	—	—	451.8	451.8
Corporate treasury investments				
Bonds	—	82.5	—	82.5
Commercial paper and other	—	141.5	—	141.5
	—	224.0	—	224.0
Foreign currency forward contracts	—	1.6	—	1.6
Total	$ —	$225.6	$5,547.2	$5,772.8
Liabilities				
Loans payable of Consolidated Funds(1)	$ —	$—	$4,774.6	$4,774.6
Contingent consideration	—	—	1.0	1.0
Foreign currency forward contracts	—	2.0	—	2.0
Total	$ —	$2.0	$4,775.6	$4,777.6

(1) Senior and subordinated notes issued by CLO vehicles are classified based on the more observable fair value of the 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.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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, 2017:

(Dollars in millions)	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Funds:				
Equity securities	$ —	$ —	$7.9	$7.9
Bonds	—	—	413.4	413.4
Loans	—	—	4,112.7	4,112.7
Other	—	—	0.3	0.3
	—	—	4,534.3	4,534.3
Investments in CLOs and other	—	—	405.4	405.4
Corporate treasury investments				
Bonds	—	194.1	—	194.1
Commercial paper and other	—	182.2	—	182.2
	—	376.3	—	376.3
Foreign currency forward contracts	—	0.4	—	0.4
Total	$ —	$376.7	$4,939.7	$5,316.4
Liabilities				
Loans payable of Consolidated Funds(1)	$ —	$ —	$4,303.8	$4,303.8
Contingent consideration	—	—	1.0	1.0
Foreign currency forward contracts	—	1.2	—	1.2
Total	$ —	$1.2	$4,304.8	$4,306.0

(1) Senior and subordinated notes issued by CLO vehicles are classified based on the more observable fair value of the 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.

There were no transfers from Level II to Level I during the nine months ended September 30, 2018 and 2017.

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 include 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 includes the Partnership's co-executive chairmen of the board, chairman emeritus, co-chief executive officers, chief risk officer, chief financial officer, chief accounting officer, co-chief investment officer and the business segment heads, and observed by the chief compliance officer, the director of internal audit, the Partnership's audit committee and others. 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 involve 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 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:

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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 publicly 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 loans payable 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 its deconsolidation in 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 were primarily based on discounted cash flows analyses, which considered the liquidity and current financial condition of the real estate VIE. These loans were 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.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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, 2018 Investments of Consolidated Funds					
	Equity securities	Bonds	Loans	Other	Investments in CLOs and other	Total
Balance, beginning of period	$11.1	$640.1	$4,597.1	$—	$ 446.7	$5,695.0
Purchases	—	149.8	627.6	—	31.7	809.1
Sales and distributions	(7.0)	(170.3)	(474.1)	—	(27.6)	(679.0)
Settlements	—	—	(247.2)	—	—	(247.2)
Realized and unrealized gains (losses), net						
Included in earnings	2.4	4.6	(16.2)	—	2.9	(6.3)
Included in other comprehensive income	—	(3.3)	(19.2)	—	(1.9)	(24.4)
Balance, end of period	$6.5	$620.9	$4,468.0	$—	$ 451.8	$5,547.2
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	$0.9	$2.6	$(18.6)	$—	$ 2.9	$(12.2)

	Financial Assets Nine Months Ended September 30, 2018 Investments of Consolidated Funds					
	Equity securities	Bonds	Loans	Other	Investments in CLOs and other	Total
Balance, beginning of period	$7.9	$413.4	$4,112.7	$0.3	$ 405.4	$4,939.7
Purchases	—	536.8	2,377.6	—	76.7	2,991.1
Sales and distributions	(7.0)	(297.7)	(1,171.7)	(0.4)	(34.1)	(1,510.9)
Settlements	—	—	(683.0)	—	—	(683.0)
Realized and unrealized gains (losses), net						
Included in earnings	5.8	(13.2)	(40.4)	0.1	8.7	(39.0)
Included in other comprehensive income	(0.2)	(18.4)	(127.2)	—	(4.9)	(150.7)
Balance, end of period	$6.5	$620.9	$4,468.0	$—	$ 451.8	$5,547.2
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	$4.3	$(11.8)	$(27.2)	$—	$ 8.7	$(26.0)

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	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

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Financial Liabilities Three Months Ended September 30, 2018		
	Loans Payable of Consolidated Funds	Contingent Consideration	Total
Balance, beginning of period	$4,835.1	$ 1.0	$4,836.1
Borrowings	671.2	—	671.2
Paydowns	(703.4)	—	(703.4)
Realized and unrealized (gains) losses, net			
Included in earnings	(7.7)	—	(7.7)
Included in other comprehensive income	(20.6)	—	(20.6)
Balance, end of period	$4,774.6	$ 1.0	$4,775.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	$(6.8)	$ —	$(6.8)

	Financial Liabilities Nine Months Ended September 30, 2018		
	Loans Payable of Consolidated Funds	Contingent Consideration	Total
Balance, beginning of period	$4,303.8	$ 1.0	$4,304.8
Borrowings	2,686.7	—	2,686.7
Paydowns	(2,024.4)	—	(2,024.4)
Realized and unrealized (gains) losses, net			
Included in earnings	(64.1)	—	(64.1)
Included in other comprehensive income	(127.4)	—	(127.4)
Balance, end of period	$4,774.6	$ 1.0	$4,775.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	$(67.4)	$ —	$(67.4)

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	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)

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 of Consolidated Funds 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 (for periods prior to September 30, 2017) are included in interest and other expenses of a real estate VIE and loss on deconsolidation in the unaudited 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 unaudited 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, 2018:

(Dollars in millions)	Fair Value at September 30, 2018	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
Investments of Consolidated Funds:				
Equity securities	$ 6.5	Consensus Pricing	Indicative Quotes ($ per share)	0 - 97 (87)
Bonds	620.9	Consensus Pricing	Indicative Quotes (% of Par)	60 - 107 (96)
Loans	4,468.0	Consensus Pricing	Indicative Quotes (% of Par)	74 - 103 (99)
	5,095.4			
Investments in CLOs and other:				
Senior secured notes	397.2	Discounted Cash Flow with Consensus Pricing	Discount Margins (% of Par)	85 - 870 (162)
			Default Rates	1% - 3% (2%)
			Recovery Rates	45% - 73% (57%)
			Indicative Quotes (% of Par)	91 - 102 (100)
Subordinated notes and preferred shares	54.6	Discounted Cash Flow with Consensus Pricing	Discount Rates	9% - 12% (11%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	45% - 73% (57%)
			Indicative Quotes (% of Par)	52 - 108 (79)
Total	$ 5,547.2			
Liabilities				
Loans payable of Consolidated Funds:				
Senior secured notes	$ 4,556.8	Other	N/A	N/A
Subordinated notes and preferred shares	5.4	Other	N/A	N/A
	212.4	Discounted Cash Flow with Consensus Pricing	Discount Rates	9% - 12% (10%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	45% - 73% (60%)
			Indicative Quotes (% of Par)	74 - 97 (87)
Contingent consideration	1.0	Other	N/A	N/A
Total	$ 4,775.6			

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, 2017:

(Dollars in millions)	Fair Value at December 31, 2017	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
Investments of Consolidated Funds:				
Equity securities	$ 5.7	Discounted Cash Flow	Discount Rates	10% - 10% (10%)
	2.2	Consensus Pricing	Indicative Quotes ($ per share)	0 - 33 (30)
Bonds	413.4	Consensus Pricing	Indicative Quotes (% of Par)	44 - 107 (98)
Loans	4,112.7	Consensus Pricing	Indicative Quotes (% of Par)	64 - 103 (100)
Other	0.3	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	9 - 9 (9)
	4,534.3			
Investments in CLOs and other				
Senior secured notes	357.2	Discounted Cash Flow with Consensus Pricing	Discount Rate	1% - 9% (3%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 70% (60%)
			Indicative Quotes (% of Par)	98 - 104 (101)
Subordinated notes and preferred shares	48.2	Discounted Cash Flow with Consensus Pricing	Discount Rate	8% - 11% (9%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 70% (60%)
			Indicative Quotes (% of Par)	63 - 97 (81)
Total	$ 4,939.7			
Liabilities				
Loans payable of Consolidated Funds:				
Senior secured notes	$ 4,100.5	Other	N/A	N/A
	26.9	Other	N/A	N/A

Subordinated notes and preferred shares				
	176.4	Discounted Cash Flow with Consensus Pricing	Discount Rates	8% - 11% (10%)
			Default Rates	1% - 3% (2%)
			Recovery Rates	50% - 70% (60%)
			Indicative Quotes (% of Par)	79 - 93 (86)
Contingent consideration	1.0	Other	N/A	N/A
Total	$ 4,304.8			

The significant unobservable inputs used in the fair value measurement of the Partnership's investments in equity securities include indicative quotes and discount rates. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount 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 investments in bonds and loans are indicative quotes. 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 discount margins, discount rates, default rates, recovery rates and indicative quotes. Significant decreases in recovery rates or indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount margins, discount rates or default rates in isolation would result in a significantly lower fair value measurement.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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. Significant decreases in recovery rates or indicative quotes in isolation would result in a significantly lower fair value measurement.

4. Investments

Investments consist of the following:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Accrued performance allocations	$3,952.7	$3,664.3
Principal equity method investments, excluding performance allocations	1,402.1	1,218.4
Principal investments in CLOs and other	453.5	405.9
Total investments	$5,808.3	$5,288.6

Accrued Performance Allocations

The components of accrued performance allocations are as follows:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Corporate Private Equity	$2,289.9	$2,272.4
Real Assets	768.1	656.7
Global Credit	58.7	50.6
Investment Solutions	836.0	684.6
Total	$3,952.7	$3,664.3

Approximately 23% and 19% of accrued performance allocations at September 30, 2018 and December 31, 2017, respectively, are related to Carlyle Partners VI, L.P., one of the Partnership's Corporate Private Equity funds.
Accrued performance allocations are shown gross of the Partnership's accrued performance allocations and incentive fee-related compensation (see Note 6), and accrued giveback obligations, which are separately presented in the unaudited condensed consolidated balance sheets. The components of the accrued giveback obligations are as follows:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Corporate Private Equity	$(5.0)	$(8.7)
Real Assets	(58.2)	(58.1)

Total	$(63.2)	$ (66.8)

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Principal Equity Method Investments, Excluding Performance Allocations

The Partnership's principal equity method investments (excluding performance allocations) include its fund investments in Corporate Private Equity, Real Assets, Global Credit, and Investment Solutions, typically as general partner interests, and its strategic investments in NGP (included within Real Assets), which are not consolidated. Principal investments are related to the following segments:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Corporate Private Equity	$435.3	$ 369.5
Real Assets	828.5	775.1
Global Credit	72.6	23.0
Investment Solutions	65.7	50.8
Total	$1,402.1	$ 1,218.4

Strategic Investment in Fortitude Re (f/k/a DSA Re)

On July 31, 2018, a subsidiary of the Partnership entered into a membership interest purchase agreement (the "Membership Interest Purchase Agreement") with American International Group, Inc. ("AIG") and Fortitude Group Holdings, LLC, a wholly owned subsidiary of AIG ("Fortitude Holdings"), pursuant to which the Partnership agreed to acquire a 19.9% interest in Fortitude Holdings (the "Transaction"). Fortitude Holdings will own 100% of the outstanding common shares of Fortitude Reinsurance Company Ltd., a Bermuda domiciled reinsurer ("Fortitude Re", f/k/a "DSA Re") established to reinsure a portfolio of AIG's legacy life, annuity and property and casualty liabilities. Fortitude Re has approximately $36 billion in reserves as of March 31, 2018. The transaction is expected to close in Q4 2018.

Pursuant to the Membership Interest Purchase Agreement, the Partnership will enter into a strategic asset management relationship with Fortitude Re pursuant to which Fortitude Re, together with certain AIG-affiliated ceding companies it has reinsured, will commit to allocate assets in asset management strategies and vehicles of the Partnership and its affiliates. If Fortitude Re, together with AIG and its affiliates, fails to allocate an agreed upon amount of assets to the Partnership's asset management strategies and vehicles within 30 to 36 months of the closing of the transaction, the Partnership may be entitled to certain payments from AIG based on the commitment shortfall and assumed customary fee rates.

The Partnership will pay $381 million in cash at closing (the "Initial Purchase Price") and will pay up to $95 million in additional deferred consideration following December 31, 2023. If Fortitude Holdings is unable to distribute a planned non-pro rata dividend to AIG within 18 months following closing, then the Initial Purchase Price may be adjusted upward by up to $100 million to account for the increased value of Fortitude Holdings' equity. AIG has also agreed to a post-closing purchase price adjustment pursuant to which AIG will pay affiliates of the Partnership in respect of certain adverse reserve development in Fortitude Re's property and casualty insurance business, based on an agreed methodology, that occur on or prior to December 31, 2023, up to the value of the Partnership's investment.

In connection with the Transaction, the Partnership also will enter into an operating agreement (an "Operating Agreement") that will govern its rights and obligations as an equity holder of Fortitude Holdings and entitles the Partnership to customary minority protections contingent upon the Partnership maintaining agreed ownership percentages of Fortitude Holdings.

The Partnership's investment will be accounted for under the equity method of accounting and the investment will be included in the Global Credit segment. Separately, income from the assets to be managed by the Partnership will be included in the segment of the relevant investment fund.

Strategic Investment in NGP

The Partnership has equity interests in NGP Management Company, L.L.C. ("NGP Management"), the general partners of certain carry funds advised by NGP, and principal investments in certain NGP funds (collectively with NGP Management and its affiliates, "NGP"). These interests entitle the Partnership to an allocation of income equal to 55.0% of the management

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

fee-related revenues of NGP Management which serves as the investment advisor to certain NGP funds as well as 47.5% of the performance allocations received by certain current and future NGP fund general partners.
The Partnership accounts for its investments in NGP under the equity method of accounting. The Partnership's investments in NGP as of September 30, 2018 and December 31, 2017 are as follows:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Investment in NGP Management	$390.0	$ 397.7
Investments in NGP general partners - accrued performance allocations	205.3	143.2
Principal investments in NGP funds	81.7	67.9
Total investments in NGP	$677.0	$ 608.8

The Partnership records investment income (loss) for its equity income allocation from NGP management fee-related revenues and performance allocations, and also records its share of any allocated expenses from NGP Management, expenses associated with the compensatory elements of the strategic investment, and the amortization of the basis differences related to the definitive-lived identifiable intangible assets of NGP Management. The net investment income (loss) recognized in the Partnership's condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Management fee-related revenues from NGP Management	$ 22.7	$ 21.3	$ 66.3	$ 58.9
Performance allocations from interests in general partners of NGP funds	10.2	7.4	62.1	62.7
Principal investment income from NGP funds	1.4	1.6	7.6	7.8
Expenses related to the investment in NGP Management	(3.0)	(10.6)	(9.0)	(46.2)
Amortization of basis differences from the investment in NGP Management	(1.7)	(2.1)	(5.3)	(6.4)

Net investment income	$	29.6	$	17.6	$	121.7	$	76.8

The difference between the Partnership's remaining carrying value of its investment and its share of the underlying net assets of the investee was $16.0 million and $21.3 million as of September 30, 2018 and December 31, 2017, respectively; these differences are amortized over a period of 10 years ending in 2022.

Principal Investments in CLOs and Other Investments

Principal investments in CLOs and other investments as of September 30, 2018 and December 31, 2017 primarily consisted of $453.5 million and $405.9 million, respectively, of investments in CLO senior and subordinated notes and derivative instruments.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Investment Income (Loss)

The components of investment income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Performance allocations	$214.2	$275.2	$947.4	$1,483.7
Principal investment income from equity method investments (excluding performance allocations)	45.1	35.9	176.6	140.2
Principal investment income (loss) from investments in CLOs and other investments	(0.7)	1.3	0.1	2.3
Total	$258.6	$312.4	$1,124.1	$1,626.2

The performance allocations included in revenues are derived from the following segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Corporate Private Equity	$52.2	$159.6	$520.8	$1,147.4
Real Assets	58.2	74.5	193.3	214.0
Global Credit	(0.5)	6.8	14.4	23.7
Investment Solutions	104.3	34.3	218.9	98.6
Total	$214.2	$275.2	$947.4	$1,483.7

Approximately 35%, or $74.9 million, of performance allocations for the three months ended September 30, 2018 are related to the following funds along with total revenue recognized (total revenue includes performance allocations, fund management fees, and principal investment income):

- Carlyle Asia Partners IV, L.P. (Corporate Private Equity segment) - $(84.8) million,
- Carlyle Partners VI, L.P. (Corporate Private Equity segment) - $68.9 million,
- Carlyle Partners V, L.P. (Corporate Private Equity segment) - $46.6 million,
- AlpInvest Co- & Secondary Investments 2006-2008 (Investment Solutions segment) - $46.4 million, and
- Carlyle Realty Partners VII, L.P. (Real Assets segment) - $42.2 million.

Approximately 43%, or $408.9 million, of performance allocations for the nine months ended September 30, 2018 are related to the following funds along with total revenue recognized (total revenue includes performance allocations, fund management fees, and principal investment income):

- Carlyle Partners VI, L.P. (Corporate Private Equity segment) - $307.1 million,
- Carlyle Europe Partners IV, L.P. (Corporate Private Equity segment) - $164.5 million,
- Carlyle Realty Partners VII, L.P. (Real Assets segment) - $143.7 million,
- Carlyle Partners V, L.P. (Corporate Private Equity segment) - $123.4 million, and
- Carlyle Asia Partners IV, L.P. (Corporate Private Equity segment) - $(103.7) million.

Approximately 40%, or $110.4 million, of performance allocations for the three months ended September 30, 2017 are related to the following funds along with total revenue recognized (total revenue includes performance allocations, fund management fees, and principal investment income):

- Carlyle Partners V, L.P. (Corporate Private Equity segment) - $39.7 million,

•Carlyle Partners VI, L.P. (Corporate Private Equity segment) - $120.5 million,

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

•Carlyle U.S. Equity Opportunities Fund, L.P. (Corporate Private Equity segment) - $(31.6) million, and
•Carlyle International Energy Partners, L.P. (Real Assets segment) - $47.6 million.

Approximately 66%, or $979.9 million, of performance allocations for the nine months ended September 30, 2017 are related to the following funds along with total revenue recognized (total revenue includes performance allocations, fund management fees, and principal investment income):

•Carlyle Partners V, L.P. (Corporate Private Equity segment) - $301.0 million,
•Carlyle Partners VI, L.P. (Corporate Private Equity segment) - $615.0 million, and
•Carlyle Asia Partners IV, L.P. (Corporate Private Equity segment) - $271.3 million.

Carlyle’s income (loss) from its principal investments consists of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Corporate Private Equity	$4.7	$8.8	$28.7	$38.4
Real Assets	34.5	24.1	139.7	95.7
Global Credit	1.7	—	(2.0)	0.6
Investment Solutions	4.2	3.0	10.2	5.5
Total	$45.1	$35.9	$176.6	$140.2

Investments of Consolidated Funds

The Partnership consolidates the financial positions and results of operations of certain CLOs in which it is the primary beneficiary. During the nine months ended September 30, 2018, the Partnership formed five new CLOs for which the Partnership is the primary beneficiary of one of those CLOs. As of September 30, 2018, the total assets of this CLO included in the Partnership's consolidated financial statements were approximately $531.0 million.

There were no individual investments with a fair value greater than five percent of the Partnership’s total assets for any period presented.

Interest and Other Income of Consolidated Funds

The components of interest and other income of Consolidated Funds are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Interest income from investments	$57.9	$41.8	$155.9	$124.1
Other income	2.6	2.9	5.5	8.5
Total	$60.5	$44.7	$161.4	$132.6

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Net Investment Gains (Losses) of Consolidated Funds

Net investment gains (losses) of Consolidated Funds include net realized gains (losses) from sales of investments and unrealized gains (losses) resulting from changes in fair value of the Consolidated Funds' investments. The components of net investment gains (losses) of Consolidated Funds are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Gains (losses) from investments of Consolidated Funds	$(10.6)	$(2.5)	$(52.1)	$27.1
Gains from liabilities of CLOs	7.7	21.1	64.1	49.3
Total	$(2.9)	$18.6	$12.0	$76.4

The following table presents realized and unrealized gains (losses) earned from investments of the Consolidated Funds:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Realized losses	$(2.5)	$(3.3)	$(6.8)	$(9.1)
Net change in unrealized gains (losses)	(8.1)	0.8	(45.3)	36.2
Total	$(10.6)	$(2.5)	$(52.1)	$27.1

5. Borrowings

The Partnership borrows and enters into credit agreements for its general operating and investment purposes. The Partnership's debt obligations consist of the following (Dollars in millions):

	September 30, 2018		December 31, 2017	
	Borrowing Outstanding	Carrying Value	Borrowing Outstanding	Carrying Value
Senior Credit Facility Term Loan Due 5/05/2020	$25.0	$24.9	$25.0	$24.8
CLO Term Loans (See below)	311.2	311.2	294.5	294.5
3.875% Senior Notes Due 2/01/2023	250.0	249.0	500.0	497.6
5.625% Senior Notes Due 3/30/2043	600.0	600.7	600.0	600.7
5.650% Senior Notes Due 9/15/2048	350.0	345.7	—	—
Promissory Note Due 1/01/2022	—	—	108.8	108.8
Promissory Notes Due 7/15/2019	26.9	26.9	47.2	47.2
Total debt obligations	$1,563.1	$1,558.4	$1,575.5	$1,573.6

Senior Credit Facility

As of September 30, 2018, the senior credit facility included $25.0 million in a term loan and $750.0 million in a revolving credit facility. As of September 30, 2018, the term loan and revolving credit facility were scheduled to mature on May 5, 2020. Principal amounts outstanding under the term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (at September 30, 2018, the interest rate was 3.33%). There was no amount outstanding under the revolving credit facility at September 30, 2018. Interest expense under the senior credit facility was not significant for the three and nine months ended September 30, 2018 and 2017. The fair value of the outstanding balances of the term loan and revolving credit facility at September 30, 2018 and December 31, 2017 approximated par value based on current market rates for similar debt instruments and are classified as Level III within the fair value hierarchy.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

CLO Term Loans

For certain of our CLOs, the Partnership finances a portion of its investment in the CLOs through the proceeds received from term loans with financial institutions. The Partnership's outstanding CLO term loans consist of the following (Dollars in millions):

Formation Date	Borrowing Outstanding September 30, 2018	Borrowing Outstanding December 31, 2017	Maturity Date (1)	Interest Rate as of September 30, 2018	
June 7, 2016	$ —	$ 20.6	July 15, 2027	N/A	(2)
February 28, 2017	78.0	74.3	September 21, 2029	2.33%	(3)
April 19, 2017	22.8	22.8	April 22, 2031	4.28%	(4) (15)
June 28, 2017	23.0	23.1	July 22, 2031	4.27%	(5) (15)
July 20, 2017	24.4	24.4	April 21, 2027	3.88%	(6) (15)
August 2, 2017	22.8	22.8	July 23, 2029	4.16%	(7) (15)
August 2, 2017	20.2	20.9	August 3, 2022	1.75%	(8)
August 14, 2017	22.5	22.6	August 15, 2030	4.17%	(9) (15)
November 30, 2017	22.6	22.7	January 16, 2030	4.07%	(10) (15)
December 6, 2017	19.1	19.1	October 16, 2030	3.99%	(11) (15)
December 7, 2017	21.2	21.2	January 19, 2029	3.70%	(12) (15)
January 30, 2018	19.2	—	January 22, 2030	3.97%	(13) (15)
March 1, 2018	15.4	—	January 15, 2031	3.89%	(14) (15)
	$ 311.2	$ 294.5			

(1) Maturity date is earlier of date indicated or the date that the CLO is dissolved.
(2) Note paid off in third quarter of 2018.
(3) Outstanding borrowing of €67.2 million; incurs interest at EURIBOR plus applicable margins as defined in the agreement.
(4) Incurs interest at LIBOR plus 1.932%.
(5) Incurs interest at LIBOR plus 1.923%.
(6) Incurs interest at LIBOR plus 1.536%.
(7) Incurs interest at LIBOR plus 1.808%.
(8) Original borrowing of €17.4 million; incurs interest at EURIBOR plus 1.75% and has full recourse to the Partnership.
(9) Incurs interest at LIBOR plus 1.848%.
(10) Incurs interest at LIBOR plus 1.7312%.
(11) Incurs interest at LIBOR plus 1.647%.
(12) Incurs interest at LIBOR plus 1.365%.
(13) Incurs interest at LIBOR plus 1.624%.

(14) Incurs interest at LIBOR plus 1.552%.
(15) Term loan issued under master credit agreement.

The CLO term loans are secured by the Partnership's investments in the respective CLO, have a general unsecured interest in the Carlyle entity that manages the CLO, and generally do not have recourse to any other Carlyle entity. Interest expense on these term loans was not significant for the three and nine months ended September 30, 2018 and 2017. The fair value of the outstanding balance of the CLO term loans at September 30, 2018 approximated par value based on current market rates for similar debt instruments. These CLO term loans are classified as Level III within the fair value hierarchy.

European CLO Financing - February 28, 2017

On February 28, 2017, a subsidiary of the Partnership entered into a financing agreement with several financial institutions under which these financial institutions have provided a €67.2 million term loan ($78.0 million at September 30, 2018) to the Partnership. This term loan is secured by the Partnership's investments in the retained notes in certain European CLOs that were formed in 2014 and 2015. This term loan will mature on the earlier of September 21, 2029 or the date that the

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

certain European CLO retained notes have been redeemed. The Partnership may prepay the term loan in whole or in part at any time after the third anniversary of the date of issuance without penalty. Prepayment of the term loan within the first three years will incur a penalty based on the prepayment amount. Interest on this term loan accrues at EURIBOR plus applicable margins (2.33% at September 30, 2018).

Master Credit Agreement - Term Loans

In January 2017, the Partnership entered into a master credit agreement with a financial institution under which the financial institution expects to provide term loans to the Partnership for the purchase of eligible interests in CLOs. This agreement will terminate in January 2020. Any term loan to be issued under this master credit agreement will be secured by the Partnership's investment in the respective CLO as well as any senior management fee and subordinated management fee payable by each CLO. Any term loan will bear interest at LIBOR plus a weighted average spread over LIBOR on the CLO notes and an applicable margin. Interest will be due quarterly.

3.875% Senior Notes

In January 2013, an indirect finance subsidiary of the Partnership issued $500.0 million in aggregate principal amount of 3.875% senior notes due February 1, 2023 at 99.966% of par. Interest is payable semi-annually on February 1 and August 1, beginning August 1, 2013. This subsidiary may redeem the senior notes in whole at any time or in part from time to time at a price equal to the greater of 100% of the principal amount of the notes being redeemed and the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed discounted to the redemption date on a semi-annual basis at the Treasury rate plus 30 basis points plus accrued and unpaid interest on the principal amounts being redeemed to the redemption date.

In September 2018, the Partnership completed a tender offer to re-purchase $250.0 million in aggregate principal amount of its 3.875% Senior Notes due 2023. As a result of this repurchase, the Partnership recognized $6.9 million of costs in interest expense and $0.9 million of costs in general, administrative and other expenses upon early extinguishment of the debt.

Interest expense on the notes was $4.8 million and $5.0 million for the three months ended September 30, 2018 and 2017, respectively. Further, the interest expense was $14.7 million and $14.9 million for the nine months ended September 30, 2018 and 2017, respectively. At September 30, 2018 and December 31, 2017, the fair value of the notes, including accrued interest, was approximately $251.1 million and $520.4 million, respectively, based on indicative quotes. The notes are classified as Level II within the fair value hierarchy.

5.625% Senior Notes

In March 2013, an indirect finance subsidiary of the Partnership issued $400.0 million in aggregate principal amount of 5.625% senior notes due March 30, 2043 at 99.583% of par. Interest is payable semi-annually on March 30 and September 30, beginning September 30, 2013. This subsidiary may redeem the senior notes in whole at any time or in part from time to time at a price equal to the greater of 100% of the principal amount of the notes being redeemed and the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed discounted to the redemption date on a semi-annual basis at the Treasury rate plus 40 basis points plus accrued and unpaid interest on the principal amounts being redeemed to the redemption date.

In March 2014, an indirect finance subsidiary of the Partnership issued $200.0 million of 5.625% Senior Notes due March 30, 2043 at 104.315% of par. These notes were issued as additional 5.625% Senior Notes and are treated as a single class with the already outstanding $400.0 million aggregate principal amount of these senior notes.

Interest expense on the notes was $8.4 million for both the three months ended September 30, 2018 and 2017, and $25.3 million for the nine months ended September 30, 2018 and 2017. At September 30, 2018 and December 31, 2017, the fair value of the notes, including accrued interest, was approximately $594.9 million and $696.3 million,

respectively, based on indicative quotes. The notes are classified as Level II within the fair value hierarchy.
5.650% Senior Notes
In September 2018, an indirect finance subsidiary of the Partnership issued $350.0 million in aggregate principal amount of 5.650% senior notes due September 15, 2048 at 99.914% of par. Interest is payable semi-annually on March 15 and

September 15, beginning March 15, 2019. This subsidiary may redeem the senior notes in whole at any time or in part, from time to time, at a price equal to the accrued and unpaid interest on the principal amounts being redeemed to the redemption date and the greater of 100% of (1) the principal amount of the notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed, discounted to the redemption date on a semi-annual basis at the Treasury rate plus 40 basis points.
Interest expense on the notes was $0.9 million for the three and nine months ended September 30, 2018. At September 30, 2018, the fair value of the notes, including accrued interest, was approximately $352.7 million, based on indicative quotes. The notes are classified as Level II within the fair value hierarchy.

Promissory Notes

Promissory Note Due January 1, 2022

On January 1, 2016, the Partnership issued a $120.0 million promissory note to Barclays Natural Resource Investments, a division of Barclays Bank PLC (“BNRI”) as part of the Partnership's strategic investment in NGP. Interest on the promissory note accrues at the three month LIBOR plus 2.50%. In September 2018, the Partnership prepaid the $108.8 million outstanding promissory note, plus $1.2 million of accrued and unpaid interest. The fair value of the outstanding balance of the promissory note at December 31, 2017 approximated par value based on current market rates for similar debt instruments and was classified as Level III within the fair value hierarchy.

Promissory Notes Due July 15, 2019

In June 2017, as part of the settlement with investors in two commodities investment vehicles managed by an affiliate of the Partnership (disclosed in Note 7), the Partnership issued a series of promissory notes, aggregating to $53.9 million, to the investors of these commodities investment vehicles. Interest on these promissory notes accrues at the three month LIBOR plus 2% (4.34% at September 30, 2018). The Partnership may prepay these promissory notes in whole or in part at any time without penalty. Accordingly, as a result of repayments, $26.9 million of these promissory notes are outstanding at September 30, 2018. These promissory notes are scheduled to mature on July 15, 2019. Interest expense on these promissory notes was not significant for the three and nine months ended September 30, 2018 and 2017. The fair value of the outstanding balance of these promissory notes at September 30, 2018 approximated par value based on current market rates for similar debt instruments and is classified as Level III within the fair value hierarchy.

Debt Covenants

The Partnership is subject to various financial covenants under its loan agreements including, among other items, maintenance of a minimum amount of management fee-earning assets. The Partnership is also subject to various non-financial covenants under its loan agreements and the indentures governing its senior notes. The Partnership was in compliance with all financial and non-financial covenants under its various loan agreements as of September 30, 2018.

Loans Payable of Consolidated Funds

Loans payable of Consolidated Funds primarily represent amounts due to holders of debt securities issued by the CLOs. Several of the CLOs issued preferred shares representing the most subordinated interest, however these tranches are mandatorily redeemable upon the maturity dates of the senior secured loans payable, and as a result have been classified as liabilities and are included in loans payable of Consolidated Funds in the condensed consolidated balance sheets.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

As of September 30, 2018 and December 31, 2017, the following borrowings were outstanding, which includes preferred shares classified as liabilities (Dollars in millions):

	As of September 30, 2018				
	Borrowing Outstanding	Fair Value	Weighted Average Interest Rate		Weighted Average Remaining Maturity in Years
Senior secured notes	$4,647.6	$ 4,556.8	2.01 %		11.27
Subordinated notes, preferred shares and other	177.4	217.8	N/A	(a)	9.58
Total	$4,825.0	$ 4,774.6			

	As of December 31, 2017				
	Borrowing Outstanding	Fair Value	Weighted Average Interest Rate		Weighted Average Remaining Maturity in Years
Senior secured notes	$4,128.3	$ 4,100.5	2.16 %		11.44
Subordinated notes, preferred shares and other	195.2	203.3	N/A	(a)	9.85
Total	$4,323.5	$ 4,303.8			

(a) The subordinated notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.

Loans payable of the CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral consisted of cash and cash equivalents, corporate loans, corporate bonds and other securities. As of September 30, 2018 and December 31, 2017, the fair value of the CLO assets was $5.3 billion and $4.9 billion, respectively.

6. Accrued Compensation and Benefits

Accrued compensation and benefits consist of the following:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Accrued performance allocations and incentive fee-related compensation	$2,083.8	$ 1,894.8
Accrued bonuses	310.2	202.6
Other	138.0	125.2
Total	$2,532.0	$ 2,222.6

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

7. Commitments and Contingencies
Capital Commitments
The Partnership and its unconsolidated affiliates have unfunded commitments to entities within the following segments as of September 30, 2018 (Dollars in millions):

	Unfunded Commitments
Corporate Private Equity	$ 2,601.1
Real Assets	818.2
Global Credit	475.3
Investment Solutions	148.9
Total	$ 4,043.5

Of the $4.0 billion of unfunded commitments, approximately $3.5 billion is subscribed individually by senior Carlyle professionals, advisors and other professionals, with the balance funded directly by the Partnership. In addition to these unfunded commitments, the Partnership may from time to time exercise its right to purchase additional interests in its investment funds that become available in the ordinary course of their operations.
Guaranteed Loans
On August 4, 2001, the Partnership entered into an agreement with a financial institution pursuant to which the Partnership is the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of $11.3 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 3%, reset quarterly (5.34% weighted-average rate at September 30, 2018). As of September 30, 2018 and December 31, 2017, approximately $10.7 million and $13.3 million, respectively, were outstanding under the credit facility and payable by the employees. The amount funded by the Partnership under this guarantee as of September 30, 2018 was not material. The Partnership believes the likelihood of any material funding under this guarantee to be remote. The fair value of this guarantee is not significant to the consolidated financial statements.
Certain consolidated subsidiaries of the Partnership are the guarantor of revolving credit facilities for certain funds in the Investment Solutions segment. The guarantee is limited to the lesser of the total amount drawn under the credit facilities or the net asset value of the guarantor subsidiaries, which is approximately $16.4 million as of September 30, 2018. The outstanding balances are secured by uncalled capital commitments from the underlying funds and the Partnership believes the likelihood of any material funding under this guarantee to be remote.
Contingent Obligations (Giveback)
A liability for potential repayment of previously received performance allocations of $63.2 million at September 30, 2018, is shown as accrued giveback obligations in the unaudited condensed consolidated balance sheets, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at September 30, 2018. However, the ultimate giveback obligation, if any, generally is not paid until the end of a fund’s life or earlier if the giveback becomes fixed and early payment is agreed upon by the fund's partners (see Note 2). The Partnership has recorded $1.0 million and $5.1 million of unbilled receivables from former and current employees and senior Carlyle professionals as of September 30, 2018 and December 31, 2017, respectively, related to giveback obligations, which are included in due from affiliates and other receivables, net in the accompanying unaudited condensed consolidated balance sheets. The receivables are collateralized by investments made by individual senior Carlyle professionals and employees in Carlyle-sponsored funds. In addition, $168.6 million and $247.6 million have been withheld from distributions of carried interest to senior Carlyle professionals and employees for potential giveback obligations as of September 30, 2018 and December 31, 2017, respectively. Such amounts are held on behalf of the respective current and former Carlyle employees to satisfy any givebacks they may owe and are held by entities

not included in the accompanying condensed consolidated balance sheets. Current and former senior Carlyle professionals and employees are personally responsible for their giveback obligations. As of September 30, 2018, approximately $36.0 million of the Partnership's accrued giveback obligation is the responsibility of

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

various current and former senior Carlyle professionals and other limited partners of the Carlyle Holdings partnerships, and the net accrued giveback obligation attributable to Carlyle Holdings is $27.2 million.
If, at September 30, 2018, all of the investments held by the Partnership's Funds were deemed worthless, a possibility that management views as remote, the amount of realized and distributed carried interest subject to potential giveback would be $0.7 billion, on an after-tax basis where applicable.

Leases

The Partnership leases office space in various countries around the world and maintains its headquarters in Washington, D.C., where in June 2018, the Partnership entered into an amended non-cancelable lease agreement expiring on March 31, 2030. In connection with the amended lease for the Washington, D.C. office, the Partnership exercised an option to terminate its office lease in Arlington, Virginia at the end of 2019. The Partnership will be relocating one of its New York City offices in either late 2020 or early 2021 to new office space in Midtown New York. The new lease was signed in July 2018 and expires in 2036. In connection with this new lease, the Partnership incurred a charge of $63.5 million (including transaction costs) during the third quarter of 2018 related to the assignment of an existing office lease in New York City. The charge is expected to be paid over approximately 15 years beginning in 2021. This charge was accounted for as a lease incentive, and is included in our deferred rent payable as of September 30, 2018. Office leases in other locations expire in various years from 2018 through 2032. These leases are accounted for as operating leases. Rent expense was approximately $12.3 million and $15.2 million for the three months ended September 30, 2018 and 2017, respectively, and $40.1 million and $43.4 million for the nine months ended September 30, 2018 and 2017, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of operations.

The future minimum commitments for the leases are as follows (Dollars in millions):

2018	$12.8
2019	59.4
2020	52.4
2021	37.7
2022	47.8
Thereafter	454.9
	$665.0

The Partnership records contractual escalating minimum lease payments on a straight-line basis over the term of the lease. Deferred rent payable under the leases was $126.7 million and $62.9 million as of September 30, 2018 and December 31, 2017, respectively, and is included in accounts payable, accrued expenses and other liabilities in the accompanying unaudited condensed consolidated balance sheets.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Legal Matters

In the ordinary course of business, the Partnership is a party to litigation, investigations, inquiries, employment-related matters, disputes and other potential claims. Certain of these matters are described below. The Partnership is not currently able to estimate the reasonably possible amount of loss or range of loss, in excess of amounts accrued, for the matters that have not been resolved. The Partnership does not believe it is probable that the outcome of any existing litigation, investigations, disputes or other potential claims will materially affect the Partnership or these financial statements in excess of amounts accrued. The Partnership believes that the claims asserted against the Partnership in the pending litigation matters described below are without merit and intends to vigorously contest such allegations.

Along with many other companies and individuals in the financial sector, the Partnership and Carlyle Mezzanine Partners, L.P. (“CMP”) are named as defendants in Foy v. Austin Capital, a case filed in June 2009 in state court in New Mexico, which purports to be a qui tam suit on behalf of the State of New Mexico under the state Fraud Against Taxpayers Act (“FATA”). The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In September 2017, the Court dismissed the lawsuit and the plaintiffs then filed an appeal seeking to reverse that decision. That appeal is pending. The Attorney General may also separately pursue its own recovery from defendants in the action.

Carlyle Capital Corporation Limited (“CCC”) was a fund sponsored by the Partnership that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. The Guernsey liquidators who took control of CCC in March 2008 filed a suit on July 7, 2010 against the Partnership, certain of its affiliates and the former directors of CCC in the Royal Court of Guernsey seeking more than $1.0 billion in damages in a case styled Carlyle Capital Corporation Limited v. Conway et al. On September 4, 2017, the Royal Court of Guernsey ruled that the Partnership and Directors of CCC acted reasonably and appropriately in the management and governance of CCC and that none of the Partnership, its affiliates or former directors of CCC had any liability. In December 2017, the plaintiff filed a notice of appeal of the trial court decision. A hearing before the Guernsey appellate court took place from October 8 through October 18, 2018. It is unclear whether the appellate court will affirm or reverse the trial court decision. In December 2017, the Partnership received approximately $29.8 million from the plaintiff as a deposit towards its obligations to reimburse the Partnership for legal fees and expenses, but such amount is subject to adjustment pending a final determination of the correct reimbursement amount and the ultimate outcome of the appeal process.

Cobalt International Energy, Inc. ("Cobalt") was a company owned by two of the Legacy Energy funds and funds advised by certain other private equity sponsors. Cobalt and certain of its affiliates filed for bankruptcy protection on December 14, 2017. A federal securities class action against Cobalt (In re Cobalt International Energy, Inc. Securities Litigation) was filed in November 2014 in the U.S. District Court for the Southern District of Texas, seeking monetary damages and alleging that Cobalt and its directors made misrepresentations in certain of Cobalt’s securities offering filings relating to: (i) the value of oil reserves in Angola for which Cobalt had acquired drilling concessions, and (ii) its compliance with the Foreign Corrupt Practices Act regarding its operations in Angola and a U.S. government investigation regarding the same. The securities class action also named as co-defendants certain securities underwriters and the five private equity sponsors of Cobalt, including Riverstone and the Partnership. The class action alleged that the Partnership has liability as a "control person" for the alleged misrepresentations in Cobalt's securities offerings as well as insider trading liability. The federal court dismissed the insider trading claim against the Partnership. On October 12, 2018, lead plaintiffs in the securities class action moved the district court for approval of a settlement with various parties, including the Partnership, under which the Partnership would receive a release but would not make any financial contribution. In addition to the class action in federal court, derivative claims were also filed in Texas state court in Houston (Ira Gaines v. Joseph Bryant, et al.) on similar grounds, alleging that the private equity sponsors, including the Partnership, breached their fiduciary duties by engaging in insider trading. On May 9, 2018, the Plan Administrator for Cobalt filed a Notice of Nonsuit with Prejudice, dismissing all the claims in the case (including the claim against the Partnership) with prejudice. The court ordered the nonsuit of all claims in an order entered that day.

A Luxembourg subsidiary of CEREP I, a real estate fund, has been involved since 2010 in a tax dispute with the French tax authorities relating to whether gain from the sale of an investment was taxable in France. In April 2015, the French tax court issued an opinion in this matter adverse to CEREP I, holding the Luxembourg subsidiary of CEREP I liable for approximately €105 million (including interest accrued since the beginning of the tax dispute). CEREP I paid approximately €30 million of the tax obligations, and the Partnership paid the remaining approximately €75 million in its capacity as a guarantor. The Partnership appealed the decision of the French tax court. In December 2017, the French appellate court reversed the earlier tax court opinion and awarded the Partnership a refund of the full €105 million of tax and penalties (inclusive of amounts paid by CEREP I) and awarded interest on the refund of €12.5 million, before tax. On February 22, 2018 the French tax authorities appealed the appellate court decision and on October 2, 2018, CEREP I filed its appellate brief. The parties are awaiting a hearing on the appeal. The Partnership has not recognized income in respect of the refund as of September 30, 2018, pending a final determination on the current appeal. The full amount of the refund is held at CEREP I and its subsidiaries. As CEREP I is a consolidated fund, the refund of €117.5 million is recorded in our assets and liabilities of consolidated funds as of September 30, 2018.

The Partnership currently is and expects to continue to be, from time to time, subject to examinations, formal and informal inquiries and investigations by various U.S. and non-U.S. governmental and regulatory agencies, including but not limited to, the SEC, Department of Justice, state attorneys general, FINRA, National Futures Association and the U.K. Financial Conduct Authority. The Partnership routinely cooperates with such examinations, inquiries and investigations, and they may result in the commencement of civil, criminal, or administrative or other proceedings against the Partnership or its personnel. For example, among various other requests for information, the SEC has requested information about: (i) the Partnership's historical practices relating to the acceleration of monitoring fees received from certain of the Partnership's funds' portfolio companies, and (ii) the Partnership's relationship with a third-party investment adviser to a registered investment company that has invested in various investment funds sponsored by the Partnership. The Partnership is cooperating fully with the SEC's inquiries.

During 2017, the Partnership entered into settlement and purchase agreements with investors in a hedge fund and two structured finance vehicles managed by Vermillion related to investments of approximately $400 million in petroleum commodities that the Partnership believes were misappropriated by third parties outside the U.S. In connection with these settlements, the Partnership acquired certain rights to recoveries from certain marine cargo insurance policies and is continuing to undertake efforts to obtain reimbursement for the misappropriation of petroleum. There is no assurance that the Partnership will be successful in any of its recovery efforts and the Partnership will not recognize any amounts in respect of such recoveries until such amounts are probable of payment.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings and employment-related matters, and some of the matters discussed above involve claims for potentially large and/or indeterminate amounts of damages. Based on information known by management, management does not believe that as of the date of this filing the final resolutions of the matters above will have a material effect upon the Partnership’s unaudited condensed consolidated financial statements. However, given the potentially large and/or indeterminate amounts of damages sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on the Partnership's financial results in any particular period.

The Partnership accrues an estimated loss contingency liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. As of September 30, 2018, the Partnership had recorded liabilities aggregating to approximately $35 million for litigation-related contingencies, regulatory examinations and inquiries, and other matters. The Partnership evaluates its outstanding legal and regulatory proceedings and other matters each quarter to assess its loss contingency accruals, and makes adjustments in such accruals, upward or downward, as appropriate, based on management's best judgment after consultation with counsel. There is no assurance that the Partnership's accruals for loss contingencies will not need to be adjusted in the future or that, in light of the uncertainties involved in such matters, the ultimate resolution of these matters will not significantly exceed the accruals that the Partnership has recorded.

Other Contingency

The Partnership, indirectly through certain Carlyle real estate investment funds, had an investment in Urbplan Desenvolvimento Urbano S.A. ("Urbplan"), a Brazilian residential subdivision and land development company. During 2017, the Partnership disposed of its interests in Urbplan in a transaction with a third party. The third party acquired operational control and all of the economic interests in Urbplan in the transaction. For more information, see Note 15 of our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. The Partnership is party to certain claims and litigation relating to UrbPlan, including disputes with creditors and customers. The judicial restructuring of UrbPlan may also trigger additional claims against the Partnership. The Partnership does not believe it is probable that the outcome of any Urbplan-related litigation, disputes or other potential claims will materially affect the Partnership or these consolidated financial statements.

Indemnifications

In the normal course of business, the Partnership and its subsidiaries enter into contracts that contain a variety of representations and warranties and provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the Partnership believes the risk of material loss to be remote.

Risks and Uncertainties

Carlyle's funds seek investment opportunities that offer the possibility of attaining substantial capital appreciation. Certain events particular to each industry in which the underlying investees conduct their operations, as well as general economic conditions, may have a significant negative impact on the Partnership's investments and profitability. Such events are beyond the Partnership's control, and the likelihood that they may occur and the effect on the Partnership cannot be predicted.

Furthermore, certain of the funds' investments are made in private companies and there are generally no public markets for the underlying securities at the current time. The funds' ability to liquidate their publicly-traded investments are often subject to limitations, including discounts that may be required to be taken on quoted prices due to the number of shares being sold. The funds' ability to liquidate their investments and realize value is subject to significant limitations and uncertainties, including among others currency fluctuations and natural disasters.

The Partnership and the funds make investments outside of the United States. Investments outside the United States may be subject to less developed bankruptcy, corporate, partnership and other laws (which may have the effect of disregarding or otherwise circumventing the limited liability structures potentially causing the actions or liabilities of one fund or a portfolio company to adversely impact the Partnership or an unrelated fund or portfolio company). Non-U.S. investments are subject to the same risks associated with the Partnership's U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

Furthermore, Carlyle is exposed to economic risk concentrations related to certain large investments as well as concentrations of investments in certain industries and geographies.

Additionally, the Partnership encounters credit risk. Credit risk is the risk of default by a counterparty in the Partnership's investments in debt securities, loans, leases and derivatives that result from a borrower's, lessee's or derivative counterparty's inability or unwillingness to make required or expected payments.

The Partnership considers cash, cash equivalents, securities, receivables, accounts payable, accrued expenses, other liabilities, loans, senior notes, assets and liabilities of Consolidated Funds and contingent and other consideration for acquisitions to be its financial instruments. Except for the senior notes, the carrying amounts reported in the condensed consolidated balance sheets for these financial instruments equal or closely approximate their fair values. The fair value of the senior notes is disclosed in Note 5.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

8. Related Party Transactions

Due from Affiliates and Other Receivables, Net

The Partnership had the following due from affiliates and other receivables at September 30, 2018 and December 31, 2017:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Accrued incentive fees	$5.3	$ 6.3
Unbilled receivable for giveback obligations from current and former employees	1.0	5.1
Notes receivable and accrued interest from affiliates	11.6	22.8
Management fee, reimbursable expenses and other receivables from unconsolidated funds and affiliates, net	303.9	229.2
Total	$321.8	$ 263.4

Notes receivable represent loans that the Partnership has provided to certain unconsolidated funds to meet short-term obligations to purchase investments. Reimbursable expenses and other receivables from certain of the unconsolidated funds and portfolio companies relate to management fees receivable from limited partners, advisory fees receivable and expenses paid on behalf of these entities. These costs represent costs related to the pursuit of actual or proposed investments, professional fees and expenses associated with the acquisition, holding and disposition of the investments. The affiliates are obligated at the discretion of the Partnership to reimburse the expenses. Based on management's determination, the Partnership accrues and charges interest on amounts due from affiliate accounts at interest rates ranging up to 7.19% as of September 30, 2018. The accrued and charged interest to the affiliates was not significant for any period presented.

These receivables are assessed regularly for collectability and amounts determined to be uncollectible are charged directly to general, administrative and other expenses in the condensed consolidated statements of operations. A corresponding allowance for doubtful accounts is recorded and such amounts were not significant for any period presented.

Due to Affiliates

The Partnership had the following due to affiliates balances at September 30, 2018 and December 31, 2017:

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
Due to non-consolidated affiliates	$24.2	$ 75.7
Performance-based contingent cash consideration related to acquisitions	—	37.5
Amounts owed under the tax receivable agreement	101.1	94.0
Other	35.4	22.7
Total	$160.7	$ 229.9

The Partnership has recorded obligations for amounts due to certain of its affiliates. The Partnership periodically offsets expenses it has paid on behalf of its affiliates against these obligations. The amount owed under the tax

receivable agreement is related primarily to the acquisition by the Partnership of Carlyle Holdings partnership units in June 2015 and March 2014, respectively, the exchange in May 2012 by CalPERS of its Carlyle Holdings partnership units for Partnership common units, as well as certain unit exchanges by senior Carlyle professionals which began in the second quarter of 2017 (see Note 12).
Other Related Party Transactions
In the normal course of business, the Partnership has made use of aircraft owned by entities controlled by senior Carlyle professionals. The senior Carlyle professionals paid for their purchases of aircraft and bear all operating, personnel and maintenance costs associated with their operation for personal use. Payment by the Partnership for the business use of these aircraft by senior Carlyle professionals and other employees, which is made at market rates, totaled $1.6 million and $1.7

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements