

**Form ADV Part 2A – Carlyle Investment Management L.L.C. Brochure**

March 28, 2014

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This Brochure provides information about the qualifications and business practices of Carlyle Investment Management L.L.C. and its relying advisors (together, “CIM”). CIM is the principal investment adviser to various private funds and managed accounts sponsored by The Carlyle Group (“Carlyle”). If you have any questions about the content of this Brochure, please contact Chris Ullman at (202) 729-5626. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about CIM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link “Investment Adviser Search” and then select “Investment Adviser Firm” and type in our advisory firm name “Carlyle Investment Management”).

CIM is an investment adviser registered with the SEC (a “registered investment adviser”). This registration does not imply a certain level of skill or training.

## **Item 2. Material Changes**

This Brochure is intended to provide potential and existing clients with an overview of CIM. It also contains important disclosures regarding items such as certain practices of CIM, potential material conflicts that may arise and key potential investment risks.

The following is a discussion of the material changes to CIM's Brochure since the last annual update filed March 28, 2013.

### *The Carlyle Group L.P.*

In May 2012, The Carlyle Group L.P., an affiliate of CIM (the "Public Company"), completed its initial public offering of 30.5 million common units representing limited partnership interests in the Public Company (the "Common Units"). The Common Units are publicly traded on the NASDAQ stock exchange under ticker "CG". In March 2014, the Public Company issued and sold an aggregate of 13.8 million Common Units. At the conclusion of such offering, public investors owned approximately 20% of the equity of the firm.

In 2013, a finance subsidiary of the Public Company issued \$500 million aggregate principal amount of 3.875% senior notes due 2023, and another finance subsidiary of the Public Company issued \$400 million aggregate principal amount of 5.625% senior notes due 2043. In March 2014, the Public Company issued an additional \$200 million aggregate principal amount of 5.625% Senior Notes due 2043 under the existing indenture.

### *CalPERS*

As part of the reorganization at the time of Carlyle's initial public offering, CalPERS received 12,721,452 Common Units (approximately 4% of the total Common Units outstanding at the time of the initial public offering) in exchange for its ownership interest in Carlyle. During 2013, pursuant to the terms of the registration rights agreement Carlyle entered into with CalPERS, the Public Company registered an offering whereby CalPERS sold substantially all of the Common Units in the Public Company that CalPERS had received in connection with its reorganization.

### *AlpInvest*

On August 1, 2013, Carlyle completed the acquisition of 100% of the equity interests in AlpInvest Partners, B.V. ("AlpInvest"). Previously, Carlyle had acquired a 60%

equity interest in AlpInvest on July 1, 2011. For the purposes of this Brochure references to CIM do not include references to AlpInvest, an investment adviser separately registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

#### Metropolitan and DGAM

In November 2013, Carlyle acquired 100% of the equity interests in Metropolitan Real Estate Equity Management (“Metropolitan”), a global manager of funds of real estate funds. In February 2014, Carlyle acquired Diversified Global Asset Management Corporation (“DGAM”), a global manager of funds of hedge funds. Each of Metropolitan and DGAM is an investment adviser separately registered under the Advisers Act. Together with certain CIM personnel, AlpInvest, Metropolitan, and DGAM comprise Carlyle’s Solutions business segment. For the purposes of this Brochure references to CIM do not include references to Metropolitan or DGAM, respectively.

#### Carlyle GMS Finance and NF Investment Corp.

Carlyle GMS Finance, Inc. (“Carlyle GMS Finance”) and NF Investment Corp., affiliates of CIM, have each elected to be treated as a business development company (a “BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). Carlyle GMS Investment Management L.L.C. (“CGMSIM”), an affiliate of CIM, is registered with the SEC as an investment adviser, and acts as the adviser to Carlyle GMS Finance and NF Investment Corp.

#### OKLO

In December 2013, Carlyle acquired 100% of the equity interests in OKLO Advisors, LLC and OKLO Financial, LLC (together, “OKLO”). OKLO Financial is a California-registered investment adviser using quantitative portfolio selection algorithms to provide advisory services to its clients. In general, OKLO’s advisory business now forms the basis for the Carlyle Quantitative Market Strategies group (“CQMS”) of Carlyle’s Global Market Strategies business segment. For the purposes of this Brochure, references to CIM do not include references to OKLO.

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#### **Item 4. Advisory Business**

##### **The Carlyle Group**

Carlyle, founded in 1987, has evolved into one of the largest and most diversified multi-product global alternative asset management firms in the world. Carlyle operates its business, through CIM and several other Carlyle-affiliated investment advisers, across four segments: (i) Corporate Private Equity, (ii) Real Assets, (iii) Global Market Strategies, and (iv) Solutions.

##### **Carlyle Investment Management L.L.C.**

CIM, a Delaware limited liability company formed in 1996, is registered with the SEC as an investment adviser. It provides investment advisory services, either directly or through sub-advisory arrangements, to various Carlyle-sponsored investment vehicles and managed accounts (each an “Advisory Client”<sup>1</sup>). In the context of Carlyle’s structured credit investment activities, CIM generally provides advisory services directly to the investment vehicle as collateral/investment manager.

Various entities affiliated with the Public Company, directly and indirectly own and control CIM. Carlyle Group Management L.L.C. is the general partner of the Public Company and may be deemed to indirectly control the Public Company’s business for regulatory purposes. CIM does not hold any economic interest in the Public Company, although certain of its officers and supervised persons hold Common Units and have the ability to control an entity that holds a special voting unit, TCG Carlyle Global Partners L.L.C. Public unitholders hold 100% of the economic interests in the Public Company. As of March 2014, the Public Company indirectly held approximately 20% in Carlyle Holdings I, L.P., Carlyle Holdings II L.P. and Carlyle Holdings III L.P. (collectively, “Carlyle Holdings”), which entities operate and control all of the business and affairs of Carlyle and its affiliates, and the remaining limited partnership interests in Carlyle Holdings were held by senior

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<sup>1</sup> “Advisory Client” means any account or fund for which CIM directly or indirectly provides investment advice and/or places trades on a discretionary or nondiscretionary basis. The investors and other persons who invest in CIM’s Advisory Clients are generally referred to herein as “investors.” Unless otherwise expressly stated herein, the term “Advisory Clients” does not include “investors”, and the term “investors” does not reference public unitholders of the Public Company.

Carlyle professionals, affiliates of Mubadala Development Company and their related persons.

Carlyle Group Management L.L.C. is managed by a Board of Directors which is appointed by Carlyle's founders (William E. Conway, Jr., Daniel A. D'Aniello, and David M. Rubenstein), certain other senior Carlyle professionals and independent directors. Carlyle has formed an Executive Group, which establishes the management structures and policies and procedures for the operation and development of the firm, guided by the strategic direction set by the Board of Directors. Together with Messrs. Conway, D'Aniello and Rubenstein, Glenn A. Youngkin, Carlyle's Chief Operating Officer, Jeffrey W. Ferguson, Carlyle's General Counsel, and Adena T. Friedman, Carlyle's Chief Financial Officer comprise Carlyle's Executive Group. Carlyle also has formed a Management Committee, comprised of members of the Executive Group and other members of senior management, to serve as a resource to the Executive Group, and is responsible for reviewing and considering significant operational or financial matters.

As of December 31, 2013, CIM managed approximately \$107.7 billion of assets in respect of which CIM has full investment discretion (subject to the Advisory Client's established investment guidelines). As of December 31, 2013, CIM also managed approximately \$0.9 billion of assets in respect of which CIM does not have full investment discretion.

Although CIM is a separately-registered investment adviser that generally operates independently of other Carlyle-affiliated investment advisers, its status as part of the larger Carlyle organization raises certain actual and potential conflicts of interest, as discussed more fully in Item 10.

CIM also acts as co-investment adviser with unaffiliated investment advisers for certain investment vehicles that are joint ventures between Carlyle and unaffiliated entities, for example, its joint ventures with Riverstone Holdings, LLC ("Riverstone") with respect to certain legacy energy and renewables funds.

In providing its services to each Advisory Client, CIM and its related persons provide advice with respect to the investment and reinvestment of each Advisory Client's assets, and may assist in coordinating reports to investors. CIM manages the assets of each Advisory Client in accordance with the terms of the governing documents (or investment management agreement in the case of a separately managed account) applicable to such Advisory Client.

Interests in Carlyle-sponsored investment vehicles advised by CIM are privately offered only to eligible investors pursuant to exemptions available under the Securities Act of 1933, as amended (the “Securities Act”), and the regulations promulgated thereunder. Such investment vehicles, including parallel and co-investment vehicles, are not registered with the SEC as investment companies based on specific exclusions from the 1940 Act. Typically, interests in such investment vehicles are offered to institutional investors and high net worth individuals. Additionally, Carlyle, its affiliates and equity owners, and certain of their respective professionals typically invest in or alongside Advisory Clients. Other qualified individuals who may not be employees of Carlyle, but who have pre-existing business relationships with Carlyle or industry expertise in the sector in which a particular Advisory Client may be investing, also may invest in or alongside Advisory Clients. Some of these outside investors and industry experts are current or former executives of portfolio companies in which an investment vehicle will invest.

### **The Carlyle Group Business Segments**

As noted above, Carlyle operates its business, through CIM and several other Carlyle-affiliated investment advisers, across four segments: (i) Corporate Private Equity, (ii) Real Assets, (iii) Global Market Strategies, and (iv) Solutions.

#### **Corporate Private Equity**

Carlyle established its private equity business in 1990 with its first U.S. buyout fund, and expanded it in 1997 to include growth capital funds, and pursues a wide variety of corporate investments of different sizes and growth potentials. Carlyle also sponsors private equity funds in Asia, Europe, Japan, the Middle East and North Africa (“MENA”), South America and Sub-Saharan Africa. Carlyle’s private equity funds/Advisory Clients are organized and operated by geography or industry, and are advised by professionals who typically live and work in the markets where they invest. These teams closely analyze investment opportunities in a wide range of companies, from small-cap growth companies to market-leading, large-cap companies across its core industries (including, aerospace and defense, automotive and transportation, consumer and retail, financial services, healthcare, industrial, technology and business services, and telecommunications and media) on six continents.

- *Buyout.* Carlyle’s buyout teams advise a diverse group of Advisory Clients that invest in buyout transactions that focus either on a particular geography (e.g., United States, Europe, Asia, Japan, MENA, Sub-Saharan Africa, or South America) or a particular industry (e.g., financial services).

- *Growth Capital.* Carlyle's growth capital Advisory Clients are advised by regionally-focused teams in the United States, Europe and Asia, with each team seeking middle-market and growth investment opportunities consistent with specific regional investment criteria. The investment mandate for Carlyle's growth capital funds is to seek out companies with the potential for growth, strategic redirection and operational improvements. These funds typically do not invest in early stage or venture-type investments.

CIM, either directly or indirectly, advises the Corporate Private Equity Advisory Clients.

### Real Assets

Carlyle's real assets investment program focuses on investments in real estate, infrastructure and energy and natural resources (including power), and includes investment funds advised by NGP Energy Capital Management ("NGP"), an unaffiliated investment adviser based in Irving, TX. The real assets investment professionals seek opportunities in tangible assets, such as office buildings, hotels, retail and residential properties, industrial properties, senior-living facilities, oil and gas exploration and production, midstream, refining and marketing, power generation, pipelines, wind farms, refineries, airports, toll roads, transportation, water utility and agriculture, or similar assets, and in the companies providing services or otherwise related to them.

Carlyle acquired an equity interest in NGP in December 2012. NGP focuses on investments across a range of energy and natural resource assets, including oil and gas resources, oilfield services, pipelines and processing. Carlyle is currently entitled to 47.5% of NGP's management-fee revenues and 7.5% of the carried interest associated with future NGP funds. Carlyle does not control NGP or its current funds. NGP is separately registered as an investment adviser under the Advisers Act. For the purposes of this Brochure, references to CIM do not include references to NGP.

- *Real Estate.* Carlyle's real estate investment team focuses on real estate opportunities in Asia, Europe and the United States. Carlyle's real estate investment professionals generally focus on acquiring single-property assets (rather than large-cap companies with real estate portfolios), including office buildings, retail and residential properties, industrial properties, and senior living facilities. Certain members of this team also focus on real estate-related debt.



- *Energy, Natural Resources & Infrastructure.* Carlyle's energy and natural resources activities focus on buyouts, growth capital investments and strategic joint ventures in the midstream, upstream, power and oilfield services sectors, the renewable and alternative sectors and the energy and power industries around the world. Carlyle's infrastructure investment team focuses on investments in infrastructure companies and assets, including energy infrastructure.

Carlyle and Riverstone Investment Group L.L.C., a separately registered and unaffiliated investment adviser, jointly advise five energy and renewable resources funds. Carlyle and Riverstone have mutually decided not to pursue additional jointly managed funds.

Currently, Carlyle conducts its North American energy investing through its partnership with NGP. The existing NGP management fee funds are advised by NGP and Carlyle does not control or manage such funds. NGP is managed by its founder, Ken Hersh (who serves as Carlyle's Head of Natural Resources and serves on Carlyle's Management Committee), and other senior members of NGP.

Additionally, in 2013, Carlyle formed a power team to focus on investment opportunities in the North American power generation sector. Leveraging the expertise of the operating professionals at Cogentrix Energy L.L.C., a Carlyle portfolio company, the power team seeks investments where it can obtain direct or indirect operational control to facilitate the implementation of technical enhancements.

On May 2, 2013, Carlyle engaged an investment team, primarily through Atlas NV, an unaffiliated investment adviser, and supplemented by Carlyle investment professionals, for its international energy platform (which generally excludes power generation facilities). The international energy team focuses on oil and gas exploration and production, midstream, oilfield services and refining in Europe, Africa, Latin America and Asia. Through Atlas NV, this team also manages an existing international energy platform with active portfolio companies. Carlyle does not control or manage this platform or its underlying portfolio companies. Atlas NV is an "Exempt Reporting Adviser" under the exemption from the SEC's investment adviser registration requirements set forth in Rule 203(m)-1 under the Advisers Act.

CIM, either directly or indirectly, advises or co-advises the Real Assets Advisory Clients (which, for the avoidance of doubt, do not include current funds advised by NGP, or existing investments of Atlas NV).

### Global Market Strategies

Carlyle's Global Market Strategies team advises a diverse group of private fund, separately managed account and BDC advisory clients that pursue investment strategies including long/short credit instruments, emerging markets equities, macroeconomic strategies, commodities, bank loans and structured credit products, energy mezzanine opportunities, middle-market lending, distressed debt and quantitative strategies. Recently, the Global Market Strategies segment also filed to register with the SEC the shares of two mutual funds (not intended to be advised by CIM). CIM is one of several affiliated investment advisers that provide advice to Global Market Strategies advisory clients. The Global Market Strategies team includes investment professionals located in the United States, Europe and Asia.

- *Structured Credit:* Carlyle's structured credit investment team focuses on investments primarily in performing senior secured bank loans through structured vehicles and managed accounts. CIM advises the U.S. structured credit Advisory Clients.

Carlyle's European structured credit funds are independently advised by CELF Advisors LLP ("CELF"), an affiliated investment adviser authorized and regulated by the UK Financial Conduct Authority. CELF is an "Exempt Reporting Adviser" under the exemption from the SEC's investment adviser registration requirements set forth in Rule 203(m)-1 under the Advisers Act.

- *Distressed and Corporate Opportunities:* Carlyle's distressed and corporate opportunities investment team focuses on investments in liquid and illiquid securities and obligations, including secured debt, senior and subordinated unsecured debt, convertible debt obligations, preferred stock and public and private equity of financially distressed companies in defensive and asset-rich industries. In certain investments, these funds may seek to restructure pre-reorganization debt claims into controlling positions in the equity of reorganized companies.
- *GMS Finance:* Carlyle's GMS Finance team manages BDCs, a collateralized loan obligation ("CLO") consisting of middle-market senior, first-lien loans, and corporate mezzanine funds, which invest primarily in the first-lien,

second-lien and mezzanine loans of middle-market companies, typically defined as companies with annual EBITDA ranging from \$10 million to \$100 million that lack access to the broadly syndicated loan and bond markets.

The GMS Finance investment team includes former members of Churchill Financial LLC (“Churchill”<sup>2</sup>), a debt capital provider to U.S. middle-market companies, and manager of a CLO. In 2013, Carlyle GMS Finance and NF Investment Corp., affiliates of CIM, each elected to be treated as BDCs under the 1940 Act. CGMSIM, an affiliate of CIM, is registered with the SEC as an investment adviser, and acts as the adviser to the BDCs. Each of the Churchill CLO and the BDCs primarily focuses on providing senior secured loans and subordinated debt to U.S. middle-market companies.

- *Energy Mezzanine Opportunities:* Carlyle’s energy mezzanine investment team seeks to invest primarily in privately-negotiated mezzanine debt investments in North American energy and power projects and companies. CIM advises the energy mezzanine Advisory Clients.
- *Quantitative Strategies:* In December 2013, Carlyle acquired 100% of the equity interests of OKLO. OKLO Financial is a California-registered investment adviser using quantitative portfolio selection algorithms to provide advisory services to its clients. In general, OKLO’s advisory business now forms the basis for the CQMS group of Carlyle’s Global Market Strategies business segment.
- *Long/Short Credit:* Claren Road Asset Management, LLC (“Claren Road”), separately registered under the Advisers Act, advises two long-short credit hedge funds, focusing on the global high grade and high yield markets. Carlyle acquired a 55% equity interest in Claren Road in December 2010. For the purposes of this Brochure, references to CIM do not include references to Claren Road.
- *Emerging Market Equity and Macroeconomic Strategies:* Emerging Sovereign Group, LLC (“ESG”), separately registered under the Advisers Act, advises seven emerging markets equity and macroeconomic hedge funds. ESG’s emerging markets equities funds invest in publicly traded equities

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<sup>2</sup> References to Churchill include Churchill’s CLO, which is deemed an Advisory Client, due to Churchill’s status as a relying adviser of CIM.

across a range of developing countries. ESG's macroeconomic funds pursue investment strategies in developed and developing countries, and opportunities resulting from changes in the global economic environment. Carlyle acquired a 55% equity interest in ESG in July 2011. For the purposes of this Brochure, references to CIM do not include references to ESG.

*Commodities:* Vermillion Asset Management, LLC, ("Vermillion"), is separately registered under the Advisers Act, and advises five commodities funds, which pursue investment strategies including relative value, enhanced index and long-biased physical commodities. Carlyle acquired a 55% equity interest in Vermillion in October 2012. For the purposes of this Brochure, references to CIM do not include references to Vermillion.

## Solutions

Carlyle's Solutions segment (formerly called "Fund of Funds Solutions") offers customized managed account solutions to a broad range of sophisticated investors providing access to proprietary Carlyle-sponsored funds and other third-party private investment funds across multiple strategies, including private equity, real estate, hedge funds, infrastructure, energy, mezzanine debt, distressed debt and commodities. The segment works collaboratively with investors to construct portfolios tailored to meet specific investment objectives, return/risk requirements, liquidity expectations and liability profiles, and primarily operates through AlpInvest, Metropolitan and DGAM (as well as certain CIM personnel). Each of CIM, AlpInvest, Metropolitan and DGAM may act as an investment adviser to certain advisory clients within Carlyle's Solutions business. Advisory services may include making recommendations to such Advisory Clients regarding overall investment strategy or allocation, including recommended allocations of capital to certain investment vehicles sponsored by Carlyle, AlpInvest, Metropolitan or DGAM.

## *AlpInvest*

As of August 2013, Carlyle owns 100% of the equity interests of AlpInvest, an investment adviser separately registered under the Advisers Act. AlpInvest invests across the private equity spectrum, including large and middle-market buyout, growth capital, and venture capital, as well as mezzanine and distressed debt, in the United States, Europe, Asia Pacific, emerging markets and other non-traditional markets. These investments generally fall within three investment strategies: direct subscriptions for interests in private equity and mezzanine funds, secondary purchases of interests in private equity and mezzanine funds and private operating companies, and co-investments in single portfolio companies alongside leading

sponsors of private equity and mezzanine funds. AlpInvest maintains separate investment teams dedicated to sourcing and executing on investments within each investment strategy. AlpInvest provides investment advisory services to pooled investment vehicles sponsored by AlpInvest and customized separately managed accounts.

### *Metropolitan*

In November 2013, Carlyle acquired Metropolitan, a global manager of real estate funds of funds that is one of the largest managers of indirect investments in global real estate. Metropolitan is separately registered as an investment adviser under the Advisers Act. Metropolitan provides investment advisory services on a discretionary basis to private investment funds whose investors are comprised primarily of sophisticated institutional investors, such as government entities, pension funds, insurance companies and large endowments, as well as high net worth individuals and large family offices. The investment objective of Metropolitan's funds is principally focused on value-add and opportunistic private real estate investments in underlying funds or other investment vehicles or structures selected by Metropolitan that were formed generally for the purpose of investing directly or indirectly in office, apartment, industrial or other commercial real estate, in real estate-related securities (including debt or mezzanine participations) or in sponsors or managers of real estate investment funds.

### *DGAM*

Acquired by Carlyle in February 2014, DGAM is a global manager of funds of hedge funds based in Toronto, Canada, that builds and actively manages hedge fund portfolios on behalf of its institutional advisory clients. DGAM is separately registered as an investment adviser under the Advisers Act, and in Ontario with the Ontario Securities Commission. DGAM's advisory services are predominantly provided to advisory clients that are single- and multiple-investor funds of hedge funds. DGAM also provides advice to these advisory clients as to the optimal portfolio positioning for that advisory client's investment portfolio as a whole. Finally, DGAM provides certain advice to its direct advisory clients on the composition of such advisory client's hedge fund portfolio but has no authority to execute on its advice or recommendations. The provision of such advisory services does not involve trading of instruments or management of securities; rather, DGAM provides advice on what instruments would be appropriate for the client's portfolio.

## **Item 5. Fees and Compensation**

CIM or its affiliates<sup>3</sup> generally receive management fees and carried interest or similar profit allocations from Advisory Clients. Advisory Clients may also indirectly incur or generate other fees payable to CIM or its affiliates, depending on the nature of their portfolio activities. CIM or its affiliates may, for example, earn fees and other compensation from prospective and actual portfolio companies, purchasers, sellers and other parties as compensation for services (collectively, “Service Fees”). These Service Fees can include project, structuring, topping, termination, break-up, directors’, organizational, set-up, closing, commitment, advisory, consulting, and other similar fees in connection with the purchase, monitoring, or disposition of underlying investments or from unconsummated transactions. In general, the specific legal and/or organizational documents of the relevant Advisory Client, the investment management agreement between CIM (or an affiliate) and such Advisory Client or the agreements in respect of the portfolio investments describe the basic fee structure relevant to the investors in such Advisory Client. To the extent provided in such organizational documents or investment management agreement, CIM’s management fees from Advisory Clients in many cases are reduced (offset) by a specified portion of the Service Fees that arise out of such Advisory Client’s investment activities.

Advisory Clients may also bear certain out-of-pocket expenses incurred by CIM or its affiliates in connection with the services provided to such Advisory Clients. The following sections discuss the most common fees and expenses in more detail.

### **Common Types of Fees**

#### **Management Fees**

For most Advisory Clients that are pooled investment funds, the annual management fee is typically in the range of 1-2 percent of third-party investors’ committed capital during the relevant Advisory Client’s investment period. After such investment

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<sup>3</sup> For the purposes of this Brochure, references to “CIM or its affiliates” or “CIM and its affiliates” do not include references to Claren Road, ESG, Vermillion, CGMSIM, AlpInvest, Metropolitan, DGAM, OKLO, NGP, or any Carlyle portfolio companies, including portfolio companies that are investment advisers registered with the SEC (e.g., Avalon Advisors LLC or the separately registered investment advisers affiliated with the TCW Group, Inc.).

period, the fee percentage is typically applied only to the amount of third-party capital remaining in investments that have not yet been exited, and the fee percentage also may be reduced. For services provided to certain separately managed accounts, the Advisory Client may pay a management fee to CIM or one of its affiliates, which fee may be in addition to any fees charged by pooled investment funds in which such managed account makes an investment. In some situations, an Advisory Client pays management fees based on net asset value of the investments held by such Advisory Client.

Management fees are generally paid by or on behalf of an Advisory Client by (i) requiring investors in such Advisory Client to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be distributable to the investors of such Advisory Client. In addition, CIM or its affiliates often has the ability to cause an Advisory Client to borrow money for the payment of such fees.

Management fees are negotiable and, depending on the Advisory Client, may be paid in advance or in arrears and may vary for different third-party investors, typically based on commitment size. If management fees with respect to an Advisory Client are assessed in advance, they are generally required to be returned to the investors in such Advisory Client should CIM's and its affiliates' management services to the Advisory Client be terminated prior to the end of the period in respect of which the fees have been paid (including, for example, situations where the final distribution by an Advisory Client occurs prior to the end of a period for which management fees have already been paid). In general, the amount of such fees to be returned is calculated based on the number of days remaining in the applicable period.

#### Performance-Based Arrangements<sup>4</sup>

Distributions to investors in most Advisory Clients are subject to some form of carried interest or similar profit allocation for the benefit of an affiliate of CIM. Generally, these profit allocations represent a share of distributions made by an Advisory Client in excess of the relevant investors' invested capital, and allocable fees and expenses. Performance-based profit allocations may be applied each time an investment is realized or on an annual (or more frequent) basis with respect to certain Advisory Clients.

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<sup>4</sup> See also Item 6 – “Performance-Based Fees and Side-By-Side Management”.

Performance fees or carried interest profit allocations are subject to regulation under Section 205 of the Advisers Act and Rule 205-3 thereunder. Therefore, CIM seeks to ensure that any Advisory Client or investors in an Advisory Client that are directly or indirectly assessed performance fees or are subject to carried interest profit allocations satisfy the qualifications of Rule 205-3 under the Advisers Act and have been advised of such fees or allocations and their risks.

For any Advisory Client, performance fees or carried interest allocations generally do not exceed 20% of profits, and may be subject to certain preferred return hurdles, catch-up allocations and high water marks. The manner of calculation and application of performance fees or carried interest profit allocations are disclosed in the offering documents for, and detailed in the governing agreements of, each Advisory Client.

Management fees and carried interest or similar profit allocations are subject to modification, waiver or reduction in connection with an investment in one or multiple Advisory Clients. Furthermore, Carlyle, its affiliates and equity owners, and certain of their respective professionals typically invest in or alongside Advisory Clients. Other qualified individuals who may not be employees of Carlyle, but who have pre-existing business relationships with Carlyle or industry expertise in the sector in which a particular Advisory Client may be investing, also may invest in or alongside Advisory Clients. Fees assessed or profit allocations on such investments may be substantially reduced or, as is more typical, waived altogether for these investors.

#### Other Fees

To the extent CIM is entitled to receive fees from portfolio companies of an Advisory Client, a portion of such fees paid to CIM (*e.g.*, in general, 80% or, in the case of directors' fees associated with Carlyle employees, 100%) typically reduces the management fees otherwise payable to CIM. The governing agreement (or investment management agreement in the case of a separately managed account) of each Advisory Client sets forth the basis on which such fees reduce management fees. Such fees are described below.

Acquisition and disposition fees are one-time fees paid to CIM or one of its affiliates in connection with an investment or disposition by an Advisory Client. Such fees are generally paid by portfolio companies, but in limited circumstances are paid directly by an Advisory Client. Such fees are common to some, but not all Advisory Clients.



CIM or its affiliates may receive a fee in connection with consulting, monitoring or other ongoing services provided to a portfolio company.

In the context of real estate pooled investment funds, CIM or an affiliate may charge project fees for providing asset management (*e.g.*, property management), development, disposition or other similar services, and such project fees are not subject to offset of management fees.

As a general matter, the portion of fees received from portfolio companies that is allocable to capital invested by co-investors will be retained by Carlyle and will not be applied to reduce the management fees paid by an Advisory Client, and such co-investors may be charged a one-time fee or an ongoing guarantee fee in connection with such co-investment activity.

CIM may have a conflict of interest to the extent that it has an opportunity to earn a fee from an investment held by an Advisory Client. However, CIM believes that the management fee offset provisions described above and the substantial equity commitment by CIM and its affiliates in Advisory Clients substantially mitigates this potential conflict. Other than transactions expressly permitted by the governing agreements of the relevant Advisory Client, any fees paid to CIM or its affiliates by a portfolio company or an Advisory Client are required to be on an arm's-length basis on terms that are no less favorable to the Advisory Client or portfolio company than would be obtained in a transaction with an unaffiliated party, are no less favorable than market terms, or approved by the relevant members of an investment committee of third-party investors with Carlyle (an "Investor Advisory Committee").

### **Common Types of Expenses**

Expenses that are typically borne by Advisory Clients generally include, without limitation (i) fees, costs and expenses for administrators, attorneys, consultants, valuation experts, data providers (including related systems and services from such data providers and data management software), accountants, tax advisers, agents, custodians, other advisers and professionals (including audit and certification fees), and any such Carlyle professionals including certain senior advisors (to the extent such individuals are not Carlyle employees and are performing duties for a specific Advisory Client or a portfolio company), (ii) costs incurred in printing and distributing reports to investors (including related information management systems), (iii) all out-of-pocket fees, costs and expenses incurred in developing, bidding on, evaluating, negotiating, structuring, obtaining regulatory approvals for, purchasing, trading, settling, monitoring, maintaining custody of, financing, accounting, monitoring, holding and disposing of actual investments (including related

information management systems and travel expenses, which may include the use of charter flights, as appropriate, and any financing, legal, accounting, advisory and consulting expenses in connection therewith (to the extent not reimbursed by an entity in which the Advisory Clients have invested or propose to invest or other third parties) and any costs and expenses arising from any foreign exchange or other currency transaction and any insurance indemnity or litigation expense), (iv) broken deal expenses, to the extent not reimbursed by an entity in which the Advisory Clients have invested or propose to invest, or other third parties, (v) brokerage commissions, prime brokerage fees, custodial expenses, other bank service fees and other investment costs, fees and expenses incurred in connection with actual investments, (vi) fees and expenses related to borrowings made by the Advisory Clients, (vii) costs of litigation, D&O liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Advisory Clients, (viii) expenses incurred in connection with complying with provisions in side letter agreements, including “most favored nations” provisions, (ix) all out of pocket fees, costs and expenses, if any, incurred in connection with legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law or regulation (including for example, Form PF, FATCA (defined below)), (x) fees, costs and expenses related to the organization, operation or maintenance of intermediate entities used to acquire, hold, dispose, or otherwise facilitate investment activities (including related travel and accommodation expenses, salaries and benefits of personnel reasonably necessary for the operation or maintenance of such intermediate entities, overhead and other expenses), (xi) expenses of winding up or liquidating the Advisory Clients, (xii) any taxes, fees or other governmental charges levied against the Advisory Clients, and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Advisory Clients, and (xiii) the expenses of the Investor Advisory Committee and certain expenses associated with the annual meeting of the Advisory Clients.

#### Brokerage Expenses

Expenses paid to third parties in connection with the acquisition or disposition of investments are borne by the Advisory Clients. These expenses include brokerage commissions (direct or in the form of a spread), account fees, custodial expenses, other bank service fees and other investment costs, fees, and expenses incurred in connection with completed investments. These fees and expenses are also discussed in more detail in Item 12 – “Brokerage Practices”.

### Organizational/Offering Expenses

Typically, legal, accounting, filing, travel and other expenses incurred in connection with organizing and establishing an Advisory Client and its general partner (or similar managing fiduciary) are borne by the investors in such Advisory Client. Often, the expenses borne by an Advisory Client are capped in the governing documents for the Advisory Client and any excess would offset future management fees. With respect to certain Advisory Clients, such expenses, up to the amount of any applicable cap, are borne solely by the third-party investors in such Advisory Clients that are not affiliated with Carlyle and any excess is borne by Carlyle.

### Broken Deal Expenses

Investors in Advisory Clients generally are required to bear out-of-pocket costs and expenses occurred in connection with deals that are not ultimately completed. Typically, these expenses include (i) legal, accounting, advisory, consulting or other third-party expenses in connection with making an investment that is not ultimately consummated, and any related travel and accommodation expenses, although CIM and its affiliates may be required to bear travel and accommodation expenses, (ii) all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment that is not ultimately made, and (iii) any break-up fees, deposits or down payments of cash or other property which are forfeited in connection with a proposed investment that is not ultimately made (in each case, to the extent such investment is not ultimately made by another Advisory Client). Co-investors generally will not share in broken deal expenses.

### Other Expenses

There are additional general categories of expenses that may be borne by Advisory Clients, depending on their structure. In the case of Advisory Clients that are pooled investment vehicles, the investors in such Advisory Clients generally are required to pay all costs and expenses related to the operation of the vehicle. These costs and expenses can include fees, costs and expenses related to developing, negotiating, structuring, trading, settling, monitoring, holding and disposing of portfolio investments (including related information management systems); fees and expenses of administrators, custodians, attorneys, accountants and other professionals (including the audit and certification fees and the costs of printing and distributing reports and including related information management systems); any insurance, indemnity or litigation expense; interest on, and fees and expenses arising out of, borrowings made by the Advisory Client; the out-of-pocket and legal and other

expenses of an Investor Advisory Committee and certain expenses associated with the annual meeting of the Advisory Clients; and certain taxes and any fees or other governmental charges levied against the Advisory Client. In the case of Advisory Clients that are separately managed accounts, specific additional expense categories generally will be included in the investment management agreement relating to such Advisory Client.

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

CIM currently acts as investment adviser or collateral manager to Advisory Clients, and related persons typically act as general partners (or similar managing fiduciaries) with respect to such Advisory Clients. As discussed in Item 5, CIM and its affiliates may receive carried interest allocations and management fees and other fees in connection with advisory and other services provided to Advisory Clients. The relationship of CIM, the manner of calculation and application of management fees and carried interest profit allocations or other performance-based fees, as applicable, with respect to CIM, the affiliated general partner (or similar managing fiduciary) or other affiliates and known or reasonably anticipated conflicts of interest involving CIM or its affiliates, are disclosed in the offering documents of the applicable Advisory Client provided to potential investors prior to their investment.

Each Advisory Client typically has a specified investment objective defined by geography, industry, type of investment, investment strategy, investment size, risk/reward profile, hold period and/or other parameters. Investment opportunities that satisfy the investment objective of a particular Advisory Client typically will be allocated exclusively to that particular Advisory Client, although may be allocated among multiple Advisory Clients with overlapping investment objectives in accordance with the firm's allocation policies. The Chief Investment Officer and The investment committee of the relevant Advisory Client have the discretion to construct what, in their business judgment, constitutes an appropriate investment portfolio for that Advisory Client. As such, in determining what they believe to be an appropriate portfolio for a particular Advisory Client, they may give consideration to factors in addition to those outlined above. As a result, it may not be desirable for an Advisory Client to participate in an investment opportunity or acquire all of an investment opportunity.

Generally, co-investment vehicles are only allocated investment opportunities if CIM determines there is excess capacity in a particular investment opportunity. In certain cases, however, an investment opportunity may be appropriate for more than one Advisory Client. As discussed in more detail in Item 11, these investment opportunities are allocated in accordance with CIM's written policies and procedures,

taking into account the applicable provisions of the Advisory Client's governing agreement (or investment management agreement in the case of a separately managed account).

In allocating investment opportunities, there could be incentives to favor Advisory Clients with higher potential performance fees or carried interest allocations over Advisory Clients with lower potential performance fees or carried interest allocations<sup>5</sup>. Additionally, as described in Item 8, carried interest allocations may create an incentive for the general partner (or similar managing fiduciary) of a Carlyle-sponsored investment vehicle advised by CIM to make riskier or more speculative investments on behalf of such investment vehicle than would be the case in the absence of this arrangement.

As a control, CIM has adopted a policy pursuant to which it seeks to allocate investment opportunities among Advisory Clients in a fair and equitable manner, bearing in mind, among other things, the size, investment objectives, risk tolerance, return targets, diversification considerations, permissible and preferred asset classes, and liquidity needs of each Advisory Client. CIM's policies prohibit the allocation of investment opportunities based solely on anticipated compensation or profits to Carlyle, CIM, any affiliates or their professionals, and require the review and approval of CIM's Allocation Committee (comprising senior CIM personnel) for allocations to multiple Advisory Clients. Each Advisory Client typically has its own investment guidelines, governing agreements, and geographical and industry focus that must be taken into account when making investment allocation determinations. Final allocation decisions are under the purview of CIM.

## **Item 7. Types of Clients**

The vast majority of CIM's Advisory Clients are pooled investment vehicles. CIM also provides advisory services on a separately managed account basis to, among others, government entities and instrumentalities.

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<sup>5</sup> For example, if one Advisory Client is in a net loss position and another Advisory Client is in a net gain position, the Advisory Client in the net loss position will either (i) not generate a carried interest from such investment, or (ii) generate less carried interest from such investment to the extent profits are required to make up for previous losses.

CIM and its affiliates require that each third-party investor in an Advisory Client be an “accredited investor” as defined in Regulation D under the Securities Act and a “qualified purchaser” as defined in the 1940 Act. Typically, a minimum investment amount is imposed on third parties investing in the investment vehicles for which CIM acts as investment adviser or collateral manager. This minimum often is set at \$5-10 million, but can be subject to a reduction upon prior agreement by CIM or an affiliate (subject to applicable legal requirements). A minimum investment amount can also be established pursuant to the laws of the jurisdiction in which the investment vehicle was established.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis and Investment Strategies**

CIM uses a range of methods to identify, analyze and assess potential and existing investment opportunities, descriptions of which are included in the applicable offering documents and other constituent documentation. This may include arrangements with affiliated or unaffiliated advisers for purposes of obtaining analyses that would assist the investment committees in their investment decision-making process. More specific descriptions are provided below regarding the investment strategies and investment processes, as they pertain to each investment group within CIM. As a general matter, analytical methods used by the investment teams can include gain/loss forecast models, cash-flow models, other financial modeling and simulation, risk sensitivity analyses, charting, and fundamental, technical and cyclical analysis.

### **Corporate Private Equity**

CIM corporate private equity Advisory Clients seek to make privately-negotiated equity or equity-related investments, focusing on buyout and growth capital transactions in a specified geographic region or industry. In its leveraged buyout transactions, the Advisory Clients seek to (i) acquire portfolio companies primarily in Carlyle’s core industries; (ii) finance acquisitions using leverage from debt incurred by such companies; (iii) motivate and incentivize management of such portfolio companies in an effort to increase shareholder value; and (iv) sell their interests in each portfolio company when the value of the business has significantly increased. In its growth capital transactions, the Advisory Clients seek out companies with the potential for growth, strategic redirection and operational improvements. These funds typically do not invest in early stage or venture-type investments.

In considering potential investment opportunities in the corporate private equity setting, a number of analytical methods are utilized in an effort to achieve a thorough and in-depth assessment of the potential investment. Typically, these analyses focus on the (i) reputation of shareholders and management; (ii) company size and sensitivity of cash flow generation; (iii) operational, marketing, legal, tax, labor, environmental and accounting factors; (iv) business sector and competitive risks; (v) industry competition, both domestically and abroad; (vi) portfolio fit; (vii) exit alternatives; and (viii) other key factors highlighted by the investment team. Where appropriate, third-party consultants may be engaged to assess business and market conditions, competition, physical and environmental concerns, and other factors deemed to be relevant to the evaluation of the investment.

### Real Assets

CIM's real assets investment focus is on opportunities in tangible assets, such as office buildings, hotels, retail and residential properties, industrial properties, senior-living facilities, oil and gas exploration and production, midstream, refining and marketing, power generation, pipelines, wind farms, refineries, airports, toll roads, transportation, water utility and agriculture, or similar assets, and in the companies providing services or otherwise related to them. The principal features of the real assets investment strategy are to seek to acquire high-quality, well-located assets that are under-appreciated, under-managed or under-valued at prices that represent a discount to replacement costs; seek to improve the valuation and enhance the current yield through new management, operational strategy or improve the physical attributes or capital structure of such assets; seek to capitalize on secular and cyclical trends that contribute to changes in the relevant market; and seek operating partners with significant operational expertise or deal sourcing capability.

Investments that are operating companies are typically pursued after completing analyses that typically include: (i) reputation of the target's management team; (ii) industry and/or market dynamics; (iii) physical and environmental concerns; (iv) competitors and competing technologies; (v) the quality of the target's underlying assets, products and services; (vi) the target's competitive position and strategy; (vii) the target's financial statements, off-balance sheet and contingent liabilities, debt capacity and financing needs; (viii) equity and debt market perspectives; (ix) environmental, political and regulatory risks; and (x) economic risk, exit alternatives and return potential. Where appropriate, third-party consultants, industry experts and/or other advisors may be engaged to assist with aspects of the diligence process, or to assist with other areas relevant to the potential transaction and/or evaluation of the potential investment.

## Global Market Strategies

Those Global Market Strategies investments managed by CIM focus on credit opportunities and other market strategies throughout the entire business cycle. These investment vehicles include structured credit, corporate mezzanine, energy mezzanine, distressed and middle-market financing, and generally invest in loans and bonds, mezzanine, distressed, and synthetic products. CIM's investment goals through Global Market Strategies include generating attractive current income, risk-adjusted returns, and capital appreciation, while avoiding defaults, maximizing recoveries, and preserving principal. Each of CIM's Global Market Strategies teams seeks to use its specialized expertise to identify investment opportunities by employing fundamental and technical analysis subject to eligibility criteria, Advisory Client objectives and investment guidelines.

The structured credit Advisory Clients primarily invest in loans and some bonds. The investment decisions for these Advisory Clients are overseen by a credit committee comprising senior investment professionals of Carlyle. The credit committee reviews credit, liquidity, interest rate risk and compliance with the conditions of the funds' underlying indentures (such as concentration limitations, collateral quality and collateral obligations). The credit committee also reviews general economic and market conditions, political events, industry trends and changes in interest rates. The structured credit team closely monitors investments through regular meetings and communication with management and equity sponsors. The structured credit team also conducts internal ongoing reviews of individual credits, market activity and the current trading environment.

The investment committee for the energy mezzanine opportunities fund reviews credit opportunities, including senior secured and mezzanine debt, royalty interests, production payments, net profits interest, secondary debt and equity co-investments, primarily in North America throughout the energy and power sector based on investment targets and criteria which include collateralization by hard assets, measured leverage, current cash pay and proven technology, experienced management teams, and strong sponsorship. The methods of analysis utilized for such investments include fundamental credit, valuation, technological/operations, structural protections, and market analysis.

The corporate mezzanine investment committee reviews investments typically in privately negotiated debt and equity securities primarily in connection with leveraged buyouts, recapitalizations, acquisitions and growth-oriented financings. The team considers the following key investment tenets: focus on principal preservation, invest in market-leading, value-added companies, focus on



diversification and the generation of significant current income, seek to invest with proven equity sponsors and management teams, and structure transactions to mitigate risk. With respect to traded debt, the funds' lead investment professional is authorized to grant final approval of an investment in or disposition of traded debt investments with prescribed limits within each fund. The diligence process for such investments typically includes intensive credit analysis, multiple meetings with management, company facility visits, discussions with industry analysts and in-depth examinations of financial results and projections.

The distressed and corporate opportunities investment committee is responsible for reviewing and approving the purchase or sale of all direct equity investments or the acquisition of distressed companies or assets of distressed companies when the value or the prospect of exerting influence or obtaining control is compelling. With respect to traded debt and equity investments, the lead investment professionals advising each fund are authorized to grant final approval of an investment in or disposition of traded secured or unsecured debt and traded equity investments within prescribed limits of that Advisory Client. The diligence process for such investments includes sourcing investments that are available for purchase at discounts to what CIM believes to be fundamental value and where CIM may have an opportunity to exert influence or obtain control in a restructuring, utilizing traditional private equity disciplines and the restructuring and distressed investing experience of the distressed and corporate opportunities team, and undergoing a bottom-up review of each potential investment's competitive strengths and weaknesses. GMS Finance's CLO investment committee reviews private debt investments, including senior secured loans and other debt investments, in connection with leveraged buyouts, recapitalizations, acquisitions, refinancings and growth-oriented financings primarily for companies owned or controlled by private investment firms. The investment team considers the following key investment criteria: market leading products and/or services, attractive industry fundamentals, diversification of products, customers and suppliers, defensible market niche and barriers to entry, experienced management team, solid cash flows, ability to service and repay debt, as well as significant equity contribution from equity sponsors with proven track records. The diligence process for such debt investments typically includes intensive credit analysis, meetings with management, discussions with industry analysts and in-depth examinations of financial results and projections.

### Solutions

The Solutions business offers customized managed account solutions to a broad range of sophisticated investors, providing access to proprietary Carlyle-sponsored funds and other third-party private investment funds across multiple strategies,

including private equity, real estate, hedge funds, infrastructure, energy, mezzanine debt, distressed debt and commodities. The Solutions business works collaboratively with investors to construct portfolios tailored to meet specific investment objectives, return/risk requirements, liquidity expectations and liability profiles. The Solutions business primarily operates through AlpInvest, Metropolitan and DGAM (as well as certain Carlyle personnel associated with CIM). Their investment approach is intended to exploit market inefficiencies and other situations outside the mainstream of conventional investing in the alternatives asset class while minimizing risk. Investments for Solutions' advisory clients are typically managed on a discretionary basis and are selected opportunistically by and among the aforementioned affiliated investment advisers from the range of investment strategies appropriate for the particular advisory client. For additional information regarding the methods of analysis, investment strategies and risk of loss of any of AlpInvest, Metropolitan or DGAM, please see Part 2 of Form ADV for each investment adviser, available at: <http://www.adviserinfo.sec.gov/>.

### **Investment Risks**

An investment in any Advisory Client involves a high degree of risk, and is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in such Advisory Client and for which such Advisory Client does not represent a complete investment program. There can be no assurance that the investment objective of any Advisory Client will be achieved, that any Advisory Client will otherwise be able to successfully carry out its investment program, or that an investor will receive a return of its capital contributed to any Advisory Client. The discussion below enumerates certain, but not all, risk factors that apply generally to an investment in any Advisory Client.

Prior to making any investment in an Advisory Client, investors should carefully review the applicable offering documents for a more complete description of the risk factors and conflicts of interest relating to such Advisory Client.

### **No Assurance of Investment Return**

There can be no assurance that any Advisory Client will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of investments in which such Advisory Client participates. Accordingly, an investment in an Advisory Client should only be considered by persons who can afford a loss of their entire investment. **There can be no assurance that projected or targeted returns for any Advisory Client will be achieved.**

## **Role of Carlyle and its Professionals**

The success of each Advisory Client will depend in part upon the skill and expertise of Carlyle's investment professionals and, where applicable, the management of portfolio companies or other investments. There can be no assurance that such professionals will continue to be associated with Carlyle throughout the life of any Advisory Client and a loss of the services of key personnel could impair Carlyle's ability to provide services to an Advisory Client. In addition, members of the investment team of a particular Advisory Client will work on other projects for Carlyle and, therefore, conflicts may arise in the allocation of such individuals' time.

## **Reliance on the General Partner (or Similar Managing Fiduciary) and Investment Adviser or Collateral Manager of the Advisory Client**

The general partner (or similar managing fiduciary) and investment adviser or collateral manager of an Advisory Client will have exclusive responsibility for an Advisory Client's activities, and, other than as may be set forth in Advisory Client's governing documents, investors will lack discretion to make investment or any other decisions concerning the management of an Advisory Client.

## **Material Risk Relating to Methods of Investment Analysis**

CIM seeks to conduct reasonable and appropriate analysis and due diligence of its investments based on the facts and circumstances applicable to each investment. The objective of such analysis and due diligence is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, to identify possible risks associated with that investment and, in the case of private equity, infrastructure and certain natural resources investments, to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence and making an assessment regarding an investment, CIM relies on available resources, including information provided by the target of the investment and, in some circumstances, third-party investigations. As a result, the due diligence process may at times be subjective. Accordingly, CIM cannot be certain that due diligence investigations with respect to any investment opportunity will reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities.

CIM will generally establish the capital structure of an investment and the terms and targeted returns of such investment on the basis of financial, macroeconomic, and other applicable projections. Projected operating results will normally be based

primarily on investment professional judgments or third-party advice and reports. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be achieved, and actual results may vary significantly from the projections. General economic, natural, and other conditions, which are not predictable, can have an adverse impact on the reliability of such projections. Assumptions or projections about asset lives; the stability, growth, or predictability of costs; demand; or revenues generated by an investment or other factors associated therewith may, due to various risks and uncertainties including those described herein, differ materially from actual results.

### **Lack of Operating History**

Each Carlyle-sponsored investment vehicle advised by CIM will initially be a newly-formed entity which has not commenced operations and therefore will have no operating history upon which an investor may evaluate its performance. The prior experience of the investment team or the performance of other investment vehicles does not provide assurance of future investment performance or returns.

### **Uncertainty in the U.S. and Global Financial Markets**

The upheavals in the United States and global financial markets that began in 2008 illustrated the possibility of extraordinary and unprecedented uncertainty and instability in such markets. There can be no assurances that conditions in the global financial markets will not adversely affect one or more of an Advisory Client's portfolio companies or other investments, its access to capital or leverage, or its overall performance.

### **Market Conditions and Financial Market Fluctuations**

A lack of liquidity in the capital markets may make it significantly more difficult for sponsors like Carlyle to obtain favorable financing for investments, and the financing that is available may be on much less favorable terms than had been prevailing in the past. Carlyle may be required to finance transactions with a greater proportion of equity relative to prior periods. General fluctuations in the market prices of securities may affect the value of the investments held by an Advisory Client. Instability in the securities markets may also increase the risks inherent in an Advisory Client's investments.

## **Highly Competitive Market for Investment Opportunities**

The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that an Advisory Client will be able to locate, consummate and exit investments that satisfy its rate of return objectives or realize upon their values or that it will be able to invest fully its committed capital.

## **Illiquid and Long-Term Investments**

Investment in an Advisory Client may require a long-term commitment with no certainty of return. Many of an Advisory Client's investments will be highly illiquid, and there can be no assurance that an Advisory Client will be able to realize on such investments in a timely manner. Although investments may occasionally generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition or refinancing of such investment.

## **Investments Longer than Term**

A Carlyle-sponsored investment vehicle may make investments which may not be advantageously disposed of prior to the date such investment vehicle will be dissolved, either by expiration of its term or otherwise. In addition, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to investors will occur.

## **Risk of Limited Number of Investments**

An Advisory Client may participate in a limited number of investments and, as a consequence, the aggregate return of such Advisory Client may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, other than as set forth in the applicable Advisory Client's governing documents (or investment management agreement in the case of a separately managed account), investors have no assurance as to the degree of diversification of an Advisory Client's investments, either by geographic region, industry or transaction type.

## **Material, Non-Public Information**

By reason of their responsibilities in connection with other activities of Carlyle, certain Carlyle investment professionals may acquire confidential or material, non-

public information concerning an entity in which Advisory Clients have invested, or propose to invest, and the possession of such information may limit the ability of CIM to buy or sell particular securities of such entity on behalf of Advisory Clients, thereby limiting the investment opportunities or exit strategies available to the Advisory Clients. In addition, holdings in the securities of an issuer by Carlyle or its affiliates may affect the ability of Advisory Clients to make certain acquisitions of or enter into certain transactions with such issuer.

Separately-registered investment advisers affiliated with CIM may acquire confidential or material, non-public information concerning an entity in which Advisory Clients of CIM have invested, or propose to invest, and the possession of such information may limit the ability of CIM to buy or sell particular securities of such entity on behalf of certain of its Advisory Clients, thereby limiting the investment opportunities or exit strategies available to the Advisory Clients of CIM. Certain information barriers have been introduced to limit the flow of such material, non-public information; however, this risk still exists, including in the context of Advisory Clients of the Global Market Strategies Group.

Carlyle has erected an information barrier to segregate the flow of material, non-public information between the Global Market Strategies Group and the rest of Carlyle. The purpose of this information barrier is, among other things, to insulate material, non-public information, such that the investment activities of the Global Market Strategies Group, on the one hand, and the rest of Carlyle, on the other hand, are not otherwise restricted because one business unit may have material, non-public information that would be imputed to the other business unit in the absence of an information barrier.

The establishment and maintenance of the information barrier discussed above means the Global Market Strategies Group will generally not be able to use, act on or otherwise be aware of confidential information otherwise known by or in the possession of the rest of Carlyle (and vice-versa), and collaboration between personnel of the Global Market Strategies Group, on the one hand, and personnel of the rest of CIM and Carlyle, on the other hand, may be limited, reducing potential synergies.

At the same time, as discussed more fully in Item 10, within the Global Market Strategies Group, there is no information barrier between supervised persons of CIM and supervised persons of other Carlyle-affiliated advisers that are part of the group (except that energy mezzanine, CQMS, and Vermillion together are walled off from others in the Global Market Strategies Group). Therefore, CIM may in some cases be unable to trade on behalf of certain Advisory Clients because all of Global Market Strategies is restricted from trading.

Carlyle also has erected a one-way information barrier between Solutions (which includes AlpInvest, Metropolitan, DGAM, and certain CIM personnel) and the rest of Carlyle. Due to this information barrier, Carlyle generally will not be able to use, act on or otherwise be aware of non-public, commercially sensitive investment information otherwise known by or in the possession of Solutions. From time to time, the various Solutions managers may cause an advisory client of such manager to hold, when otherwise permitted under its investment restrictions, interests in one or more Carlyle funds. Any such investment will be made on arm's-length terms, subject in any case to the information barrier between the firms and the confidentiality restrictions arising from particular fund or vehicle agreements.

Carlyle has established and is expected to continue to establish, additional information barriers as-needed, including with regards to certain investments of its Advisory Clients in the financial services sector.

### **Currency and Exchange Rate Risks**

A portion of an Advisory Client's investments, and the income received by an Advisory Client with respect to such investments, may be denominated in foreign currencies. However, unless otherwise provided in an Advisory Client's governing documents, the books of an Advisory Client generally will be maintained and capital contributions to and distributions from such Advisory Client generally will be made, in U.S. dollars. Accordingly, changes in currency exchange rates may adversely affect the dollar value of investments, interest and dividends received by an Advisory Client, gains and losses realized on the sale of investments, and the amount of distributions, if any, to be made by an Advisory Client.

Interests in Advisory Clients may be denominated in different currencies. For example, a US dollar-denominated Advisory Client and a Euro-denominated Advisory Client may invest in the same European transaction. Because currency-exchange rates can be volatile and fluctuate sharply, one Advisory Client may benefit from an exchange rate fluctuation, while another may not, creating the potential that one Advisory Client may benefit more from the same investment relative to another Advisory Client denominated in a different currency.

### **Hedging Policies/Risks**

In connection with certain investments, an Advisory Client may employ hedging techniques designed to reduce the risk of adverse movements in interest rates, securities prices and currency exchange rates. While an Advisory Client may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates,

securities prices or currency exchange rates, or the transactional fees associated with such mechanisms may result in a poorer overall performance for such Advisory Client than if it had not entered into such hedging transactions.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Commodity Futures Trading Commission (“CFTC”) obtained regulatory jurisdiction over certain derivative instruments, including swaps. “Operators” of private funds engaging in certain levels of swap activity are generally required to become members of the National Futures Association (“NFA”) and register with the CFTC as commodity pool operators and/or commodity trading advisors. In connection with their hedging/risk management (and other) swap activity, Advisory Clients and their related general partners generally seek to rely on an exemption from registration available to entities with *de minimis* levels of swap exposure. However, to the extent that such swap activity exceeds these *de minimis* thresholds (or the Advisory Clients and their general partners otherwise fail to file for an applicable exemption), CIM, as the investment manager with respect to such Advisory Clients, may be required to register with the CFTC.

### **Legal, Tax and Regulatory Risks**

Legal, tax and regulatory changes could occur during the term of a Carlyle-sponsored investment vehicle that may adversely affect such Advisory Client (or term of the applicable investment management agreement in the case of a separately managed account). There is a material risk that regulatory agencies in the United States, Europe, or elsewhere may adopt burdensome laws (including tax laws) or regulations, or changes in law or regulation, or in the interpretation or enforcement thereof, which are specifically targeted at the private equity industry, or other changes that could adversely affect private equity firms and the funds they sponsor, including an Advisory Client.

### **Regulatory Approvals**

A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. There can be no assurance that a portfolio company will be able to: (i) obtain all required regulatory approvals that it does not yet have or that it may require in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals.



## **Non-U.S. Investments**

For an Advisory Client that invests in a non-U.S. country, investments involve certain factors not typically associated with investing in the United States, including risks relating to (i) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (ii) certain economic and political risks, including potential exchange-control regulations and restrictions on non-U.S. investments and repatriation of capital, the risks associated with political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iii) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities; (iv) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements, and differences in government supervision and regulation; and (v) less developed laws regarding corporate governance, fiduciary duties and the protection of investors.

## **Industry-Specific Investments**

For an Advisory Client that invests in a particular industry, investments involve certain additional material risks. Financial services institutions are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties, and the level and volatility of trading markets. The profitability of the financial services industry may be adversely affected by a worsening of general economic conditions in domestic and international markets and by monetary, fiscal or other policies that are adopted by various governmental authorities and international bodies. Monetary policies have had, and will continue to have, significant effects on the operations and results of financial services institutions. In addition, financial services institutions operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities.

## **ERISA Considerations**

Operating a Carlyle-sponsored investment vehicle as a “venture capital operating company” (“VCOC”) within the meaning of the regulations promulgated under Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended

(“ERISA”) would require that such investment vehicle obtain rights to substantially participate in or influence the conduct of the management of a number of its portfolio investments. The designation of directors and other measures contemplated could expose the assets of such investment vehicle to claims by a portfolio company, its security holders and its creditors.

In the event a Carlyle-sponsored investment vehicle is operated to qualify as a VCOC or a “real estate operating company” (“REOC”) within the meaning of the regulations promulgated under ERISA in order to avoid holding “plan assets” within the meaning of ERISA, such investment vehicle may be restricted or precluded from making certain investments. In addition, it could be necessary to liquidate investments at a disadvantageous time in order to avoid holding ERISA “plan assets,” resulting in lower proceeds to such investment vehicle than might have been the case without the need to qualify as a VCOC or REOC.

Under ERISA, any entity that is a “trade or business” within a “controlled group” can be liable for certain ERISA Title IV pension obligations of any other member of the controlled group. In addition, in the case of a plan termination, the Pension Benefit Guaranty Corporation (“PBGC”) can assert a lien against any member of the controlled group of up to 30% of the collective net worth of all members of the controlled group. A “controlled group” generally requires 80% or greater common ownership applying specified constructive ownership and exclusion rules and in certain circumstances not generally applicable to entities like an Advisory Client, could include other “brother-sister” commonly controlled arrangements.

While there are a number of cases that have held that managing investments is not a “trade or business” for tax purposes, in 2007 the PBGC Appeals Board ruled that a private equity fund was a “trade or business” for ERISA controlled group liability purposes and at least one Federal Circuit Court has similarly concluded that a private equity fund could be a trade or business for these purposes based upon a number of factors, including the fund’s level of involvement in the management of its portfolio companies and the nature of any management fee arrangements.

If an Advisory Client were determined to be a trade or business for purposes of ERISA, it is possible, depending upon the structure of the investment by such Advisory Client and/or its affiliates and other co-investors in a portfolio company and their respective ownership interests in the portfolio company, that any tax-qualified single employer defined benefit pension plan liabilities and/or multiemployer plan withdrawal liabilities incurred by the portfolio company could result in liability being incurred by such Advisory Client, with a resulting need for additional capital contributions, the appropriation of Advisory Client assets to satisfy

such pension liabilities and/or the imposition of a lien by the PBGC on certain Advisory Client assets. Moreover, regardless of whether or not the Advisory Client were determined to be a trade or business for purposes of ERISA, a court might hold that one of the Advisory Client's portfolio companies could become jointly and severally liable for another portfolio company's unfunded pension liabilities pursuant to the ERISA "controlled group" rules, depending upon the relevant investment structures and ownership interests as noted above.

### **European Union Alternative Investment Fund Managers Directive**

The implementation date for the European Union Directive on Alternative Investment Fund Managers (the "Directive") was July 22, 2013. The Directive imposes new regulatory obligations and restrictions on authorized alternative investment fund managers in respect of their portfolio management, marketing, and other investment-related functions. A number of Advisory Clients across the globe potentially are in scope of the Directive's requirements. As such, the Directive could adversely impact Advisory Clients by, among other things: (i) limiting an Advisory Client's investment opportunities and Carlyle's operating flexibility both internally and with respect to investments made by the Advisory Client and (ii) exposing an Advisory Client to conflicting regulatory requirements in the United States and European Union. Because many of the provisions of the directive require the adoption of delegated acts and regulatory technical standards, as the establishment of guidelines, before becoming fully effective, it is difficult to predict the precise impact of the Directive on Advisory Clients. Any regulatory changes arising from the transposition of the Directive into national law that impair the ability of CIM or its affiliates to manage the investment of an Advisory Client, or limit the ability to market Advisory Client interests in the future, may materially adversely affect an Advisory Client's ability to carry out its investment approach and achieve its investment objectives and may materially increase the costs of doing business in Europe.

### **Taxation in Other Jurisdictions**

If an Advisory Client makes investments in a jurisdiction outside the United States, such Advisory Client or its investors (as applicable) may be subject to income or other tax in that jurisdiction. Additionally, withholding tax or branch tax may be imposed on earnings from investments in such jurisdictions. In addition, local tax incurred in non-United States jurisdictions by an Advisory Client or vehicles through which it invests may not be creditable to or deductible by investors. Income or gains of an Advisory Client may be subject to withholding, income, net wealth or other tax in the jurisdictions where its investments are located.

## **Proposed Tax Legislation**

The Obama administration has proposed and the United States Congress has considered proposed legislation that would subject carried interest and gain on the sale of investment partnership interests to higher rates of U.S. federal income tax than under current law. Enactment of any such legislation could cause Carlyle's investment professionals to incur a material increase in their tax liability with respect to their entitlement to carried interest. This might make it more difficult for Carlyle to incentivize, attract and retain these professionals, which may have an adverse effect on Carlyle's ability to achieve the investment objectives of the Carlyle-sponsored investment vehicles advised by CIM.

On February 26, 2014, the Chairman of the House Ways and Means Committee released a discussion draft of proposed legislation that would make major changes to the U.S. federal income tax system (the "2014 Camp Proposal"). It would, among other things, (i) shift the U.S. from a "worldwide" system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to exceptions for certain income derived in low-tax jurisdictions or from intangible assets), and (ii) reduce the top corporate tax rate from 35% to 25%. The 2014 Camp Proposal also includes many revenue raisers to offset the revenue effects of the above proposals, including a provision to tax all state, local and other public pension funds on any unrelated business taxable income. It is possible that certain of the provisions in the 2014 Camp Proposal, if enacted, could have detrimental effects on Carlyle's investments, business and/or investors. It is unclear whether the 2014 Camp Proposal will be enacted into law or if enacted what form it would take.

## **Phantom Income**

Each U.S. investor will be, and non-U.S. investors may be, required to take into account its distributive share of all items of partnership income, gain, loss, deduction and credit, whether or not distributed. Because of the nature of the investment activities of a Carlyle-sponsored investment vehicle, such investment vehicle may generate taxable income in excess of cash distributions to investors and no assurance can be given that a Carlyle-sponsored investment vehicle will be able to make cash distributions to cover such tax liabilities as they arise.

## **No Internal Revenue Service Rulings**

The Carlyle-sponsored investment vehicles generally will not seek rulings from the U.S. Internal Revenue Service (the “IRS”) with respect to any U.S. federal income tax considerations. Thus, positions to be taken by the IRS as to tax consequences could differ from positions taken by such investment vehicles.

## **Absence of Regulatory Oversight**

Notwithstanding that CIM is registered as an investment adviser under the Advisers Act, and that the Carlyle-sponsored investment vehicles advised by CIM may be considered similar in some ways to an investment company, such investment vehicles are not required and do not intend to register as such under the 1940 Act and, accordingly, investors are not afforded the protections of the 1940 Act.

## **Litigation**

In the ordinary course of business, Carlyle is a party to litigation, disputes and other potential claims.

## **Indemnification**

Each Carlyle-sponsored investment vehicle generally will be required to indemnify its general partner (or similar managing fiduciary), its investment adviser, their affiliates and each of their respective members, officers, directors, employees, consultants, advisors, senior advisors, stockholders, shareholders, partners and other persons who serve at the request of its general partner on behalf of such investment vehicle for liabilities incurred in connection with the affairs of such Carlyle-sponsored investment vehicle. Where applicable, members of an Investor Advisory Committee of such investment vehicle will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the applicable investment vehicle’s governing documents. As a result of the provisions contained in the governing agreement of an Advisory Client, investors in such Advisory Client may in certain cases have a more limited right of action against the general partner than it would in the absence of such limitations.

## **Recycling; Reinvestment**

Under certain circumstances, proceeds distributable (or previously distributed) to the investors in a Carlyle-sponsored investment vehicle may be retained and reinvested (or recalled for reinvestment) by its general partner or used (or recalled for use) by

its general partner. Accordingly, due to the recycling of capital commitments, an investor may, in certain circumstances, be required to fund an aggregate amount in excess of its capital commitment during the term of such investment vehicle.

### **Failure to Make Capital Contributions**

If an investor fails to pay when due installments of its commitment to a Carlyle-sponsored investment vehicle, and the capital contributions made by non-defaulting investors and borrowings by such investment vehicle are inadequate to cover the defaulted capital contribution, a Carlyle-sponsored investment vehicle may be unable to pay its obligations when due. As a result, such investment vehicle may be subjected to significant penalties that could materially adversely affect the returns to the investors (including non-defaulting investors).

### **Dilution from Subsequent Closings**

Where applicable, investors subscribing for interests at subsequent closings of a Carlyle-sponsored investment vehicle generally will participate in existing investments, diluting the interest of existing investors therein. Although such investors generally will contribute their pro rata share of previously made draws (plus an additional amount thereon), there can be no assurance that this payment will reflect the fair value of such investment vehicle's existing investments at the time such additional investors subscribe for interests.

### **Diverse Investor Group**

Investors may have conflicting investment, tax and other interests with respect to their investments in a Carlyle-sponsored investment vehicle. As a consequence, conflicts of interest may arise in connection with decisions made by the general partner (or similar managing fiduciary) or investment adviser or collateral manager of such investment vehicle, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to limited partners' individual tax situations.

### **Public Disclosure**

Some of the interests in the Carlyle-sponsored investment vehicle will be held by investors, such as public pension plans and listed investment vehicles, which are subject to public disclosure requirements. To the extent that disclosure of confidential information relating to such investment vehicle or its portfolio

companies results from interests being held by public investors, such investment vehicle may be adversely affected.

### **Limited Access to Information**

Investors' rights to information regarding a Carlyle-sponsored investment vehicle will be specified, and strictly limited, in such investment vehicle's governing documents.

### **No Market for Interests; Restrictions on Transfers**

Interests in the Carlyle-sponsored investment vehicles advised by CIM have not been registered under the Securities Act, or applicable securities laws of any U.S. state or the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and any other applicable securities laws or an exemption from such registration is available. There is no public market for the interests in such investment vehicles and one is not expected to develop. An investor will not be permitted to directly or indirectly assign, sell, pledge, exchange or transfer any of its interests or any of its rights or obligations with respect to its interests without the prior written consent of the general partner (or other similar managing fiduciary) of such applicable investment vehicle, which consent may be given or withheld in accordance with the governing documents of such applicable investment vehicle.

### **Tax Regulations Applicable to Non-U.S. Investment Funds**

In January 2013, the IRS released the final regulations related to the Foreign Account Tax Compliance Act ("FATCA"), which regulations require all entities in a broadly defined class of foreign financial institutions ("FFIs") to comply with a complicated and expansive reporting regime. Beginning in July 2014, FFIs that fail to comply with FATCA are subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% U.S. withholding tax on gross proceeds from the sale of certain U.S. stocks and securities). Under FATCA, non-U.S. entities which are not FFIs also must either certify they have no substantial U.S. beneficial ownership or report certain information with respect to their substantial U.S. beneficial ownership or, beginning in July 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% U.S. withholding tax on gross proceeds from the sale of certain U.S. stocks and securities). In general, these requirements apply to non-U.S. investment funds, such as any non-U.S. Carlyle-sponsored investment vehicle advised by CIM. Among other things, FATCA compliance requires FFIs to obtain and review appropriate due diligence

information with respect to certain existing and prospective investors. In addition, the reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In the event FFIs are unable to do so, certain payments made to the FFIs may be subject to a 30% U.S. withholding tax, which would reduce the cash available to investors. The U.S. has entered into intergovernmental agreements with numerous foreign governments to share information regarding U.S. and foreign investors in their respective jurisdictions as an alternative means of complying with FATCA. These U.S. and foreign reporting requirements may apply to investors who are FFIs and the general partner (or similar managing fiduciary) has no control over whether such investors comply with the reporting regime. Prospective investors in any Carlyle-sponsored investment vehicle should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

In addition to the generally-applicable material risks described above, CIM's significant investment strategies involve additional material risks. The following is a list of material risks that are generally applicable to these investment strategies:

#### Corporate Private Equity: Buyout

##### **Reliance on Portfolio Company Management**

Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although CIM (and any relevant CIM sub-adviser) and the relevant general partner (or similar managing fiduciary) of the applicable Advisory Client will be responsible for monitoring the performance of each investment, there can be no assurance that the existing management team, or any successor, will be able to successfully operate a portfolio company in accordance with the applicable Advisory Client's plans.

##### **Risks in Effecting Operating Improvements**

In some cases, the success of an Advisory Client's investment strategy will depend, in part, on the ability to restructure and effect improvements in the operations of a portfolio company. There can be no assurance that Carlyle will be able to successfully identify and implement such restructuring programs and improvements.

##### **Investments in Highly Leveraged Companies; Use of Leverage**

While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. Investments may



involve varying degrees of leverage, which could magnify the impact of circumstances such as unfavorable market or economic conditions, operating problems and other changes that affect the relevant portfolio company or its industry, resulting in a more pronounced effect of such circumstances on the profitability or prospects of such companies.

#### Corporate Private Equity: Growth Capital

### **Risk of Investments in Less Established Companies**

An Advisory Client may invest a portion of its assets in less established companies. Investments in such companies may involve greater risks than are generally associated with investments in more established companies. To the extent there is any public market for the securities held by the Advisory Client, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources, and therefore, are often more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow.

#### Global Market Strategies: General Risks

### **Bankruptcy Risks**

Given that CIM's Global Market Strategies Group's investment strategies focus primarily on investments in debt, its investments entail risks associated with bankruptcy. Bankruptcy proceedings are inherently litigious, time consuming, highly complex and driven extensively by facts and circumstances, which can result in challenges in predicting outcomes. The equitable power of bankruptcy judges also can result in uncertainty as to the ultimate resolution of claims. Security interests held by creditors are closely scrutinized and frequently challenged in bankruptcy proceedings and may be invalidated for a variety of reasons. To the extent CIM personnel serve on an official or unofficial committee of a portfolio company, it increases the possibility that an Advisory Client will be deemed an "insider" or a "fiduciary" of such company and may restrict the Advisory Client's trading of its investments in such company. Should such assistance be provided before a company enters bankruptcy proceedings, the Bankruptcy court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by the Advisory Client in such company and subordinate any such claim or equity interest in whole or

in part to other claims or equity interests in such company. If a security interest is invalidated, the secured creditor loses the value of the collateral and because loss of the secured status causes the claim to be treated as an unsecured claim, the holder of such claim will almost certainly experience a significant loss of its investment.

#### Global Market Strategies: Structured Credit and GMS Finance

##### **Below Investment-Grade Assets Involve Particular Risks**

An Advisory Client may invest in non-investment grade loans or interests in non-investment grade loans and high-yield debt securities, which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks and generally will be subject to greater risks than investment grade corporate obligations and overall greater risk of timely payment of principal and interest.

##### **Lender Liability Considerations and Equitable Subordination**

A number of judicial decisions have upheld judgments of borrowers against lending institutions on the basis of various evolving legal theories, collectively termed “lender liability.” Because of the nature of the assets in which an Advisory Client may invest, it may be subject to allegations of lender liability. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.”

##### **Investing in Loans Involves Particular Risks**

An Advisory Client may acquire interests in loans either directly (by way of assignment from the selling institution) or indirectly (by purchasing a participation interest from the selling institution or through the acquisition of synthetic securities). Holders of participation interests and synthetic securities are subject to additional risks not applicable to a holder of a direct interest in a loan. Such risks might include risk that a counterparty other than the borrower is not creditworthy.

## **Interest Rate Fluctuations**

General interest rate fluctuations may have a substantial negative impact on an Advisory Client's investment and investment opportunities and accordingly may have a material adverse effect on an Advisory Client's investment objectives and the rate of return on invested capital. The securities in which an Advisory Client will invest have valuations which are based on numerous factors, including specific company characteristics. However, such securities are also susceptible to fluctuations in interest rates and, like treasury bonds, the prices of securities can increase when interest rates fall and decline when interest rates rise.

## **Investing in Structured Finance Obligations Involves Particular Risks**

An Advisory Client that invests in structured finance obligations may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured finance obligation changes based on multiples of changes in interest rates or inversely to changes in interest rates).

## **Investing in Synthetic Securities Involves Particular Risks**

A portion of the investments of an Advisory Client may consist of synthetic securities, the reference obligations of which may be leveraged loans, high-yield debt securities or similar securities. Investments in such types of assets through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of such collateral obligations. With respect to each synthetic security, the Advisory Client will usually have a contractual relationship only with the counterparty of such synthetic security, and not the reference obligor on the reference obligation. As such, the Advisory Client may not have the rights or the ability to enforce rights of a typical lender.

## **Global Market Strategies: Distressed and Corporate Opportunities**

### **Distressed Investments**

An Advisory Client's investment program may include making distressed investments (*e.g.*, investments in defaulted, out-of-favor or distressed bank loans and securities), including in companies that are experiencing financial or operational difficulties or are otherwise out-of-favor. Such investments may be premised on a turnaround strategy. If turnarounds are not achieved, these companies could experience failures or substantial declines in value, and the Advisory Client may not

be able to divest itself of such unprofitable investments in a timely fashion or at all. Additionally, turnarounds may not be achieved within the contemplated investment horizons.

In certain circumstances the execution of a distressed investing strategy involves the ability to identify and exploit the relationships between movements in different securities and instruments within an issuer's or borrower's capital structure (*e.g.*, senior bank debt, second liens, debt securities and other obligations, convertible and non-convertible senior and subordinated debt, preferred equity and common stock). In the event that the perceived pricing inefficiencies underlying an issuer's securities or instruments were to fail to materialize as expected, an Advisory Client could incur a loss.

### Global Market Strategies: Corporate Mezzanine and Energy Mezzanine

#### **Nature of Investments**

The debt securities in which an Advisory Client will invest typically will be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. The ability to influence a company's affairs, especially during periods of financial distress or following an insolvency is likely to be substantially less than that of senior creditors. In addition, the debt securities may not be protected by financial covenants or limitations upon additional indebtedness, may have limited liquidity and may not be rated by a credit rating agency.

#### **Energy Industry Risks**

Investments in the energy industry are subject to certain special risks, including the volatility of commodity prices, regulatory risk, regulatory approvals, political and social changes, documentation and other legal risk, sovereign risk, change of law, renewable energy policy risk, uncertainty of estimates, land title risk, construction risk, environmental matters, catastrophe risk, terrorist activities, climate change risk and new technology risk.

### Real Assets: Real Estate

#### **Real Estate Risks Generally**

An Advisory Client that invests in real estate will be subject to the risks inherent in the ownership and operation of real estate and real estate-related businesses and

assets. These risks include, but are not limited to, the burdens of ownership of real property, general and local economic conditions, the supply and demand for properties, energy and supply shortages, fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in availability of debt financing which may render the sale or refinancing of properties difficult or impracticable, changes in building, environmental and other laws and/or regulations, zoning laws, changes in real property tax rates, changes in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel or leasing activity, environmental liabilities, contingent liabilities on disposition of assets, uninsured or uninsurable casualties, acts of God, terrorist attacks and war and other factors which are beyond the control of the general partner or the investment adviser of such Advisory Client. There is no assurance that there will be a ready market for resale of investments because investments will generally not be liquid. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their resale by the Advisory Client.

#### Real Assets: Infrastructure

#### **Operational Risks/Force Majeure**

The operation and maintenance of infrastructure facilities involve various operational risks, including labor issues, failure of technology (*e.g.*, electronic tolling) to perform as anticipated, structural failures and accidents. Events outside the control of a portfolio company, such as demographic changes, economic growth, increasing fuel prices, government macroeconomic policies, toll rates, social stability, competition from untolled or other forms of transportation, or force majeure events, could significantly reduce the revenues generated or significantly increase the expense of constructing, operating, maintaining or restoring infrastructure facilities.

#### **Risks in Effecting Capital Improvements or Expansion**

In connection with any expansion of a facility or acquisition of a facility in late-stage development, a portfolio company may also face construction risks typical for infrastructure businesses, including, without limitation, (i) labor disputes, shortages of material and skilled labor or work stoppages, (ii) slower than projected construction progress and the unavailability or late delivery of necessary equipment, (iii) less than optimal coordination with public utilities in the relocation of their facilities, (iv) adverse weather conditions and unexpected construction conditions, (v) accidents or the breakdown or failure of construction equipment or processes, and

(vi) catastrophic events such as explosions, fires and terrorist activities and other similar events beyond an Advisory Client's control.

### **Operating Pursuant to Complex Government Licenses, Leases, Concessions or Contracts; Regulatory Approvals**

A portfolio company may be subject to substantial regulation by government agencies. In addition, a portfolio company's operations may rely on government licenses, concessions, leases or contracts that are generally very complex and may result in a dispute over interpretation or enforceability. Where a portfolio company or asset holds a concession or lease from the government, the concession or lease may restrict the portfolio company's or asset's ability to operate the business in a way that maximizes cash flows and profitability. Moreover, additional regulatory approvals, including, without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in the portfolio companies' customer(s) or for other reasons.

### **Real Assets: Energy & Natural Resources**

#### **Volatility of Oil and Natural Gas Prices**

The performance of certain investments will be substantially dependent upon prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile, and such markets are likely to continue to be volatile in the future.

#### **Power Contracts**

The income generated by certain power and energy assets may rely entirely on as few as a single long-term contract. If the costs to produce energy exceed the negotiated contract price or the counterparties to these material contracts cease to perform, do not renew or renew on unfavorable terms, the value of the underlying asset may be materially impaired.

#### **Environmental Matters**

Environmental laws, regulations and regulatory initiatives play a significant role in the energy and power industry and can have a substantial impact on investments in this industry, including in connection with the cost of retiring assets. There can be no

guarantee that all costs and risks regarding compliance with environmental laws and regulations can be identified.

#### Solutions: General Risks

Solutions Advisory Clients that invest in Carlyle funds or Advisory Clients could experience investment risks described herein. For additional information regarding the risks related to Solutions investments, please also see Part 2 of Form ADV of DGAM, AlpInvest or Metropolitan, respectively, available at: <http://www.adviserinfo.sec.gov/>.

#### Solutions: Funds of Funds Risks

##### **Layered Expenses**

Because Solutions investments typically involve investing in underlying funds, in general, Solutions Advisory Clients will bear expenses and pay management fees and performance-based allocations (*i.e.*, carried interest) both at the underlying fund level and with respect to the primary Solutions investment level. As a result, where a Solutions investment involves underlying funds, a Solutions Advisory Client's fees and expenses will be higher than if the Advisory Client invested directly in an underlying fund.

##### **Third-Party Management Risk**

The performance of Solutions Advisory Clients is largely dependent in part on the performance results achieved by the underlying funds in which the Advisory Clients invest. With respect to investments involving underlying funds, Solutions Advisory Clients generally will not have an active role in the day-to-day management of the underlying funds or the ability to direct the specific investment decisions made by the managers of the underlying funds. The failure of such unrelated investment managers to make profitable investments may have a negative impact on an Advisory Client's ability to achieve its investment goals. Additionally, the success of an underlying fund will to a great degree rely on the skill and experience of the managers of the underlying funds and their ability to manage a franchise successfully, generate attractive returns and retain key talent. Managers of underlying funds are likely to rely on a limited number of "key personnel," the departure of which could adversely impact the performance of the underlying fund.

### **Potential Conflicts of Interest**

Investors should be aware that there will be occasions when CIM and its affiliates may encounter potential conflicts of interest in connection with an Advisory Client. There can be no assurance that CIM will resolve any conflict of interest in a manner that is favorable to a particular Advisory Client. Moreover, as a consequence of the Public Company being a publicly traded partnership, the officers, directors, members, managers and employees of Carlyle may take into account certain considerations and other factors in connection with the management of the business and affairs of an Advisory Client that would not necessarily be taken into account if the Public Company were not a publicly traded partnership. In addition to the conflicts of interest discussed elsewhere in this Brochure, the following discussion enumerates certain potential conflicts of interest:

#### **Carried Interest**

As described in Items 5 and 6, carried interest may create incentives to make riskier or more speculative investments on behalf of such investment vehicle than would be the case in the absence of this arrangement.

#### **Valuations of Investments**

There may be situations in which CIM is incentivized to influence or manipulate the valuation of investments. For example, CIM could be motivated to overstate valuation in order to: (i) improve a fund's track record, (ii) minimize losses from writedowns that must be returned prior to an affiliate receiving carried interest, or (iii) for certain funds, and to a lesser extent, increase fees due to the adviser, such as a management fee that is calculated as a percentage of the value of the client assets.

CIM values securities and instruments at their fair value in accordance with the Financial Accounting Standard Board's Accounting Standards Codification ("ASC") Topic 820-10, "Fair Value Measurements." To facilitate this, CIM has a written Valuation Policy, supplemented by guidance and valuation templates. If active market quotations are readily available, CIM generally values securities at their market price, with a discount in certain cases of restricted securities. Otherwise, securities are valued based on management's judgment and estimation in accordance with CIM's Valuation Policy, guidance and templates.

The valuation procedures may differ based on the type of security and/or instrument and the observability of market inputs, and may include reliance on analyses of similar companies, recent comparable transactions, and discounted cash flow models.



For instance, a real asset will be subject to valuation methodologies and procedures that are different from those methodologies and procedures used to value a portfolio company or a derivative. CIM may alter its valuation procedures based on market events, such as trading suspensions, unreliability of pricing sources, or macro-economic events. Investors typically receive disclosure regarding CIM's Valuation Policy in the offering documents for the relevant Advisory Client.

### **Other Fees**

As described in Items 5 and 6, CIM and its affiliates may be entitled to receive cash and non-cash fees in connection with the purchase, monitoring or disposition of investments or from unconsummated transactions. Investors will receive the benefit of certain such fees only as set forth in the governing documents of the relevant Advisory Client.

### **Other Activities of Management**

CIM personnel will devote such time as shall be reasonably necessary to conduct the business affairs of each Advisory Client in an appropriate manner. However, CIM personnel will work on other projects, including CIM's existing corporate investments and other Advisory Clients, and, therefore, conflicts may arise in the allocation of management resources.

### **Allocation of Investment Opportunities to Carlyle**

Carlyle may, from time to time, be presented with opportunities to acquire an investment advisory business or other financial services business that are attractive to Carlyle as a direct corporate investment and which would be incorporated as part of the Carlyle global investment advisory business. To the extent such opportunities are acquired by Carlyle on its own balance sheet, they are not viewed as portfolio investments, but instead as an addition to Carlyle's operating business as an investment adviser. Some of these acquisition opportunities may also appear to be suitable as potential investment opportunities for certain Advisory Clients. However, these potential direct corporate investments generally are excluded by contract from the investment mandate of potentially relevant Advisory Clients (*i.e.*, Global Financial Services Advisory Clients).

### **Allocation of Investment Opportunities with Other Advisory Clients and Conflicting Fiduciary Duties**

CIM may, from time to time, be presented with investment opportunities that fall within the investment objectives of multiple Advisory Clients, and in such

circumstances, except as otherwise provided in the governing documents of the applicable Advisory Client (or investment management agreement in the case of a separately managed account), CIM will allocate such opportunities among the Advisory Clients on a basis that CIM determines in good faith to be fair and reasonable taking into account the relevant facts and circumstances and parameters of the governing documents of the applicable Advisory Clients (or investment management agreement in the case of a separately managed account), the sourcing of the transaction, the nature of the investment focus of each Advisory Client, the relative amounts of capital available for investment, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals for each such Advisory Client and other considerations deemed relevant by CIM in good faith.

Carlyle may offer co-investment opportunities in its sole discretion, is not expected to offer co-investment with respect to all Advisory Client investments and may allocate any such opportunities in its sole discretion, including for example, on the basis of the size of investor commitments to Carlyle funds, vehicles and accounts. The allocation of co-investment opportunities may involve a benefit to Carlyle including, without limitation, fees or carried interest from the co-investment opportunity, and capital commitments to Carlyle Advisory Clients. Carlyle may or may not charge management fees, one-time funding fees and/or carried interest in respect of co-investments, as it determines in its sole discretion. Co-investors generally will not share in broken deal expenses.

#### **Investments in Which Another Advisory Client (or in Which a Vehicle or Account Managed by a Carlyle-Affiliated Investment Adviser) Has a Different Principal Investment**

An Advisory Client may make investments in portfolio companies in which other Advisory Clients (and/or other vehicles or accounts managed by an investment adviser affiliated with CIM) have made or are concurrently making a different principal investment at the time of such Advisory Client's investment (*e.g.*, in different parts of the capital structure). In such situations, the Advisory Clients (and/or other vehicles or accounts managed by an investment adviser affiliated with CIM) may have conflicting interests (*e.g.*, over the terms of their respective investments).

#### **Carlyle Policies and Procedures**

Policies and procedures implemented by Carlyle or its affiliates from time to time (including as may be implemented in the future) to mitigate potential conflicts of

interest and address certain regulatory requirements and contractual restrictions may reduce the synergies across CIM's areas of operation or expertise that an Advisory Client expects to draw on for purposes of pursuing attractive investment opportunities.

### **Service Providers**

Administrators, lenders, brokers, attorneys, consultants, investment banking firms, valuation agents and other service providers may provide services to a Carlyle-sponsored or -affiliated investment vehicle or portfolio company thereof. Certain service providers, including lenders and valuation agents, may be owned by another Carlyle-sponsored or -affiliated investment vehicle. Those same service providers or their affiliates may also be investors in or co-investors alongside a Carlyle-sponsored or -affiliated investment vehicle or sources of investment opportunities or counterparties therewith. This may influence, or have the appearance of influencing, the decision whether to select such service provider (especially for work related to Advisory Clients or portfolio companies thereof). These arrangements may involve fees, servicing payments or similar compensation which is not subject to a management fee offset.

Certain service providers to such Carlyle-sponsored or -affiliated investment vehicles may also be service providers to Carlyle, CIM, its affiliates and/or its employees. This may influence, or have the appearance of influencing, the decision whether to select such service provider (especially for work related to Advisory Clients or portfolio companies thereof). In certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to Carlyle, CIM, their affiliates and/or employees as compared to services provided to Advisory Clients or portfolio companies, which may result in more favorable rates or arrangements than those payable by Advisory Clients or such portfolio companies.

### **Side Letters**

The general partner (or similar managing fiduciary) of a Carlyle-sponsored investment vehicle advised by CIM may enter into side letters or other similar agreements with investors in connection with their admission to such Carlyle-sponsored investment vehicle without the approval of any other investor. The side letters or other similar agreements have the effect of establishing rights under, altering or supplementing the terms of the governing documents of such applicable Carlyle-sponsored investment vehicle with respect to one or more such investors in a manner more favorable to such investors than those applicable to other investors.

Such rights or terms in any such side letter may include, without limitation, (i) fee arrangements with respect to such investors; (ii) excuse rights applicable to particular investments; (iii) reporting obligations of the applicable general partner (or similar managing fiduciary); (iv) waiver of certain confidentiality obligations; (v) consent of the applicable general partner (or similar managing fiduciary) to certain transfers by such investor; (vi) special rights with respect to co-investment; or (vii) rights or terms necessary in light of particular legal, public policy or regulatory characteristics of an investor.

CIM may enter into strategic partnerships directly or indirectly with investors that commit significant capital to a range of products and investment ideas sponsored by CIM. Such arrangements may include CIM granting certain preferential terms to such investors, including blended fee and carried interest rates that are lower than those applicable to an Advisory Client when applied to the entire strategic partnership. Such preferential terms may not be subject to the “most favored nation” provisions of the governing documents of a particular Advisory Client because they are not benefits (economic or otherwise) with respect to the Advisory Client and do not alter the terms of the governing documents of the specific Advisory Client with respect to the investor that has entered into the strategic partnership and therefore are not available to investors in Advisory Client that have not entered into a comparable arrangement with CIM. Investors may be able to elect to benefit from such arrangements if they comply with the general parameters of the entire strategic partnership.

### **Transactions with Investors**

CIM and its affiliates from time to time engage in transactions with prospective and actual investors that entail business benefits to such investors. Such transactions may be entered into prior to or coincident with an investor’s admission to an Advisory Client or during the term of their investment. The nature of such transactions can be diverse and may include benefits relating to one or more Advisory Clients and their respective portfolio companies. Examples include the ability to co-invest alongside Advisory Clients and recommendations to underwriters for allocations in initial public offerings.

### **Certain Guarantees**

From time to time counterparties to transactions in which an Advisory Client participates (including lenders) may require such Advisory Client to guarantee, or otherwise be liable for, the obligations of other Advisory Clients and accounts participating in such transactions.

## **Atlas and International Energy**

Certain members of the international energy team will devote a portion of their time to overseeing existing portfolio companies owned by Atlas NV, which is not an affiliate of Carlyle. The oversight of these past portfolio companies and the international energy team's sub-advisory role for Carlyle could create situations in which there is a potential or actual conflict of interest.

To the extent that such conflicts of interest arise, relevant procedures described in legal fund documents will be followed, and may include the approval of the Investor Advisory Committee, majority interest of the Advisory Client, or other procedural steps reasonably designed to mitigate the risks to the Advisory Client.

## **Solutions**

From time to time, advisory clients of the other Solutions investment advisers (i.e., AlpInvest, DGAM and Metropolitan) are expected to provide capital to or otherwise invest as a co-investor in certain funds, accounts or investments managed or advised by other sponsors or managers of private funds. The strategies of such sponsors or managers have historically overlapped and may continue to overlap with the investment strategies of the advisory clients managed by CIM and other Carlyle-affiliates. It is therefore likely that the Solutions investment advisers will create additional competition in the market or independently consider the same investment opportunities as such CIM Advisory Clients, and thereby, on any given occasion, compete directly or indirectly with CIM or Carlyle for the same or similar investment opportunities.

Relatedly, where permitted under the specific legal and/or organizational documents of a Solutions advisory client, such advisory client may invest in entities in which other advisory clients of CIM or other Carlyle-affiliated investment advisers (*e.g.*, pooled investment vehicles and managed accounts) have or are concurrently making a separate investment and, likewise, advisory clients of CIM or other Carlyle-affiliated investment advisers may invest in entities or assets in which Solutions advisory clients have an existing investment or are concurrently making an investment. In such situations, the Solutions advisory clients and other Carlyle entities may have conflicting interests (*e.g.*, over the terms of their respective investments).

In addition, the Solutions investment advisers may cause an advisory client of such adviser to hold, if permitted under its investment restrictions, interests in one or more

Carlyle funds or co-investment opportunities. Given the relationship between such investment advisers and Carlyle, such advisers may be incentivized to invest in (i) Carlyle-sponsored underlying funds or investments, as opposed to underlying funds or investments sponsored or managed by potential competitors of Carlyle or (ii) certain Carlyle-sponsored underlying funds or investments over other Carlyle-sponsored funds or investments, including where such funds or investments have differing levels of fees or have different relative capital needs. Any such investment by a Solutions advisory client is expected to be made on arm's-length terms (or otherwise consented to or approved, *e.g.*, by investors or advisory clients), subject in any case to applicable information barriers and the confidentiality restrictions arising from particular fund or vehicle agreements, as well as any applicable adviser's fiduciary duties to its advisory clients.

#### **Item 9. Disciplinary Information**

Except as described below, neither CIM, its affiliates, nor any of their professionals have been the subject of any legal or disciplinary finding of an investment-related nature that would be material to an existing or prospective Advisory Client's evaluation of the CIM's advisory business or the integrity of its management.

In the ordinary course of business, Carlyle is a party to litigation, disputes, shareholder actions and other potential claims. We believe that the matters described below are without merit and intend to vigorously contest all such allegations. Additional information may also be available in current public filings with the SEC for The Carlyle Group L.P. (see [www.carlyle.com](http://www.carlyle.com), go to the "Financial Information" portion of the "Public Investors" page, and click on "SEC Filings").

In September 2006 and March 2009, Carlyle received requests for certain documents and other information from the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with the DOJ's investigation of global alternative asset firms to determine whether they have engaged in conduct prohibited by U.S. antitrust laws. We fully cooperated with the DOJ's investigation.

On February 14, 2008, a private class-action lawsuit challenging "club" bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (*Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC*). The complaint alleges, among other things, that certain global alternative asset firms, including Carlyle, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private

transactions, which the plaintiffs allege constitutes a “conspiracy in restraint of trade.” Count One of the complaint alleges an overarching conspiracy relating to certain large buyout transactions. Count Two of the complaint alleges a conspiracy with regard to the buyout of Healthcare Corporation of America. The plaintiffs seek damages as provided for in Section 4 of the Clayton Act and an injunction against such conduct in restraint of trade in the future. The defendants moved for summary judgment on both counts. On March 13, 2013, the Court ruled that plaintiffs could proceed on Count One solely on the basis of an alleged conspiracy to refrain from “jumping” announced proprietary (i.e., non-auction) deals. The Court stated that it will entertain further summary judgment motions by individual defendants as to their participation in the more narrowly-defined alleged conspiracy. The Court also denied summary judgment as to Count Two. On April 16, 2013, Carlyle filed a consolidated motion, renewing its motion for summary judgment on Count One, and moving for reconsideration on Count Two. On April 22, 2013, Carlyle joined a motion seeking reconsideration on Count Two filed on behalf of all Count Two defendants. On June 20, 2013, the Court denied the motion for reconsideration on Count Two filed by the Count Two defendants. On July 18, 2013, the Court denied Carlyle’s individual summary judgment motion regarding its participation in the conspiracy alleged in Count One. The U. S. District Court for the District of Massachusetts has set a schedule for class certification proceedings, which calls for a hearing on class certification sometime after May 19, 2014. The parties have jointly submitted a proposed case management order that calls for a jury trial commencing in November 2014.

Along with many other companies and individuals in the financial sector, Carlyle and CMP are named as defendants in *Foy v. Austin Capital*, a case filed in June 2009, pending in the State of New Mexico’s First Judicial District Court, County of Santa Fe, which purports to be a qui tam suit on behalf of the State of New Mexico. 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, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In May 2011, the Attorney General of New Mexico moved to dismiss certain defendants including Carlyle and CMP on the grounds that separate civil litigation by the Attorney General is a more effective means to seek recovery for the State from these defendants. The Attorney General has brought two civil actions against certain of those defendants, not including the Carlyle defendants. The Attorney General has stated that its investigation is continuing and it may bring additional civil actions.

Carlyle Capital Corporation Limited (“CCC”) was a fund sponsored by Carlyle 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. Several different lawsuits, described below, developed from the CCC insolvency.

First, on July 13, 2009, a former shareholder of CCC, claiming to have lost \$20.0 million, filed a claim against CCC, Carlyle and certain of its affiliates and one of our officers (*Huffington v. TC Group L.L.C., et al.*) alleging violations of Massachusetts “blue sky” law provisions relating to material misrepresentations and omissions allegedly made during and after the marketing of CCC. The plaintiff sought treble damages, interest, expenses, attorney’s fees and to have the subscription agreement deemed null and void and to receive a full refund of the investment. In March 2010, the United States District Court for the District of Massachusetts dismissed the plaintiff’s complaint on the grounds that it should have been filed in Delaware instead of Massachusetts based on the forum selection provision in the plaintiff’s subscription agreement. The plaintiff subsequently filed a notice of appeal to the United States Court of Appeals for the First Circuit. The plaintiff lost his appeal to the First Circuit and filed a new claim in Delaware State Court. The Delaware State Court granted in part and denied in part defendants’ motion to dismiss, which was converted to a motion for summary judgment. The plaintiff has since dismissed his claim without any monetary compensation, in exchange for Carlyle’s dismissal of its counterclaim against him for violation of the forum selection clause.

Second, in November 2009, another CCC investor, National Industries Group (“National Industries”) instituted legal proceedings on similar grounds in Kuwait’s Court of First Instance (*National Industries Group v. Carlyle Group*) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait against CIM or TC Group, L.L.C., based on the forum selection clause in National Industries’ subscription agreement, which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the Delaware Court of Chancery’s decision. Carlyle successfully opposed that motion and the Court’s injunction remained in effect. In November 2012, National Industries appealed that decision to the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court’s decision and upheld the 2011 injunction barring



National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware.

Third, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey, the Superior Court of the District of Columbia and the Supreme Court of New York, New York County, (*Carlyle Capital Corporation Limited v. Conway et al.*) seeking \$1.0 billion in damages. They allege that Carlyle and the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its "brand" over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators, and in February 2012 was reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the court in December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained further detail in support of the existing claims but no new defendants or claims. Defendants prepared a defense to the amended claim, which was filed in December 2013. After the defense is filed, the court is expected to set a schedule for the remainder of the case. In addition, the liquidators' lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

Fourth, on June 21, 2011, August 24, 2011 and September 1, 2011, respectively, three putative shareholder class actions were filed against Carlyle, certain of its affiliates and former directors of CCC alleging that the fund offering materials and various public disclosures were materially misleading or omitted material information. Two of the shareholder class actions (*Phelps v. Stomber, et al.* and *Glaubach v. Carlyle Capital Corporation Limited, et al.*) were filed in the United States District Court for the District of Columbia. *Phelps v. Stomber, et al.* was also filed in the Supreme Court of New York, New York County and was subsequently removed to the United States District Court for the Southern District of New York. The two original D.C. cases were consolidated into one case under the caption of

*Phelps v. Stomber* and the Phelps named plaintiffs were designated “lead plaintiffs” by the Court. The New York case was transferred to the D.C. federal court and the plaintiffs requested that it be consolidated with the other two D.C. actions. The plaintiffs were seeking compensatory damages sustained as a result of the alleged misrepresentations, costs and expenses, as well as reasonable attorney’s fees. On August 13, 2012, the United States District Court for the District of Columbia dismissed both the D.C. and New York shareholder class actions. The plaintiffs moved for leave to amend their complaint and/or for amendment of the Court’s decision, but the trial court denied that motion on June 4, 2013. The plaintiffs’ previously filed notice of appeal to the Court of Appeals for the District of Columbia Circuit was then automatically reinstated and oral arguments on this appeal were held on February 19, 2014.

#### **Item 10. Other Financial Industry Activities and Affiliations**

The following discussion enumerates certain potential conflicts of interest arising from certain of the financial industry activities and affiliations of CIM and its affiliates.

##### **Affiliated Broker-Dealers**

An affiliate of CIM, TCG Securities, L.L.C. (“TCG Securities”), is registered with the SEC as a limited purpose broker-dealer and is a member of the Financial Industry Regulatory Authority (“FINRA”). TCG Securities acts as placement agent (and provides related services) with respect to the offer and sale of certain interests in private investment vehicles (most of which are affiliated, and includes Advisory Clients). TCG Securities does not intend to hold funds or securities for, or owe money or securities to, clients generally.

Certain registered representatives of TCG Securities also may be providing investment advisory services to Advisory Clients and to advisory clients of Carlyle-affiliated investment advisers. These individuals are subject to the policies and procedures of TCG Securities when engaging in securities-related transactional activities in addition to CIM’s (or the Carlyle-affiliated advisers’) policies and procedures.

A subsidiary of CIM, Carlyle Australia Equity Management Pty Limited (“CAEM”), is incorporated in Australia and is licensed by the Australian Securities and Investments Commission as an Australian financial services licensee. As an Australian financial services licensee, CAEM is authorized to carry on a financial services business to (a) provide financial product advice in respect of interests in

managed investment programs and securities to wholesale clients and (b) deal in financial products by arranging for another person to issue, apply for, acquire, vary or dispose of financial products in respect of interests in managed investment programs and securities to wholesale clients in Australia. CAEM does not intend to market and promote investment products sponsored or issued by unaffiliated third-parties, and it does not currently intend to hold client monies or securities for, or owe money or securities to, clients generally.

CAEM and its individual staff members are subject to the policies and procedures of CAEM when performing its authorized financial services activities in addition to CIM's (or the Carlyle-affiliated advisers') policies and procedures.

Another subsidiary of CIM, Carlyle Hong Kong Equity Management Limited ("CHKEM"), is incorporated in Hong Kong and is licensed by the Hong Kong Securities and Futures Commission to carry on Type 1 (dealing in securities) regulated activity. Under its license, CHKEM shall only provide services to professional investors and shall not hold client monies or assets on behalf of clients.

CHKEM and its individual staff members are subject to the policies and procedures of CHKEM when performing its regulated activities in addition to CIM's (or the Carlyle-affiliated advisers') policies and procedures.

Another subsidiary of CIM, Carlyle Singapore Investment Advisers Pte Limited ("CSIAL") holds a capital market services registration with the Monetary Authority of Singapore to carry on fund management and dealing in securities activities in respect of institutional and accredited investors.

CSIAL and its individual staff members are subject to the policies and procedures of CSIAL when performing its regulated activities in addition to CIM's (or the Carlyle-affiliated advisers') policies and procedures.

Avalon Advisors, LLC ("Avalon"), a Houston-based wealth advisor and asset manager that is controlled by an Advisory Client, has a related entity, Avalon Wealth Management, LLC, which is registered with the SEC as a limited purpose broker-dealer and is a member of FINRA. Avalon Wealth Management acts as placement agent with respect to the offer and sale of certain interests in Advisory Clients through a feeder fund sponsored by Avalon Wealth Management.

The TCW Group, Inc. ("TCW"), a Los Angeles-based financial firm controlled by an Advisory Client, has a related entity, TCW Funds Distributors, registered with the SEC as a limited purpose broker-dealer and is a member of FINRA.

### **Affiliated Business Development Companies**

Carlyle GMS Finance and NF Investment Corp. have each elected to be treated as BDCs that are advised by CIM's affiliate, CGMSIM, and are subject to all relevant provisions under the 1940 Act as BDCs.

### **Affiliated CFTC Registrants**

DGAM, ESG and Vermillion are registered with the U.S. Commodities Futures Trading Commission ("CFTC") as Commodity Pool Operators, and DGAM and Vermillion are also registered as Commodity Trading Advisors, and have obtained membership with the National Futures Association ("NFA") in connection with such CFTC registration. CGMSIM has filed for registration with the CFTC as a Commodity Pool Operator, and is seeking membership with the NFA in connection therewith. As of the date indicated on the cover of this Brochure, such registration and membership are pending.

### **Participating Affiliates**

CIM controls, or is under common control with, several affiliates established outside of the United States, as listed below (the "Participating Affiliates"), to assist CIM in rendering investment advice. As noted below, certain Participating Affiliates are registered with the regulatory authorities in their local jurisdiction based on their particular business and requirements of local law. Typically, these Participating Affiliates identify, evaluate and monitor investment opportunities and investments in the foreign jurisdictions in which they are located solely to advise CIM on investment opportunities in respect of an Advisory Client.

CIM subjects each of the Participating Affiliates and their respective employees to CIM's regulatory oversight and its Code of Conduct (see Item 11 below) together with its other compliance policies and procedures, including books and records maintenance, as adopted pursuant to the requirements of the Advisers Act, as applicable (in addition to applicable local laws and regulations).

None of the Participating Affiliates conducts a stand-alone business apart from providing internal analysis and advice to CIM.

**CECP Advisors LLP (registered with the United Kingdom Financial Conduct Authority)**  
**CECP Investment Advisors France S.A.R.L.**  
**CEP Advisors, S.r.l.**

**Carlyle Asia Investment Advisors Limited**  
**Carlyle Australia Investment Advisors Limited**  
**Carlyle Singapore Investment Advisors Pte Ltd (registered with the Monetary Authority of Singapore)**  
**Carlyle Korea Ltd.**  
**Carlyle India Advisors Private Limited**  
**Carlyle Investment Consulting (Shanghai) Co., Ltd.**  
**Carlyle Japan, LLC**  
**Carlyle Mauritius Investment Advisors, Ltd (registered with the Mauritius Financial Services Commission; licensed with the Securities and Exchange Board of India)**  
**Carlyle Nigeria Investment Advisors Limited**  
**Carlyle Peru Consultoria de Inversiones S.R.L.**  
**The Carlyle Group España, SL**  
**Carlyle Real Estate Advisors LLP**  
**Carlyle Real Estate Advisors S.a.r.l. (a/k/a Carlyle Real Estate Advisors France S.a.r.l.)**  
**Carlyle Real Estate Advisors Spain, S.L.**  
**Carlyle Real Estate Advisors Sweden AB**  
**Carlyle Real Estate Advisors UK Limited**  
**Carlyle Real Estate SGR S.p.A. (registered with Banca D'Italia Eurosystem)**  
**Carlyle South Africa Advisors (Pty) Limited (registration with the South Africa Financial Services Board)**  
**Carlyle Management Hong Kong Limited**  
**Carlyle Japan Asset Management YK (registered with the Japan Financial Services Authority)**  
**CREA Germany GmbH**  
**Carlyle MENA Investment Advisors Limited (registered with the Dubai Financial Services Authority)**  
**Carlyle Brasil Consultoria em Investimentos Ltda.**  
**Chengdu Carlyle Investment Consulting Co., Ltd.**  
**CRP Asset Management Group, LLC**  
**Carlyle Mexico Advisors, S. de R.L. de C.V.**  
**Carlyle Mexico Holdings, S.C.**  
**PT Carlyle Indonesia Advisors**

**Affiliated Advisers under Common Control – Separate Federal and State Registrants**

CIM is also under common control with, or controls, several investment advisers that are separately registered as investment advisers under the Advisers Act, as follows: (i)

Claren Road, ESG, Vermillion, CGMSIM, AlpInvest, Metropolitan and DGAM, which were described above in Item 4; (ii) Avalon, a Houston-based wealth advisor and asset manager that is controlled by an Advisory Client; and (iii) multiple advisers affiliated with TCW, a Los Angeles-based financial firm controlled by an Advisory Client. In addition, CIM controls OKLO Financial, an investment adviser registered with the state securities regulatory authority of the State of California.

Each of Claren Road, ESG, Vermillion, AlpInvest, Metropolitan, DGAM, Avalon, TCW and OKLO Financial has an existence independent of CIM. Certain supervised persons of CIM in the GMS segment are also supervised persons of CGMSIM.

### **Relying Advisers**

As discussed in Items 2 and 4 above, CIM controls Churchill, a part of Carlyle's Global Market Strategies Group. Churchill provides debt capital to middle-market companies, and acts as a collateral manager to a CLO focused on providing senior loans to middle-market companies.

Additionally, CIM controls CIM Global, L.L.C. ("CIM Global"), an investment adviser through which CIM provides advisory services to certain Advisory Clients located outside of the United States. CIM also indirectly controls CIM Global Asia, L.L.C. ("CIM Global Asia"), an entity directly controlled by CIM Global that provides advisory services with respect to a real estate asset located in Australia. Additionally, CIM is under common control with Carlyle Realty Essex II, L.L.C., ("CR Essex") a Carlyle vehicle empowered to approve acquisitions and dispositions of real estate-related debt investments by CRP/Essex Holdings II, L.L.C. Also, CIM is under common control with Carlyle Mauritius CIS Investment Management Limited ("Carlyle Mauritius"), an investment adviser that provides advisory services to an Advisory Client located in Sub-Saharan Africa, and is registered with the Mauritius Financial Services Commission.

CIM and each of Churchill, CIM Global, CIM Global Asia, CR Essex and Carlyle Mauritius conduct a single advisory business. Pursuant to reliance on SEC staff interpretation, Churchill, CIM Global, CIM Global Asia, CR Essex and Carlyle Mauritius would be deemed to have registered through CIM's Form ADV as "relying advisers".

### **Exempt Reporting Adviser**

As discussed in Item 4, Carlyle's European structured credit funds are independently advised by CELF, an investment adviser controlled by CIM and authorized and regulated by the UK Financial Conduct Authority. CELF is exempt from registration with the SEC as an "Exempt Reporting Adviser" under the exemption from the SEC's investment adviser registration requirements provided in Rule 203(m)-1 under the Advisers Act.

### **Related General Partners/Managing Members**

CIM is under common control with several general partners/managing members of Carlyle-sponsored investment vehicles. CIM, either directly or indirectly, enters into investment advisory agreements to provide all investment advisory services regulated by the Advisers Act to certain Carlyle-sponsored investment vehicles.

### **Strategic Alliances**

Carlyle has entered into one or more strategic alliances (*e.g.*, NGP, RLJ Equity Partners, and Alumina Investment Management, LLC) with other investment firms which involve certain of its personnel and for which Carlyle may have an ownership interest and may receive some financial benefit for such alliances (*e.g.*, carried interest).

On December 20, 2012, Carlyle acquired an equity interest in NGP based in Irving, TX. NGP focuses on investments across a range of energy and natural resource assets, including oil and gas resources, oilfield services, pipelines and processing. Carlyle is currently entitled to 47.5% of NGP's management-fee revenues and 7.5% of carried interest associated with future NGP funds. Carlyle does not control NGP or its current funds. NGP is separately registered as an investment adviser under the Advisers Act.

### **Hedge Fund Competitive Activities**

Carlyle has acquired a 55% equity interest in each of Claren Road, ESG and Vermillion. Carlyle may in the future form or have a financial or operational interest in the management of one or more additional hedge funds or similar alternative investment vehicles. Claren Road, ESG and Vermillion and such other vehicles may be permitted to allocate a portion of their portfolios to long-dated, illiquid, restricted or other similar securities and investment opportunities (which may include mezzanine, distressed debt and equity, high-yield debt, bank loans and private-equity investments), and whose investment strategies may therefore overlap with those of

CIM's Advisory Clients. It is therefore possible that Claren Road, ESG and Vermillion and such other vehicles may independently consider the same investment opportunities as the Advisory Clients, and thereby, on any given occasion, compete with Carlyle for the same investment opportunity.

#### **Solutions Competitive Activities**

Carlyle's Solutions business, including AlpInvest, Metropolitan and DGAM, may be permitted to allocate a portion of advisory client portfolios to long-dated, illiquid, restricted or other similar securities and investment opportunities (which may include mezzanine, distressed debt and equity, high-yield debt, bank loans and private-equity investments), and whose investment strategies may therefore overlap with those of CIM's Advisory Clients. As noted above, it is therefore possible that Solutions advisory clients may independently consider the same investment opportunities as the Advisory Clients, and thereby, on any given occasion, compete with Carlyle for the same investment opportunity.

Due to the one-way information barrier between Solutions and the rest of Carlyle, and the separate existence of AlpInvest, Metropolitan, and DGAM, and the rest of Carlyle, such potentially competitive activities could occur, and Carlyle may not be aware of such activity and/or be in a position to remedy such activity.

#### **Other Competitive Activities**

Other investment advisers or managers affiliated with Carlyle (or their employees), including Claren Road, ESG, Vermillion, OKLO Financial, AlpInvest, Metropolitan and DGAM, may conduct other business activity that could present a potential conflict of interest with Carlyle, CIM and/or CIM's Advisory Clients.

#### **Possession of Material, Non-Public Information and other Trading Restrictions**

As discussed in Item 8, Carlyle has implemented an information barrier to segregate the flow of material, non-public information between the Global Market Strategies Group and the rest of Carlyle. The purpose of this information barrier is, among other things, to insulate material, non-public information, such that the investment activities of the Global Market Strategies Group, on the one hand, and the rest of Carlyle, on the other hand, are not otherwise restricted because one business unit may have material, non-public information that would be imputed to the other business unit in the absence of an information barrier.



At the same time, within the Global Market Strategies Group, there is no information barrier between CIM and other separately registered investment advisers affiliated with CIM that are part of the group (*e.g.*, Claren Road and ESG) (except that an additional information barrier applies to energy mezzanine, Vermillion and CQMS). The Global Market Strategies Group generally operates a single restricted list to which CIM's Global Market Strategies Advisory Clients are subject (except that a separate restricted list applies to energy mezzanine, Vermillion and CQMS). As a consequence, CIM may not be able to buy or sell a particular security on behalf of certain of its Advisory Clients because the Global Market Strategies Group may be deemed to be in possession of material, non-public information. Similarly, in such circumstances, CIM may not be able to dispose of a security owned by an Advisory Client, even in a declining market, until the information becomes publicly available or no longer material and the security is no longer restricted.

In addition, Carlyle, AlpInvest, DGAM, and Metropolitan maintain a one-way information barrier between the Solutions businesses (including the Carlyle elements of Solutions), on the one hand, and the other business segments of Carlyle, on the other hand. The information barrier restricts the flow of non-public, commercially sensitive investment information regarding Solutions to the other Carlyle business segments, other than for certain regulatory, reporting and similar purposes. Other information is not restricted between the firms. Collaboration between Solutions personnel and other Carlyle personnel is subject to restrictions, including that no Carlyle personnel generally may serve on or participate in any DGAM or AlpInvest investment committees (except that Carlyle Solutions personnel may act as observers). Carlyle personnel generally may not participate on any Metropolitan investment committee (except that Carlyle Solutions personnel may act as observers, may vote in such meetings or serve on any Metropolitan investment committee). In addressing the misuse of material, non-public information, Carlyle, AlpInvest, DGAM and Metropolitan maintain a shared restricted trading list for their personnel and advisory clients, except that the Carlyle Global Market Strategies segment maintains a separate restricted trading list for Global Market Strategies advisory clients.

Carlyle also may from time to time erect information barriers for reasons of insulating material, non-public information and Carlyle may decide to remove information barriers. Carlyle has established policies and procedures regarding the implementation and operation of information barriers and trains its professionals on such policies and procedures.

### **Other Activities and Relationships**

The employees of Carlyle and its affiliates may serve on the boards of directors of portfolio companies of Advisory Clients. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of an Advisory Client.

### **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

#### **Codes of Conduct**

CIM has established and approved a Code of Conduct that sets forth standards of ethical conduct for employees and is designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act. Among other things, the Code of Conduct prescribes standards for dealing with clients ethically, addresses conflicts of interest issues, and supplements personal trading and operating procedures. The Code of Conduct provides guidance in specific areas, including but not limited to, confidentiality of Carlyle information, personal investments, gifts and entertainment and personal political activities. This Code of Conduct is available to clients, investors or prospective clients by writing to Carlyle Investment Management L.L.C., 1001 Pennsylvania Avenue, NW, Suite 220 South, Washington, DC, 20004, Attn: Investor Relations.

In addition to the Code of Conduct referred to in the paragraph above, Carlyle has adopted the New York Attorney General's Public Pension Fund Reform Code of Conduct. Such code of conduct governs Carlyle's interactions with public pension funds in the United States and, among other matters, (a) bans the use of outside placement agents and lobbyists in connection with obtaining investments from such public pension funds, (b) bans certain campaign contributions in the United States and (c) provides for (i) increased disclosure, (ii) strengthened employment, confidentiality and gift policies, and (iii) conflicts of interest procedures as they relate to public pension funds in the United States. This code of conduct is available to clients, investors or prospective clients by writing to the address noted above. The policies and procedures adopted pursuant to the code of conduct have been revised to account for the pay-to-play regulations promulgated by the SEC.

In 2008, Carlyle developed and integrated into its investment process a set of responsible investment guidelines that consider the environmental, social and governance implications of its control-oriented investments. Those guidelines are

available to clients, investors or prospective clients or investors by writing to the address noted above or by visiting Carlyle's website ([www.carlyle.com](http://www.carlyle.com)).

### **Principal Transactions**

CIM, as investment manager, or an affiliate may engage in principal transactions (*i.e.*, transactions in which CIM or an affiliate is deemed to be acting for its own account by buying a security from, or selling a security to, an Advisory Client). These transactions introduce a potential conflict of interest between its own interests and those of the Advisory Client.

CIM has established policies and procedures to comply with the Advisers Act when engaging in principal transactions with Advisory Clients. Additionally, investment guidelines and an Advisory Client's charter documents may limit principal transactions on a more restrictive basis than the Advisers Act. In general, CIM avoids transactions in which it knowingly transacts, directly or through a broker-dealer, with advisory clients of Claren Road, ESG, CGMSIM, OKLO Financial and Vermillion.

In connection with Carlyle's Solutions business, transactions involving the purchase (or sale) of securities by an advisory client of one of the Solutions managers from (or to) an affiliate of Carlyle may constitute a cross-trade or a principal transaction in certain circumstances. Accordingly, prior to any potential cross-trade or principal transaction involving a Solutions manager's advisory client, such manager will determine whether or not the trade would constitute a cross trade or principal transaction, and if so, that all required notice and consent requirements have been satisfied.

### **Fund Notice and Consent**

In certain cases, a principal transaction may occur prior to the initial closing of an Advisory Client (*e.g.*, where an affiliate warehouses loans prior to selling them to an Advisory Client). Details of any such transaction typically are disclosed in the offering documents of an Advisory Client. In other cases, principal transactions may occur after an Advisory Client has held an initial closing. In those cases (other than certain Global Market Strategies Advisory Clients), either the Advisory Client or an independent representative of the Advisory Client must receive notice of the transaction and consent to the transaction prior to CIM or an affiliate settling the principal transaction. An Investor Advisory Committee is typically established for each Advisory Client to, among other things, receive notice of, advise on and provide consent to certain conflicts of interest matters, such as principal transactions.

Certain of the Global Market Strategies Advisory Clients may follow a different procedure because of the absence of a separate Investor Advisory Committee. In the case of a principal transaction, investors may approve of a qualified independent agent to approve of such transactions, where the independent agent determines, in its sole judgment, that the monetary or business consideration arising therefrom would be substantially as advantageous to the Advisory Client as the monetary or business consideration which the Advisory Client would obtain in a comparable arm's-length transaction with a person who is not an affiliate of the Advisory Client. In the case of the Global Market Strategies Advisory Clients, principal transactions generally require that the price reflect the average of the midpoints of the then-prevailing related bid and ask quotations of at least two independent brokers and/or pricing services as a condition to the engaging in the transaction. If two market or pricing service quotations are not available, the instrument will be fair valued in accordance with CIM's valuation policies and procedures.

#### Separate Account Notice and Consent

In the case of an Advisory Client that is a separately managed account, CIM will notify the Advisory Client itself or a duly appointed, independent representative of the Advisory Client to obtain consent for any principal transaction.

#### Other Notice and Consent Considerations

In general, CIM will not engage in principal transactions with accounts of a retirement plan subject to ERISA unless approved by Carlyle's General Counsel, Chief Compliance Officer, and, if necessary, competent ERISA counsel.

#### **Cross Transactions**

CIM may allow Advisory Clients to engage in cross transactions, which occur when a transaction is effected directly between two or more of CIM's Advisory Clients.

Cross transactions may benefit clients because they can avoid certain transaction fees. They also create conflicts of interest because, by not exposing buy and sell transactions to market forces, Advisory Clients may not receive the benefits of best price, or, an adviser might seek to prop up the performance of one Advisory Client by selling under-performing assets to another Advisory Client in order, for example, to earn higher fees.

CIM has established policies and procedures that address permissible cross transactions. Subject to the terms of the Advisory Client's (other than certain Advisory Clients managed by the Global Market Strategies Group) organizational

documents: (i) notice must be provided to each Advisory Client or an independent representative of each such Advisory Client prior to proceeding with the cross transaction; (ii) if an Investor Advisory Committee of a particular Advisory Client has been established under the Advisory Client's charter and organizational documents, it must provide consent (generally by majority of the Committee's members) prior to engaging in such cross transaction; and (iii) records of such notices and consents must be maintained as part of CIM's books and records.

Typically, the governing agreements for each of the Advisory Clients address permissible cross transactions. In the case of a separately managed account, the investment management agreement or similar documentation addresses cross transactions.

The Global Market Strategies Group follows separate procedures when a cross transaction involves Structured Credit Advisory Clients. CIM has established the following procedures in such context: (i) unless otherwise preapproved by Carlyle's Chief Compliance Officer or General Counsel, no consideration should be paid (aside from customary fees for advice and management) other than the current market price of the instrument (including brokerage commissions); (ii) generally, the execution price reflects the average of the midpoints of the then-prevailing related bid and ask quotations of at least two independent brokers and/or pricing services (and if two market or pricing service quotations are not available, the instrument will be fair valued in accordance with CIM's valuation policies and procedures); (iii) settled cross transactions must be reviewed by the Global Market Strategies Brokerage Committee, a committee comprising senior personnel from Carlyle's compliance department and Global Market Strategies Group, to determine compliance with CIM's procedures; (iv) internal documentation of the cross transaction must be established and maintained, including (among other things) internal transaction reports that contain material transaction information, such as independent pricing of the investment crossed between Advisory Clients; (v) Advisory Clients will receive notification of cross transactions in periodic reports; and (vi) Carlyle's Chief Compliance Officer or designee must pre-approve the cross transaction.

ERISA accounts generally will not participate in cross trades absent the written consent of Carlyle's Chief Compliance Officer, General Counsel, and/or competent ERISA counsel.

### **Financial Interests in Advisory Client Recommendations**

As described in Item 5 – “Fees and Compensation”, in addition to management fees payable and carried interest allocable to CIM and its affiliates, CIM and its affiliates may receive acquisition, disposition and ongoing fees with respect to advisory and related services provided in connection with investments by Advisory Clients.

CIM may have a conflict of interest to the extent that it has an opportunity to earn a fee from an acquisition or disposition by an Advisory Client. However, CIM believes that the management fee offset provisions described in Item 5 and the substantial equity commitment by CIM and its affiliates in Advisory Clients substantially mitigates this incentive. Any fees paid to CIM by a portfolio company or an Advisory Client are required to be on an arm’s-length basis and on terms that are no less favorable to the Advisory Client or portfolio company than would be obtained in a transaction with an unaffiliated party. CIM’s policies prohibit the allocation of investment opportunities based on anticipated compensation or profits to Carlyle, CIM, any affiliates or their professionals.

Further, CIM may recommend the securities or loan instruments of portfolio companies for acquisition by an Advisory Client where Carlyle, its affiliates (including a portfolio company of a different Advisory Client), or a Carlyle professional renders services to, engages in transactions with, or has a business relationship with (*i.e.*, board seat), and receives fees from, the portfolio company.

In addition, CIM or its affiliates currently own equity interests in 17 CLOs to which CIM provides advisory services pursuant to separate collateral management agreements. In the future, CIM (or its affiliates) may own similar interests in other such Advisory Clients having similar collateral management arrangements. CIM’s equity interests and contractual rights in these 17 funds give it voting rights on certain matters relevant to the funds. On matters involving retention of the collateral manager (CIM, in these cases), CIM does not, and would not be expected to, have any voting rights. On other matters, CIM’s voting interest can be significant enough to affect the outcome depending on the governance matter, especially matters that may require a super majority to effectuate a particular outcome, such as an early wind up of a fund, which, if blocked by CIM, would continue the collateral management arrangement and fees to CIM or a Carlyle affiliate. CIM expects that, as an equity owner, its economic interests would in most, if not all, cases align with the economic interests of other equity owners in a fund; however, the possibility exists that CIM could take a position on governance matters that would be adverse to other equity holders and indirectly, any noteholders in these particular collateralized loan obligation funds. Should CIM’s interests diverge from the interests of other

equity owners, decisions on how to vote CIM's interest will be presented to Carlyle's Conflicts Committee, a committee comprising senior management to help manage conflicts of interest that may arise during the conduct of Carlyle's business, for review and resolution.

### **Allocation of Investments**

When allocating investment opportunities across Advisory Clients, there could be differences in the financial structure of the Advisory Clients potentially participating in the opportunity that could introduce an incentive for CIM to favor one Advisory Client over another.

### **Company Procedures**

CIM has established trade allocation policies and procedures addressing CIM's duties to allocate investment opportunities among Advisory Clients in a fair and equitable manner. Most investment opportunities that satisfy the investment parameters of a particular Advisory Client will be allocated exclusively to that particular Advisory Client. In certain cases, however, an investment opportunity may be appropriate for more than one Advisory Client. Any such allocation decisions are initially raised with the investment committee of the relevant Advisory Client that originated the investment opportunity. That particular investment committee, together with the Chief Investment Officer, will review the opportunity to determine if an allocation to any other Advisory Client may be appropriate in the first instance, taking into account, among other things, whether the investment satisfies each of the relevant Advisory Client's investment objectives and the Advisory Client's expected allocation based on its available capital commitments. Such allocation determinations are also subject to the review and approval of CIM's Allocation Committee, comprised of senior management. If an investment opportunity will be allocated, CIM will, to the extent practicable, determine in good faith that the allocation is fair and reasonable taking into account the relevant facts and circumstances and parameters of the governing documents of the Carlyle-sponsored investment vehicle advised by CIM (or investment management agreement in the case of a separately managed account), the sourcing of the transaction, the nature of the investment focus of each Advisory Client, the relative amounts of capital available for investment, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals for each such Advisory Client and other considerations deemed relevant by CIM in good faith. In certain situations, participation of multiple Advisory Clients in a single transaction may require consent of the Investor Advisory Committee or the investors of the participating Advisory Clients (or duly

appointed representative in the case of a separately managed account). Allocation decisions are periodically reviewed to determine the reasonableness and fairness of the allocation decisions. CIM's policies prohibit the allocation of investment opportunities based on anticipated compensation or profits to Carlyle, CIM, any affiliates or their professionals.

Parallel and successor Carlyle-sponsored investment vehicles advised by CIM are subject to specialized allocation procedures set forth in the governing agreements of the applicable Advisory Clients. For such Carlyle-sponsored parallel investment vehicles, allocation decisions will be made on the basis of the investment vehicles' relative capital commitments, subject to the vehicle's governing documents. Carlyle generally does not introduce successor Carlyle-sponsored investment vehicles until the capital commitments of a predecessor Carlyle-sponsored investment vehicle have been substantially invested. Subject to legal, regulatory and tax considerations (in addition to any other exceptions set forth in an Advisory Client's governing agreements), a Carlyle-sponsored successor investment vehicle advised by CIM may only co-invest alongside a predecessor investment vehicle on materially the same terms and conditions, and, if so, investments must be allocated between the two investment vehicles on a basis that CIM believes, in good faith, to be fair and reasonable. Such allocation determinations are also subject to the review and approval of CIM's Allocation Committee. In making allocations between such a Carlyle-sponsored successor and a predecessor investment vehicle, CIM may take into consideration, among other things, the relative available capital of the investment vehicles and the investment limitations of the predecessor vehicle. In certain cases, the Investor Advisory Committee may be required to approve any co-investment by a successor investment vehicle in accordance with the terms of the vehicles' governing agreements. In certain cases, where the equity portion of a private equity investment may exceed that which is believed appropriate for one or more of such Carlyle-sponsored investment vehicles, a successor vehicle may be allocated 100% of an investment opportunity. CIM may permit one or more strategic investors to invest in transactions in which the Advisory Client invests if CIM determines in good faith that their investment would be beneficial in consummating the Advisory Client's investment (including where an investor can invest or commit to invest a significant amount of capital in a short period of time), successfully operating the portfolio company or its assets, disposing of the investment or otherwise adding value to the investment because of certain skills or attributes of the strategic investor.

CIM may (but is generally not required to) give investors in an Advisory Client or third parties the opportunity to co-invest in a particular investment, including where CIM determines a portion of the equity required would unreasonably limit



diversification of the Advisory Client. CIM may use any criteria it deems fit when determining which persons to offer such opportunities to, including to investors that are expected to or currently hold significant capital commitments to Advisory Clients. Investors in Advisory Clients are not entitled to be offered any co-investment opportunity by virtue of their investment in a particular Advisory Client. The Advisory Client may bridge such investments until capital is called from co-investors. Any capital returned from such a bridge will generally be treated as not having been contributed for purposes of an Advisory Client's governing documents. The performance of co-investments is not aggregated with that of any Advisory Client, including for purposes of determining the calculation of carried interest or management fees. CIM may or may not charge management fees, one-time funding fees and/or carried interest in respect of co-investments, as it determines in its sole discretion. As discussed in Item 8. Methods of Analysis, Investment Strategies and Risk of Loss – Potential Conflicts of Interest – Side Letters, the general partner (or similar managing fiduciary) of an Advisory Client may enter into side letters or other similar agreements with investors in connection with their admission to such Advisory Client which may include special rights with respect to co-investment.

Carlyle may, from time to time, be presented with opportunities to acquire an investment advisory business or other financial services business that are attractive to Carlyle as a direct corporate investment and which would be incorporated as part of the Carlyle global investment advisory business. To the extent such opportunities are acquired by Carlyle on its own balance sheet, they are not viewed as portfolio investments, but instead as an addition to Carlyle's operating business as an investment adviser. Some of these acquisition opportunities may also appear to be suitable as potential investment opportunities for certain Advisory Clients. However, these potential direct corporate investments generally are excluded by contract from the investment mandate of potentially relevant Advisory Clients (*i.e.*, Global Financial Services Advisory Clients).

In addition to Carlyle's obligation to invest in investments made by CIM's Advisory Clients, the governing documents of many Advisory Clients permit Carlyle to elect, on an investment-by-investment basis, to invest an additional amount in any investment made by such an Advisory Client up to a specified percentage (generally 5%) of the investment opportunity available to Carlyle.

#### Global Market Strategies: Structured Credit Group Allocation Procedures

A Credit Committee generally oversees the selection of investments appropriate for Advisory Clients within the Structured Credit Group. Because multiple Advisory Clients with this strategy often seek similar investments (*e.g.*, loans), allocating

investment opportunities among multiple Structured Credit Advisory Clients is more prevalent relative to the private equity or real assets contexts.

An allocation to an Advisory Client in the Structured Credit Group is prepared via an automated trade order system specifying the Advisory Client(s) that should receive a particular investment opportunity in accordance with the allocation guidelines established by CIM. Generally, initial allocations are prepared on a pro rata basis based upon the assets of the Advisory Client, and, depending on the circumstances, may be augmented, reduced, or excluded for reasons that CIM believes are fair and equitable to the Advisory Clients. CIM may employ other methods of allocation based on the facts and circumstances, including percentage allocation, pro rata by exposure, rotation, and fill rotation.

Allocation methods are documented in the automated trade order system. If an order may be filled in its entirety, the investment will be allocated in accordance with the allocation, unless reallocated, as described below, in a manner that CIM believes is fair and equitable to the Advisory Clients. If a partial fill, the investment is generally allocated on a pro rata basis in accordance with the initial allocation amounts unless reallocated, as described below, in a manner that CIM believes is fair and equitable to the Advisory Clients.

Exceptions, variations in pro rata allocations, and reallocations are documented. For example, orders may be reallocated, especially if a partial fill, but must be documented and the reallocation decision explained to and reviewed by Carlyle's Chief Compliance Officer or designee.

Allocations of investment opportunities among Structured Credit Advisory Clients are periodically reviewed and monitored on an ongoing basis by the Global Market Strategies Brokerage Committees to determine the reasonableness and fairness of the allocations. From time to time, allocation issues may arise between Structured Credit Advisory Clients and other Advisory Clients outside of the Structured Credit Group. CIM seeks to allocate such investments in a fair and reasonable manner in accordance with its established policies.

#### Global Market Strategies: GMS Finance Allocation Procedures

The Churchill CLO invests primarily in senior loans to middle-market companies. Carlyle GMS Finance and NF Investment Corp., BDCs advised by CIM's affiliate, CGMSIM, also invest in middle-market loans, and future CGMSIM clients may have the same or similar investment strategies. Accordingly, CIM and CGMSIM have adopted an allocation policy under which investments appropriate

for both the Churchill CLO and CGMSIM BDC clients are allocated on a rotational basis, alternating between the Churchill CLO, on the one hand, and CGMSIM's BDC clients on the other. Between themselves, CGMSIM's BDC clients are subject to allocation procedures as set out under a recently granted SEC exemptive order.

#### Global Real Estate Allocation Procedures

Certain Advisory Clients within Carlyle's Global Real Estate Group invest in real estate mortgage-backed securities ("RMBS"). When RMBS investment opportunities are available to more than one Advisory Client, such investments generally are allocated based upon the relative amounts of capital available for investment, which amounts are determined periodically on a fair and reasonable basis taking into consideration the diversification requirements of each Advisory Client, recent capital events, targeted returns of such Advisory Client, opportunity costs of other potential investments, and such other considerations deemed relevant by CIM in good faith.

#### **Possession of Material, Non-Public Information and other Trading Restrictions**

Carlyle espouses a management philosophy of collaboration and information sharing among investment professionals to create a unified global network. Carlyle, its affiliates, and their professionals may come into contact with material, non-public information in connection with their activities for Carlyle, CIM, or their affiliates. Carlyle has established policies and procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Under no circumstances may a professional trade in a security while in possession of material, non-public information about that security for his or her own account, the accounts of certain family members or the account of an Advisory Client. Further to this end, as discussed in Item 8, Carlyle has implemented various information barriers to segregate the flow of material, non-public information between its business segments, and in the case of Solutions, to segregate the flow of non-public, commercially sensitive investment information.

### **Item 12. Brokerage Practices**

#### **Broker Selection**

CIM has discretion to select brokers and dealers to execute securities transactions for Advisory Clients. CIM is obligated by law and under its investment management agreements to seek to obtain the best prices and executions for orders executed for Advisory Clients, taking into account quantitative and qualitative factors affecting

the execution quality of portfolio transactions. In particular, CIM reviews factors, such as the experience of the broker or the dealer, its ability to handle the order to the best advantage of the Advisory Client, the nature of the investments to be bought or sold, special circumstances affecting the instrument (*e.g.*, redemption features), and the overall price of the order. As a result, although CIM will seek competitive commissions and spreads, it may not necessarily obtain the most competitive price/commission/spread for portfolio transactions.

From time to time, brokerage firms may provide services to CIM in addition to securities execution. As discussed in Item 8, certain large investment banks that may act as service providers to CIM and its affiliates, Advisory Clients and Carlyle portfolio companies may also invest in an Advisory Client (directly, or by sponsoring a feeder fund).

CIM may select brokers and dealers to execute securities transactions for Advisory Clients who are owned in part by another Advisory Client. For example, an Advisory Client has an ownership interest in Sandler O'Neill, an investment bank and broker-dealer. Certain other Advisory Clients, CIM affiliates or affiliated investment advisers may utilize Sandler O'Neill for securities execution or other investment-related services.

Portfolio trades of certain investment vehicles, generally within Global Market Strategies, can be expected to generate commissions, mark-ups/mark-downs, and other transaction charges that each Advisory Client is responsible for paying. CIM has complete discretion in deciding the brokers and dealers to execute Advisory Client transactions and the fees that will be paid to selected broker-dealers for their services. CIM seeks to obtain best execution of Advisory Client transactions based on a number of factors that include net price for the order, experience of the broker-dealer, order handling ability (particularly block orders), and the nature of the investments to be bought or sold. Global Market Strategies maintains approved broker-dealer lists and the Global Market Strategies Brokerage Committees meet periodically to evaluate the execution capabilities of approved broker-dealers and maintain efforts to seek best execution for their respective Advisory Client transactions.

In assessing the quality of execution for Advisory Client transactions, the Global Market Strategies Brokerage Committees will consider the full range of services available from and the characteristics of each broker-dealer, including, but not limited to execution capabilities, responsiveness, trading experience, reputation and integrity, overall reliability, access to underwritten offerings and secondary market trades, and the value of any "research" services provided to CIM. Typically, trade

allocations are made to full service broker-dealers that provide research reports (typically on an unsolicited basis), services related to settlement and clearance, trade seminars, or access to certain professionals in connection with portfolio transactions. From time to time, depending on the certain circumstances, brokerage firms may pay for trade seminars, travel to such seminars, and lodging and entertainment of Carlyle professionals. Because these benefits, while providing Carlyle employees opportunities for education and fostering of business relationships, can create potential conflicts of interest, the compliance department assesses the types of research or other services that are provided (whether solicited or unsolicited) to determine if they are appropriate under the circumstances and if the provision of such research or services appears to have had any effect on the execution quality for client accounts.

From time to time, the Global Market Strategies Group will engage in transactions with broker-dealers that also have other dealings with Carlyle or its affiliates, including investor referrals and investments in Advisory Clients. Such business relationships could present a potential conflict of interest for CIM. However, the Global Market Strategies Group performs an analysis and review of each broker-dealer's trading and execution capabilities as part of its requirement to seek best execution. That analysis and review is presented to the Global Market Strategies Brokerage Committees for assessment. In the context of investment activity outside of these groups, CIM periodically reviews its relationships and levels of business allocated to key service providers, especially investment banks.

### **Bunching or Aggregating Trades**

Structured Credit Advisory Client trades may be aggregated if aggregation is believed to benefit the Advisory Client and to be consistent with CIM's obligation to seek best execution. CIM is not obligated to aggregate Advisory Client trades, however, and there may be reasons, such as Advisory Client specifications or logistics of the trade itself, where aggregation is not possible. In such situations, the inability to aggregate the trade could result in an increase in transaction costs for the Advisory Client.

CIM may trade the same instruments for multiple Advisory Clients with a particular broker throughout the day. Where possible, the price at which that particular broker handles these multiple orders generally will be averaged among the multiple Advisory Client accounts during a trading day. Trades with a particular broker that occur in the same securities for multiple Advisory Clients on the same day may be averaged across multiple Advisory Client accounts if determined by CIM to be fair, reasonable and appropriate under the circumstances. All exceptions to CIM's policy

on the aggregation of trades must be approved by Carlyle's Chief Compliance Officer or designee.

### **Item 13. Review of Accounts**

#### **Oversight and Monitoring**

The portfolio investments of certain Advisory Clients are regularly reviewed by a team of investment professionals. Depending on the Advisory Client, the team generally includes principal executive officers of CIM, the co-founders of Carlyle, Managing Directors and other investment professionals. These professionals monitor operations, overall performance, financial performance, and strategic direction of each portfolio company owned by the Advisory Clients.

The specific parameters relating to the oversight and monitoring of the portfolio investments of the Advisory Clients for which there is shared oversight (*i.e.*, joint ventures) are set forth in the related offering documents.

The portfolio investments in leveraged bank loans, high yield debt, distressed debt and equity, and other mezzanine securities made by certain of the Advisory Clients are monitored by professionals at CIM under an organizational structure deemed appropriate to provide oversight. The portfolio assets are reviewed and monitored consistent with trading guidelines and events in the capital markets.

#### **Reports to Advisory Clients and Investors**

Investors in CIM-advised (and co-advised) Advisory Clients (excluding certain Global Market Strategies Advisory Clients) typically receive quarterly financial reports and audited annual reports. Investors have the ability to access these reports via a password-protected website. Each of the Global Market Strategies Advisory Clients is required to fulfill reporting obligations to investors based on the terms and conditions of the particular Advisory Client organizational documents (or investment management agreement in the case of a separately managed account). Certain of the Global Market Strategies Advisory Clients deliver annual audited financial statements to investors. Depending on the particular Advisory Client, investors may receive monthly reports or letters, quarterly financial and capital account statements. Reports to separately managed account Advisory Clients are based on the terms of the particular investment management agreement.

Certain investors may have the right to obtain information relating to an Advisory Client. Accordingly, such investors may possess information regarding the business and affairs of an Advisory Client that may not be known to other investors. As a

result, certain investors may be able to take actions on the basis of such information which, in the absence of such information, other investors do not take.

For new Advisory Clients or investors in CIM-advised investment vehicles, a copy of this Brochure is delivered prior to or at the time of entering into an advisory contract.

#### **Item 14. Client Referrals and Other Compensation**

As described in Item 5 – “Fees and Compensation”, in addition to management fees payable and carried interest allocable to CIM and its affiliates, CIM and its affiliates may receive acquisition, disposition and ongoing fees with respect to advisory and related services provided in connection with investments by Advisory Clients.

CIM and its affiliates may enter into cash compensation arrangements with TCG Securities, CHKEM, CAEM, CSIAL, Avalon Wealth Management, unaffiliated placement agents or third parties for introducing investors to Carlyle in respect of an Advisory Client. Any sales charge associated therewith will ultimately be payable by CIM or its affiliates, either directly or through an offset of the management fee payable by the relevant Advisory Client.

In accordance with CIM’s policies, no investor may bear any portion of any fee paid to any third-party solicitor with respect to such investment (whether in the form of higher management fees or other types of fees) without the consent of Carlyle’s General Counsel, Chief Financial Officer and Management Committee.

#### **Item 15. Custody**

CIM uses unaffiliated, qualified, third-party custodians to hold the assets of its Advisory Clients in a manner that it believes complies with SEC standards and guidance. For example, these qualified custodians maintain the client assets in a manner that segregates them from assets for other clients of the custodian.

CIM is deemed to have custody of the underlying assets of many of its Advisory Clients. CIM relies on an exception available to “pooled investment vehicles” from the reporting and surprise audit obligations imposed by the SEC’s custody rule. In addition to holding client assets with an unaffiliated, qualified, third-party custodian, these client assets (where CIM is deemed to have custody) are generally also subject to a year-end audit by a major accounting firm that is a member of, and examined by, the Public Company Accounting Oversight Board (“PCAOB”). The audited financial

statements are then provided to the underlying investors of these Advisory Clients within 120 days of the end of the fiscal year.

To the extent that CIM is deemed to have custody of the underlying assets of an Advisory Client that is not deemed to be a “pooled investment vehicle”, CIM engages a PCAOB major accounting firm to subject such assets to a surprise audit and requests requisite reporting to the Advisory Client. Such Advisory Clients may also have a statutory obligation to perform a year-end audit.

#### **Item 16. Investment Discretion**

Typically, CIM provides investment advice to its Advisory Clients on a discretionary basis, either directly or indirectly through sub-advisory arrangements. An affiliate of CIM, typically the general partner of the applicable Advisory Client, accepts discretionary investment authority for each Advisory Client. CIM, in turn, is retained as investment adviser in order to provide advice with respect to Advisory Client investments. Generally this discretion is subject only to the investment guidelines set forth in the governing agreements (or investment management agreement in the case of a separately managed account) of an Advisory Client. Such governing agreements generally expressly provide that the applicable general partner has the authority to make all decisions concerning the investigation, evaluation, selection, negotiation, structuring, commitment to, monitoring of and disposition of investments.

#### **Item 17. Voting Client Securities**

Because CIM has, or will accept, authority to vote public company securities and other debt instruments (*e.g.*, loans) held by an Advisory Client, it has adopted policies and procedures (the “Proxy Voting Policies and Procedures”) that it believes are reasonably designed to comply with the requirements of the Advisers Act. The Proxy Voting Policies and Procedures reflect CIM’s commitment to vote such instruments in a manner consistent with the best interests of the Advisory Clients.

Under the Proxy Voting Policies and Procedures, unless faced with a conflict of interest between or among Advisory Clients, CIM will vote proxies in a manner that serves the best interest of its Advisory Clients, as determined by CIM in its discretion, taking into account relevant factors, including (i) the impact on the value of the securities owned by the Advisory Client and the returns on those securities; (ii) alignment of portfolio company management’s interest with the Advisory Client’s interest, including establishing appropriate incentives for management; (iii) the ongoing relationship between the Advisory Client and the portfolio companies in



which it invests, including the continued or increased availability of portfolio information; (iv) industry business and practices; and (v) the requirements imposed on CIM and its affiliates in the Advisory Client operating agreements.

CIM reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the applicable Advisory Client. As a result, depending on the Advisory Client's particular circumstances, CIM may vote one Advisory Client's securities differently than it votes those of another Advisory Client, or may vote differently on various proposals, even though the securities or proposals are similar (or identical). In some instances, CIM may determine that it is in the Advisory Client's best interest for CIM to "abstain" from voting or not to vote at all, and will do so accordingly.

At times, conflicts may arise between the interest of an Advisory Client, on the one hand, and the interest of either another Advisory Client or Carlyle or its affiliates on the other hand in consideration of a proxy vote. For example, a vote could arise in relation to a single company that (i) has issued stock to an Advisory Client with a buyout investment mandate, and (ii) has issued bonds or other debt instruments that are owned, in part, by an Advisory Client that invests primarily in debt instruments. To address such potential conflicts, CIM follows the procedures outlined in the Proxy Voting Policies and Procedures, which include the potential involvement of Carlyle's General Counsel, the Chief Compliance Officer and/or the Conflicts Committee, a committee comprising senior management to help manage conflicts of interest that may arise during the conduct of Carlyle's business. The Proxy Voting Policies and Procedures require that in all situations involving a potential conflict between two Advisory Clients, the vote will be made without regard to Carlyle's actual or anticipated compensation.

Proxy voting reports, identifying how proxies were voted where Carlyle has been delegated proxy voting authority, and CIM's Proxy Voting Policies and Procedures are available upon written request to Carlyle Investment Management L.L.C., 1001 Pennsylvania Avenue, NW, Suite 220 South, Washington, DC, 20004, Attn: Investor Relations.

#### **Item 18. Financial Information**

At this time, CIM is not aware of any financial condition that could impair CIM's ability to meet its contractual obligations to its clients. CIM has not been the subject of any bankruptcy petitions, including in the past ten years.

Additional financial information is also available in current public filings with the SEC for The Carlyle Group L.P. (see [www.carlyle.com](http://www.carlyle.com), go to the “Financial Information” portion of the “Public Investors” page).