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## THE CARLYLE GROUP

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

October 25, 2017

Carlyle Investment Management L.L.C.  
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This Brochure provides information about the qualifications and business practices of Carlyle Investment Management L.L.C. and its relying advisers (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 (the “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 “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 annual update filed March 30, 2017.

### **The Carlyle Group**

On October 25, 2017, Carlyle announced that Kewsong Lee and Glenn A. Youngkin will succeed William E. Conway, Jr. and David M. Rubenstein as Co-Chief Executive Officers of Carlyle, effective as of January 1, 2018. Carlyle's three founders, William E. Conway, Jr., Daniel A. D'Aniello, and David M. Rubenstein, will remain actively involved in the business. Messrs. Conway and Rubenstein will serve as Co-Executive Chairmen of Carlyle's Board of Directors, Mr. Conway will also serve as Co-Chief Investment Officer, Mr. D'Aniello will serve as Chairman Emeritus, and all three founders will continue as members of Carlyle's Executive Group. Also effective as of January 1, 2018, Peter J. Clare will become Co-Chief Investment Officer alongside Mr. Conway and will remain co-head of Carlyle's U.S. Buyout Team, and Messrs. Clare, Lee and Youngkin will join Carlyle's Board of Directors.

In September 2017, the Royal Court of Guernsey ruled that Carlyle and the Carlyle Capital Corporation Limited ("CCC") board of directors have no liability in connection with a case brought against Carlyle and the CCC board of directors by the liquidators of CCC. It is unclear whether the liquidators will elect to appeal the trial court decision. Please also see Item 9 for additional updates.

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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, offering specialized investment funds and other investment vehicles that invest across a range of industries, geographies, asset classes and investment strategies. 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) Investment 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 co- and 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 Carlyle Group L.P. (NASDAQ: CG), an affiliate of CIM (the “Public Company”), directly and indirectly own and control CIM. TC Group, L.L.C. is the primary direct owner of CIM. Carlyle Group Management L.L.C. is the sole 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 representing limited partnership interests in the Public Company (the “Common Units”) and have the ability to control TCG Carlyle Global Partners L.L.C., an entity that holds a special voting unit issued by the Public Company. Public unitholders hold 100% of the economic interests in the Public Company. As of December 2016, the Public Company indirectly held approximately 26% 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; the remaining limited partnership interests in Carlyle Holdings were held by senior Carlyle professionals, affiliates of Mubadala Development Company and their respective related persons.

Carlyle Group Management L.L.C. is managed by a Board of Directors (Carlyle’s founders, William E. Conway, Jr., Daniel A. D’Aniello, and David M. Rubenstein represent a majority in interest of the membership interests in Carlyle Group Management L.L.C. and, accordingly, have the ability to appoint and remove the members of the entity’s Board of Directors, subject to the

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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.

terms of its limited liability company agreement). Carlyle has formed a group of senior management professionals that establishes the management structures and policies and procedures for the operation and development of the firm (the “Executive Group”), guided by the strategic direction set by the Board of Directors. Together with Messrs. Conway, D’Aniello and Rubenstein, Glenn A. Youngkin, Carlyle’s President and Chief Operating Officer, Jeffrey W. Ferguson, Carlyle’s General Counsel, and Curtis L. Buser, Carlyle’s Chief Financial Officer, comprise the Executive Group. Carlyle also has formed a committee responsible for reviewing and considering significant operational or financial matters (the “Management Committee”). Comprising members of the Executive Group and other members of senior management, the Management Committee serves as a resource to the Executive Group.

As of December 31, 2016, CIM managed approximately \$101.9 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, 2016, CIM also managed approximately \$1.2 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, CIM acts as a co-investment adviser with certain affiliated investment advisers (*e.g.*, AlpInvest Partners). Further, 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 a sub- or 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 Investment Company Act of 1940, as amended (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 generally are not employees of Carlyle, but who have business relationships with Carlyle or industry expertise in the sector in which a particular Advisory Client may be investing (including, without limitation, operating executives, operating advisors, consultants, former employees, senior advisors, and other similar professionals) 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) Investment 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 continues to pursue a wide variety of corporate investments of different sizes and growth potentials. Carlyle also sponsors corporate private equity funds in Europe, Asia, Japan, Africa and South America. Carlyle's Corporate Private Equity Advisory Clients (which include funds advised by CIM) 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 their core industries (including, aerospace, defense and government services, consumer and retail, financial services, healthcare, industrial, telecom, media and technology and transportation).

- *Buyout.* Carlyle's buyout teams advise a diverse group of Advisory Clients that invest in buyout transactions that typically 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). Carlyle's buyout platform also includes a longer-duration global buyout fund.
- *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, established in 1997 with Carlyle's first U.S. real estate fund, focuses on investments in real estate, infrastructure, and energy and natural resources (including power) companies and projects, and includes investment funds advised by NGP Energy Capital Management, LLC ("NGP"), a separately-registered investment adviser based in Irving, TX. The real assets business segment seeks investment opportunities in tangible assets, such as office buildings, hotels, retail and residential properties, industrial properties and 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 the foregoing.

Carlyle owns certain economic interests in NGP. NGP focuses on investments across a range of energy and natural resource assets in North America, including oil and gas resources, oilfield services, pipelines and processing. 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 pursues real estate opportunities primarily in the United States, Asia and Europe, generally focuses on acquiring single-property assets (rather than large-cap companies with real estate portfolios), and has historically pursued primarily an opportunistic real estate investment strategy. CIM has expanded its platform to include a core-plus real estate investment strategy, seeking what CIM identifies as more stable, relatively low volatility equity investments in the U.S. as compared to its opportunistic investment strategy. In the U.S., Carlyle continues to focus on single asset transactions in its opportunistic and core-plus investment strategies. Outside the U.S., Carlyle continues to opportunistically invest in the Asian and European markets.
- *Energy and Natural Resources.* Carlyle's energy and natural resources activities focus on buyouts, growth capital investments and strategic joint ventures in the midstream, upstream, energy and oilfield services sectors, the renewable and alternative sectors and the power and infrastructure industries around the world.
  - CIM and Riverstone Investment Group L.L.C., a separately registered and unaffiliated investment adviser, jointly advise several energy and renewable resources funds. Carlyle and Riverstone have mutually decided not to pursue additional jointly managed funds.
  - Currently, NGP is primarily responsible for Carlyle's North American energy investment strategy; however CIM does not control the investment decisions of any NGP funds.
  - Carlyle's power investment team focuses on investment opportunities in the North American power generation sector. Leveraging the expertise of the operating professionals at Cogentrix Energy L.L.C. ("Cogentrix"), a Carlyle portfolio company, the power investment team seeks investments where it can obtain direct or indirect operational control to facilitate the implementation of technical enhancements.
  - In 2013, Carlyle engaged an investment team, primarily through Atlas NV, an unaffiliated investment adviser, and supplemented such team with additional Carlyle investment professionals to develop its international energy platform (which generally excludes power generation facilities). The international energy team focuses on a full range of energy assets outside of North America, including oil and gas exploration and production, midstream, oilfield services and refining and marketing in Europe, Africa, Latin America and Asia. Through Atlas NV,

certain of the Atlas-associated investment professionals also manage 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. For purposes of this Brochure, references to CIM do not include references to Atlas NV.

- In 2016, Carlyle launched a global infrastructure fund focused on infrastructure assets, business and investments in global developed market. Previously, Carlyle’s infrastructure business invested solely in North American infrastructure companies and assets.

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 previous investments of Atlas NV).

### Global Market Strategies

Carlyle’s Global Market Strategies business segment, established in 1999 with Carlyle’s first high yield fund, advises a group of private fund, separately managed account and business development company (“BDC”) advisory clients that pursue investment strategies including loans and structured credit, distressed credit, private credit, and energy credit. 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 U.S. structured credit investment team focuses on investments primarily in performing senior secured bank loans through structured vehicles and other investment vehicles. CIM and its relying adviser, Carlyle CLO Management L.L.C. (“Carlyle CLO”), advise 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 Credit:* Carlyle’s distressed credit 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.



- *Private Credit:* Carlyle’s private credit team manages BDCs, which invest primarily in middle market first lien loans (which include unitranche, “first out” and “last out” loans) and second lien loans, 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 (e.g., companies with annual EBITDA ranging from \$10m to \$100m) that lack access to the broadly syndicated loan and bond markets.

Carlyle GMS Investment Management LLC (“CGMSIM”) acts as the adviser to advisory client affiliates of CIM, which have elected to be treated as BDCs under the 1940 Act, and additional middle market finance advisory clients. For the purposes of this Brochure, references to CIM do not include references to CGMSIM.

- *Energy Credit:* Carlyle’s energy credit team seeks to invest primarily in privately-negotiated mezzanine debt investments in North American energy and power projects and companies. CIM advises the energy credit Advisory Clients.

### Investment Solutions

Carlyle’s Investment Solutions segment primarily operates through AlpInvest Partners, B.V. (“AlpInvest”) and Metropolitan Real Estate Equity Management (“Metropolitan”), and to a lesser extent, certain CIM personnel, and offers investment programs focused on funds of funds, secondary purchases of existing portfolios and managed co-investments. AlpInvest is the private equity asset manager in the Investment Solutions segment. Metropolitan is the private real estate asset manager in the Investment Solutions segment<sup>2</sup>.

Each of AlpInvest, Metropolitan and CIM may act as an investment adviser to certain advisory clients within Carlyle’s Investment 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 AlpInvest, Metropolitan or Carlyle.

### *AlpInvest*

Carlyle owns 100% of the equity interests of AlpInvest, an investment adviser separately registered under the Advisers Act. AlpInvest is the private equity asset manager and adviser in the Investment Solutions business segment, and provides investment advisory services to pooled investment vehicles sponsored by AlpInvest and customized separately managed accounts.

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<sup>2</sup> Carlyle has been in the process of winding down the Diversified Global Asset Management Corporation (“DGAM”) business, a Toronto-based affiliate of CIM and global manager of hedge funds, acquired by Carlyle in February 2014. In connection with the wind down of its operations, DGAM has applied to the Ontario Securities Commission to surrender its investment fund manager and portfolio manager licenses and retain an exempt market dealer license to facilitate certain marketing activities in Canada for Advisory Clients.

AlpInvest invests globally across the private equity spectrum (including mezzanine and venture capital) through direct subscriptions for interests in private equity and mezzanine funds, secondary purchases of interests in private equity funds and private operating companies, co-investments in single portfolio companies alongside private equity funds. For the purposes of this Brochure, references to CIM do not include references to AlpInvest.

### *Metropolitan*

Metropolitan, an investment adviser separately registered under the Advisers Act, is wholly owned by Carlyle. Metropolitan is the private real estate asset manager and adviser in the Investment Solutions business segment and provides investment advisory services to pooled investment vehicles sponsored by Metropolitan and customized separately managed accounts. Metropolitan invests globally through direct subscriptions for interests in private equity real estate funds, secondary purchases of interests in private equity real estate funds and private real estate investments, and co-investments in single real estate investments alongside sponsors of private real estate funds. For the purposes of this Brochure, references to CIM do not include references to Metropolitan.

## **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 frequently 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, 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 generally are reduced (offset) by a specified portion of the Service Fees that arise out of such Advisory Client’s investment activities. The Service Fees can be and often are substantial, and if not fully offset pursuant to organizational documents will be indirectly borne by investors.

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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 Carlyle-affiliated advisers, such as CGMSIM, AlpInvest, and Metropolitan, unaffiliated advisers, such as Atlas NV and NGP, or any Carlyle portfolio companies, including portfolio companies that are investment advisers registered with the SEC (e.g., Content Partners LLC, or the separately registered investment advisers affiliated with The TCW Group, Inc.).

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 a committee of third-party investors with Carlyle (an "Investor Advisory Committee"). Among the measures CIM uses to mitigate such conflict is involving outside counsel to review and advise on such agreements and provide insights into commercially reasonable terms.

Moreover, Carlyle and its personnel can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of Advisory Clients that will not be subject to the management fee offset or otherwise shared with the Advisory Clients, investors and/or portfolio companies. For example, airline travel or hotel stays incurred as Advisory Client expenses typically result in "miles" or "points" or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not *de minimis* or difficult to value, inure exclusively to Carlyle and/or such personnel (and not the Advisory Clients, investors and/or portfolio companies) even though the cost of the underlying service is borne by the Advisory Clients, investors and/or portfolio companies.

On occasion, Carlyle employees may be asked to serve on the board of directors of companies in which an Advisory Client has fully exited its ownership interest. Such companies are not portfolio companies and therefore, to the extent the Carlyle employee is offered standard board compensation for their services post-exit, such standard board compensation is not subject to the management fee offset or otherwise shared with the Advisory Clients, investors and/or portfolio companies.

Advisory Clients also typically 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 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 (*e.g.*, 0.6 - 2.0 percent of remaining third-party capital). However, if the fee base changes during a period for which fees have been called in advance, any excess fees paid generally are not returned to the investor. For certain separately managed accounts and certain longer-dated carry funds, management fees generally range from 0.2 to 1.0 percent of contributions for unrealized investments or the current value of the investment. 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.

Within the Global Market Strategies segment, for CLOs and other structured products, management fees generally range from 0.15% to 1.0% based on the total par amount of assets or the aggregate principal amount of the notes in the CLO and are due quarterly or semi-annually. Management fees for the CLOs/structured products are governed by indentures and collateral management agreements, and are paid until redemption of the securities issued by the CLOs, which is generally five to ten years after issuance.

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 have 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.

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

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

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 generally are not employees of Carlyle, but who have business relationships with Carlyle or industry expertise in the sector in which a particular Advisory Client may be investing (including, without limitation, operating executives, operating advisors, consultants, former employees, and other similar professionals), 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 or an affiliate thereof is entitled to receive fees from portfolio companies of an Advisory Client, a portion of such fees paid to CIM or such affiliate (*e.g.*, in general, 65-80% or, in the case of portfolio company directors' fees associated with Carlyle employees, 100%, although offset rates vary within and across Advisory Clients) 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.

With regards to certain portfolio companies, including Corporate Private Equity portfolio companies, CIM or its affiliates receive a fee in connection with consulting, monitoring or other ongoing services provided to the portfolio company.

In the case of monitoring fees, these may be payable as fixed dollar amounts or may be calculated as a percentage of EBITDA (or other similar metric). The terms of a monitoring agreement may in certain instances provide for an acceleration of fees paid to CIM or its affiliates upon termination following certain milestones, such as an initial public offering or sale, and where the lump-sum termination fee may be calculated as the present value of hypothetical foregone future payments (which in some cases may extend past the term of the fund and may be based on an assumed growth in EBITDA or other metric used to calculate the fee) and be calculated using a discount rate as low as the risk-free rate, as determined by CIM. In the case of transaction fees, often times these will be calculated as a percentage of the total enterprise valuation of the transaction, which is generally the aggregate amount of funds raised (including invested capital, rolled-over equity and debt assumed or financed by the Advisory Client and/or the portfolio company and its subsidiaries and affiliates).

In the context of real estate pooled investment funds, CIM or an affiliate from time to time charges project fees for providing bona fide 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 internal and external co-investment vehicles will be retained by Carlyle and will not be applied to reduce the management fees paid by an Advisory Client fund (even if the governing agreements of such co-investment vehicles provide for lower or no management fees for the investors or participants therein). Investors in external co-investment vehicles may also be charged a one-time fee, an ongoing management fee and/or an administrative fee in connection with such co-investment activity. Furthermore, in the event break-up or topping fees are paid to an Advisory Client in connection with a transaction that is not ultimately consummated, external co-investment vehicles that invest alongside an Advisory Client will generally not be allocated any share of such break-up fees or toppings fees. Similarly, such external co-investment vehicles generally do not bear any portion of broken deal expenses (such as reverse termination fees, extraordinary expenses such as litigation costs and judgments and other expenses) for unconsummated transactions; such amounts are borne by the applicable Advisory Client fund.

CIM engages and retains operating executives, operating advisors, consultants, former employees, senior advisors, and other similar professionals, in all cases, who are not employees of CIM (“Operating Professionals”). Operating Professionals receive payments from, or allocations with respect to, portfolio companies (as well as from Advisory Clients) for their services (including for serving on a portfolio company’s board of directors). In such circumstances, such payments from, or allocations with respect to, portfolio companies and/or Advisory Clients will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by CIM, be deemed paid to or received by CIM (nor will such amounts be deemed paid to or received by affiliates or personnel of CIM) and such amounts will not be subject to the management fee offset provisions described in Item 5 (meaning that such compensation received from the portfolio company will be indirectly borne by the Advisory Client without any offset to such Advisory Client’s management fee). To the extent operating executives are engaged through a retainer agreement with CIM, Carlyle typically bears the expense of base retainer fees. These Operating Professionals may have the right or may be offered the ability to co-invest without fees or carry alongside or in Advisory Clients, including in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio company (which may have the effect of reducing the amount invested by and returned in respect of an Advisory Client investment). Additionally, and notwithstanding the foregoing, these Operating Professionals may be (or have the preferred right to be) investors alongside or in other Advisory Clients. Operating Professionals may be compensated (including pursuant to retainers and expense reimbursement) by CIM, an Advisory Client and/or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops. Certain Operating Professionals may be subject to contractual obligations to exclusively provide certain services to CIM.

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 applicable 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 Investor Advisory Committee. Among the measures CIM uses to mitigate such conflict is involving outside counsel to review and advise on such agreements and provide insights into commercially reasonable terms.

### **Common Types of Expenses**

Expenses that are typically borne by Advisory Clients (or their respective portfolio companies) generally include, without limitation (i) organizational expenses, (ii) expenses associated with redemptions, admissions and ongoing marketing, (iii) fees, costs and expenses (including indemnification costs and expenses) for administrators, custodians, depositaries, attorneys, accountants, tax advisors, consultants, brokers, deal finders, agents, valuation experts, data providers (including data subscriptions, related systems and services from such data providers and data management software), other advisors and professionals (including audit and certification fees), operating executives, operating advisors, former employees, and other such professionals (to the extent such individuals are not Carlyle employees and are performing duties for a specific Advisory Client or a portfolio company, including but not limited to, service as a member of the portfolio company board of directors), (iv) costs incurred in preparing, printing and distributing reports physically and/or electronically to investors (including related information management systems whether maintained at Carlyle or otherwise), (v) all out-of-pocket fees, costs and expenses related to developing, sourcing, bidding on, evaluating, negotiating, structuring, obtaining regulatory approvals for, purchasing, trading, settling, maintaining custody of, holding, monitoring, financing, accounting and disposing of actual investments (including related information management systems and travel expenses, which includes, without limitation, meals, business or first class air travel, private car transportation, and 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, group purchasing programs for portfolio companies, and any insurance indemnity or litigation expense), (vi) broken deal expenses (including expenses that would have been borne by co-investment vehicles), to the extent not reimbursed by an entity in which the Advisory Clients have invested or propose to invest, or other third parties, (vii) brokerage commissions, prime brokerage fees, custodial expenses, agent bank fees, other bank service fees, travel and related expenses and other investment costs, fees and expenses incurred in connection with actual investments, (viii) interest, fees and expenses related to borrowings made by the Advisory Clients, including interest on bridge loans and outstanding billings from CIM to Advisory Clients, and agent servicing fees, (ix) costs of litigation, D&O liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Advisory Clients, including indemnification obligations to any placement agents and finders in connection with the offer any sale of interests in the Advisory Clients, (x) out-of-pocket expenses incurred in connection with complying with provisions in side letter agreements, including "most favored nations" provisions, (xi) out of pocket expenses incurred in connection with legal, tax and regulatory compliance with U.S. federal, state, local, non-U.S. or other law or regulation (including,

without limitation, regulatory filings of CIM and its affiliates relating to an Advisory Client and its activities, FATCA (defined below) and any comparable legislation or regulations published by any other relevant jurisdiction, and reports, disclosures, filings and notifications prepared in accordance with and with respect to the organization or maintenance of any entity used in connection with compliance by an Advisory Client with the Directive (defined below) as well as any travel and accommodation expenses related to such entity; the salary and benefits of any personnel reasonably necessary for the maintenance of such entity; or other related overhead expenses), (xii) fees, costs and expenses related to the organization, operation or maintenance of any intermediate entity or similar administrative structure used to acquire, hold, dispose, or otherwise facilitate an Advisory Client's investment activities (including, without limitation, any related travel and accommodation expenses, salaries and benefits of any personnel reasonably necessary for the operation or maintenance of such intermediate entities, or other related overhead expenses), (xiii) expenses of winding up or liquidating the Advisory Clients and intermediate entities, (xiv) any taxes, fees or other governmental charges levied against the Advisory Clients or payable by the Advisory Clients and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Advisory Clients; (xv) out-of-pocket costs and expenses, if any, associated with any third-party examinations or audits (including similar services) of the Advisory Clients or CIM that are attributable to the operation of such Advisory Clients or requested by one or more investors in an Advisory Client, (xvi) costs and expenses of any lenders, investment banks and other financing sources (including principal and interest and fees and other expenses arising out of borrowings made by Advisory Clients, (xvii) the out-of-pocket and legal and other expenses of the Investor Advisory Committee (including, but not limited to, travel-related expenses for members of certain Investor Advisory Committees), (xviii) certain expenses associated with any meeting or conference of the Advisory Clients (including meetings or conferences attended by investors in the Advisory Clients), and (xix) to the extent not paid by an intermediate entity or its investors, the expenses of such intermediate entity or its investors (which expenses may in the general partners' (or similar managing fiduciary's) discretion be specially allocated to the investors with a direct or indirect interest in such intermediate entity).

Certain Advisory Clients are also required to bear the allocable compensation and other direct expenses of in-house accountants, administrators, legal, tax, compliance, leveraged purchasing, ESG (environmental, social and governance) and other professionals whose roles with respect to the Advisory Client include the preparation of financial statements, investor reports, tax returns, the administration of assets and any expenses incurred in connection with the Advisory Client's (and any related feeder funds') legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law and regulation.

In addition, CIM from time to time engages one or more fund administrators or similar service providers to perform certain functions in relation to an Advisory Client, including but not limited to, coordination of the Advisory Clients' legal entity management function, execution and recordkeeping associated with applicable tax elections and filings, support for the Advisory Clients' valuation process and support of certain investor correspondence, investor data management and reporting requests as well as data collection required for various regulatory reporting that the Advisory Clients are obligated to comply with. Certain employees of such service providers dedicate substantially all of their time to Advisory Clients and spend all or a significant majority of their business time at the Carlyle offices. These expenses are borne by the Advisory Clients. In



certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to Carlyle, the general partner (or similar managing fiduciary), CIM or their affiliates as compared to services provided to the Advisory Clients and their portfolio companies, which may result in more favorable rates or arrangements than those payable by the Advisory Clients or such portfolio companies.

Carlyle has designed a group purchasing program whereby portfolio companies are afforded the option to participate in group purchasing arrangements with Carlyle, its affiliates and other portfolio companies. Companies that participate in the program are able to take advantage of group discounts which have been negotiated with various vendors and service providers. Portfolio companies voluntarily participate in the program, and Carlyle allocates aggregate ongoing third-party administration costs for the program among the applicable Advisory Clients (and Carlyle). Carlyle and its affiliates also participate in the program, are allocated a portion of the ongoing third-party administration costs, and receive substantially the same benefits and discounts as portfolio companies, and such benefit is not subject to any offset.

From time to time, Advisory Clients may recruit a management team to pursue a new “platform” opportunity expected to lead to the formation of a future portfolio company. In other cases, Advisory Clients may form a new portfolio company and recruit a management team to build the portfolio company through acquisitions and organic growth. In both cases the Advisory Client will bear the expenses of the management team or portfolio company, as the case may be, including any overhead expenses, employee compensation, diligence expenses or other related expenses in connection with backing the management team or the build out of the platform company. Such expenses may be borne directly by the applicable Advisory Client as partnership expenses or indirectly as the Advisory Client bears the start-up and ongoing expenses of the newly-formed platform portfolio company. None of these expenses will offset any Advisory Client management fees.

Expenses frequently will be incurred by multiple Advisory Clients. Carlyle allocates aggregate costs among the applicable Advisory Clients (and, in certain cases, among Carlyle and applicable Advisory Clients) in accordance with allocation policies and procedures which are reasonably designed to allocate expenses in a fair and reasonable manner over time among such Advisory Clients. However, expense allocation decisions can involve potential conflicts of interest (*e.g.*, an incentive to favor Advisory Clients that pay higher incentive fees or conflicts relating to different expense arrangements with certain Advisory Clients). Under its current expense allocation policies, Carlyle generally allocates the expense among the Advisory Clients on a pro rata basis based on assets under management. Carlyle may, however, use other methods to allocate certain expenses among the Advisory Client if it deems another method more appropriate based on the relative use of a product or service, the nature or source of the product or service, the relative benefits derived by the Advisory Clients from the product or service, or other relevant factors. Nonetheless, the portion of a common expense that Carlyle allocates to an Advisory Client for a particular product or service may not reflect the relative benefit derived by Advisory Client from that product or service in any particular instance. Carlyle’s expense allocations often depend on inherently subjective determinations and, accordingly, expense allocations made by Carlyle in good faith will be final and binding on 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), prime brokerage and other account fees, custodial expenses, agent bank and other bank service fees, travel and related expenses 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 and other expenses incurred in connection with organizing and establishing an Advisory Client, its general partner (or similar managing fiduciary), the general partner (or similar managing fiduciary) of the general partner, any entity established in connection with Carlyle’s side-by-side commitment and its general partner or managing member, any vehicle formed to receive carried interest and its general partner or managing vehicle, as applicable, and the associated advisory arrangements with the investment adviser and its sub-advisers and the marketing and offering of interests in an Advisory Client (including travel and accommodation expenses, filing fees and expenses and printing costs or other similar amounts incurred by the general partner (or similar managing fiduciary) or its affiliates in connection with the offering of and subscription for interests in an Advisory Client) 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. In addition, Carlyle may engage placement agents and finders (whether independent or employed by Carlyle) in connection with the offer and sale of interests to certain investors, but the fees due to such placement agents and finders, except as otherwise disclosed to investors, either will be borne by Carlyle or to the extent paid by an Advisory Client will be treated as excess organizational expenses and will be subject to an offset against management fees.

### Broken Deal Expenses

Investors in Advisory Clients generally are required to bear out-of-pocket costs and expenses incurred in connection with deals that are not ultimately completed. Typically, these expenses include (i) legal, accounting, advisory, consulting or other third-party expenses (including, without limitation, amounts payable to Operating Professionals and other third parties) in connection with making an investment that is not ultimately consummated, and any related travel and accommodation expenses (whether incurred by third parties or by Carlyle), although, in some cases, 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, (iii) any amounts paid to an individual or group pursuing a business plan that is not successfully implemented and (iv) 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). While Carlyle’s internal co-investment vehicles that invest alongside our Advisory Client

funds are allocated a portion of expenses, including, but not limited to, broken deal expenses, all other co-investment vehicles (particularly those formed to invest alongside an Advisory Client fund in a single investment) generally will not share in broken deal expenses. Investing in an Advisory Client does not give investors any rights, entitlements or priority to co-investment opportunities.

## **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, projected hold period and/or other parameters. Investment opportunities that satisfy the investment objective of a particular Advisory Client typically will be allocated to that particular Advisory Client, although may be allocated among multiple Advisory Clients with overlapping investment objectives in accordance with the firm's investment 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, external co-investment vehicles are only allocated investment opportunities if CIM determines there is excess capacity in respect of 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 investment allocation 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,

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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

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.

To seek to reduce the effect of such incentives, CIM has adopted written investment allocation policies 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, mandate or policies, risk tolerance, return targets, projected hold periods, 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 of opportunities that may be appropriate for 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, entities associated with non-U.S. and U.S. state and local governments and their instrumentalities.

CIM and its affiliates typically 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 governing documents. This may include arrangements with affiliated or unaffiliated advisers for purposes of obtaining analyses that would assist the applicable 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

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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. 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. To a lesser extent, CIM Corporate Private Equity Advisory Clients may also be permitted to make certain debt investments, including debt investments in portfolio companies. 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 and 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. CIM has expanded its platform to include a core-plus real estate investment strategy, seeking what CIM identifies as more stable, relatively low volatility equity investments in North America as compared to its opportunistic investment strategy. Within real estate, the investment approach includes pursuing single-asset transactions, working with strong joint venture partners

or managers, sourcing deals directly, focusing on sector-specific strategies, actively managing the investments and timing of exits, across its opportunistic and core-plus strategies. Within energy and natural resources, the investment activities focus on international energy, North America (through NGP), power generation and global infrastructure.

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 or its relying adviser, Carlyle CLO, focus on credit opportunities and other market strategies throughout the entire business cycle. These investment vehicles include structured credit, distressed credit, private credit, and energy credit, and generally invest in loans and bonds, distressed, synthetic products, and other forms of private credit, although certain investment vehicles also have the flexibility to make equity investments. 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. 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 distressed credit 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.

The investment committee for the energy credit funds 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 private credit team primarily manages advisory clients for CGMSIM, including BDCs and other advisory clients, and generally are focused on middle-market loans. For additional information regarding the methods of analysis, investment strategies and risk of loss of CGMSIM, please see Part 2 of Form ADV for CGMSIM, available at: <http://www.adviserinfo.sec.gov/>.

### **Investment Solutions**

The Investment Solutions business primarily operates through AlpInvest and Metropolitan (as well as certain Carlyle personnel associated with CIM). AlpInvest seeks to provide attractive investment returns through carefully selected portfolios of private equity and mezzanine investments within the parameters of its investment mandates. Metropolitan seeks to provide attractive investment returns through carefully selected portfolios of real estate investments within the parameters of its investment mandates. The core investment strategies employed by each of AlpInvest and Metropolitan are primary fund investments, secondary investments and co-investments. Investments for Investment 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 or Metropolitan, 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 (i) 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 or (ii) make any distribution to its investors. Accordingly, an investment in an Advisory Client should only be considered by persons for whom a speculative, illiquid and long-term investment is an appropriate component of a larger investment program and 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 Carlyle's ability to attract and retain talented investment professionals, the skill and expertise of those 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. There is ever-increasing competition among alternative asset firms, financial institutions, private equity firms, investment managers and other industry participants for hiring and retaining qualified investment professionals. There can be no assurance that Carlyle personnel will not be solicited by and join competitors or other firms and/or that Carlyle will be able to hire and retain any new personnel that it seeks to maintain or add to its roster of investment professionals. In addition, members of the investment team or investment committee of a particular Advisory Client will work on other projects for Carlyle. Conflicts may arise in allocating management time, services or functions, and Carlyle's ability to access other professionals and resources within Carlyle for the benefit of a particular Advisory Client may be limited. Such access may also be limited by the internal compliance policies of Carlyle, including, without limitation, information barrier policies, or other legal or business considerations.

### **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 have no opportunity to control the day-to-day operation of an Advisory Client or make investment, disposition 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 power, energy and 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 negotiate the pricing of transactions, 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. Estimated operating results will normally be based primarily on investment professional or management 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 assumptions will be accurate or that the estimated results will be achieved, and actual results may vary significantly from the projections. General economic, political and market conditions, which are difficult to predict, 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 CIM, the investment professionals or the performance of any other Carlyle investments does not provide assurance of future investment performance or returns.

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

The turmoil in recent years in the U.S. and global financial markets, including the 2016 U.S. presidential election and the June 2016 “Brexit” referendum in the United Kingdom, has illustrated that the current environment continues to be characterized by uncertainty, volatility and instability. Lending and the global credit markets continue to experience substantial volatility, disruption, liquidity shortages and, to some extent, financial instability. There can be no assurances that conditions in the U.S. and global financial markets will not worsen or adversely affect one or more of an Advisory Client’s portfolio companies or other investments, its access to capital or leverage,

its ability to effectively deploy its capital or realize investments on favorable terms or its overall performance.

### **Continuation of Trends and Conditions**

The investment strategies of Advisory Clients and the availability of opportunities satisfying Advisory Clients' risk-adjusted return parameters may rely in part on the continuation of certain trends and conditions observed in the financial markets and in some cases the improvement of such conditions. Trends and historical events do not imply, forecast or predict future events and, in any event, past performance is not necessarily indicative of future results. There can be no assurance that the assumptions made or the beliefs and expectations currently held by CIM will prove correct and actual events and circumstances may vary significantly.

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

A combination of lack of liquidity and regulatory constraints on the amount of debt banks may extend for transactions in the capital markets may make it significantly more difficult for sponsors such as 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. The ability of Advisory Client investments to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise, or to raise capital in the leveraged finance debt markets, which historically have been cyclical with regard to the availability of financing.

### **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.

Potential competitors include other investment partnerships and corporations, business development companies, strategic industry acquirers, sovereign wealth funds, domestic and international public pension plans, the public debt and equity markets, and other financial investors investing directly or through affiliates. Some of these competitors may have more relevant experience, greater financial and other resources and more personnel than Carlyle. It is possible that competition for appropriate investment opportunities may increase, which may also require certain Advisory Clients potentially to participate in auctions more frequently. The outcome of these auctions cannot be guaranteed, thus potentially reducing the number of opportunities available to such Advisory Clients and potentially adversely affecting the terms, including price, upon which investments can be made. To the extent that the Advisory Clients encounter competition for investments, returns to investors may decrease. Further, it is possible that private equity sponsors unaffiliated with Carlyle may be reluctant to present financing opportunities to certain Advisory Clients because of their affiliation with Carlyle. Advisory Clients may incur bid, due diligence or other costs on investments which may not be successful.

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.

In addition, Carlyle's investment strategies in certain sectors depend on its ability to enter into satisfactory relationships with joint venture partners or Operating Professionals. There can be no assurance that Carlyle's current relationship with any such partner or Operating Professional will continue (whether on currently applicable terms or otherwise) with respect to the Advisory Clients or that any relationship with other such persons will be able to be established in the future as desired with respect to any sector or geographic market and on terms favorable to the Advisory Clients.

### **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 such investments (in whole or in part) in a timely manner. An Advisory Client's ability to realize an investment can be dependent on the public equity markets (*e.g.*, demand for new public offerings and security sales) and investments in publicly-traded securities are subject to restrictions under relevant securities laws (*e.g.*, Section 16 of the U.S. Securities Exchange Act of 1934, as amended). 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. Even with respect to strategies in which investors have certain liquidity rights or rights to request redemption or withdrawal during the life of the fund, for example, core-plus real estate investment strategy, pursuant to the terms of the fund, the general partner (or similar managing fiduciary) still has significant discretion to limit or restrict such liquidity rights, and therefore, no assurance can be given that investors can redeem or withdraw their investments.

### **Investments Longer than Term**

A Carlyle-sponsored investment vehicle may make investments which may not be advantageously disposed of prior to the date that the winding up of such investment vehicle commences, 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 of the liquidation of the remaining assets 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.

### **Confidential or 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 commercially-sensitive, 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. From time to time Carlyle may permit an investment professional within the Global Market Strategies Group to participate in certain Carlyle-related investment advisory activities outside of Global Market Strategies. To the extent such investment professional acquires material, non-public information in connection with such activities, the Global Market Strategies Group may be restricted from making certain investments.

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. 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 Investment Solutions (which includes AlpInvest, Metropolitan, 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 certain non-public, commercially sensitive investment information otherwise known by or in the possession of Investment Solutions. From time to time, the various Investment Solutions managers will 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 U.S. 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. Similarly, investors from any country in which U.S. dollars are not the local currency should note that changes in the rate of exchange between U.S. dollars and such currency may have an adverse effect on the value, price or income of the investment to such investor.

Carlyle may enter into hedging transactions designed to reduce such currency risks with respect to an Advisory Client. There may be foreign exchange regulations applicable to investments in foreign currencies in certain jurisdictions.

### **Hedging Policies/Risks**

In connection with the acquisition, holding or disposition of certain investments, an Advisory Client may employ hedging techniques designed to reduce certain risks, including, among others, 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.

Managers of certain pooled investment vehicles with exposure in commodity interests may be required to register with the U.S. Commodity Futures Trading Commission (“CFTC”) as commodity pool operators (“CPOs”) and/or commodity trading advisors (“CTAs”) and become members of the National Futures Association (the “NFA”). In connection with their hedging/risk management (and other) swap activity, applicable 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. In addition, as a result of their hedging/risk management (and other) swap activity, certain Advisory Clients or related entities also may be subject to a wide range of other regulatory requirements, such as: (i) potential compliance with certain commodities interest position limits or position accountability rules; (ii) administrative requirements, including recordkeeping, confirmation of transactions and reconciliation of trade data; (iii) mandatory central clearing and collateral requirements; and (iv) initial and variation margin requirements for uncleared swap transactions. Furthermore, any determination to cease or to limit investing in interests which may be treated as “commodity interests” in order to comply with the regulations of the CFTC and/or available exemptions may have an adverse effect on an Advisory Client’s ability to implement its investment objectives and to hedge risks associated with its operations.

## **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). The regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of investments held by an Advisory Client and the ability of such Advisory Client to effectively employ its investment and trading strategies. Increased scrutiny and newly-proposed legislation applicable to private investment funds and their sponsors may also impose significant administrative burdens on CIM and may divert time and attention from portfolio management activities. For example, the interest payments on the indebtedness used to finance Advisory Client investments have historically been deductible expenses for income tax purposes, subject to limitations under applicable tax law and policy. Any change in such tax law or policy to eliminate or substantially limit these income tax deductions, as has been discussed from time to time in various jurisdictions, would reduce the after-tax rates of return on the affected investments, which may have an adverse impact on the financial results of affected Advisory Client investments.

There is a material risk that regulatory agencies in the United States, Europe, Asia, 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 alternative asset management (including private equity) industry, or other changes that could adversely affect alternative asset management firms, private equity firms and the funds they sponsor, including an

Advisory Client. In addition, and in particular light of the changing global regulatory climate, Advisory Clients may be required to register under certain foreign laws and regulations, and need to engage distributors or other agents in certain non-U.S. jurisdictions in order to market to potential investors, which may generally limit an Advisory Client's ability to raise capital and/or increase the costs and expenses borne by the investors in such Advisory Clients.

## **Regulatory Approvals**

Government entities may exercise their discretion to change or increase regulation of a portfolio company's operations, or to implement laws, regulations or policies affecting the portfolio company's operations, separate from any contractual rights they may have, in a manner that causes delays or adversely affects the operation of the business of such portfolio companies and/or the applicable Advisory Client's ability to effectively achieve its investment objectives. A portfolio company (or project) also 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. Governments have considerable discretion in implementing regulations, including, for example, the possible imposition or increase of taxes on income earned by a portfolio company or gains recognized by an Advisory Client on its investment in such portfolio company that could impact a portfolio company's business as well as such Advisory Client's return on investment with respect to such portfolio 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.

## **Cyber Security Breaches, Identity Theft, Privacy Breaches, and Other Threats**

Carlyle's, its Advisory Clients' and its portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, security threats (including ongoing cyber security threats to and attacks on our information technology infrastructure), infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Carlyle's, its Advisory Client's and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure or unauthorized disclosure of data could harm Carlyle's, an Advisory Client's or a portfolio company's reputation, subject any such entity and their respective affiliates to legal claims, increased costs, financial losses, data privacy breaches, regulatory intervention, and otherwise affect their business and financial performance. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means.

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

For an Advisory Client that invests in a non-U.S. country, investments involve certain risks not typically associated with investing in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which such Advisory Client's non-U.S. investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iii) 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; (iv) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less governmental supervision and regulation in some countries; (v) certain economic, social 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, including the risk of sovereign defaults, and the possibility of expropriation or confiscatory taxation and adverse economic and political development; (vi) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities; (vii) differing, and potentially less well-developed or well-tested laws regarding creditor's rights (including the rights of secured parties), corporate governance, fiduciary duties and the protection of investors, (viii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (ix) political hostility to investments by foreign or private equity investors; and (x) less publicly available information.

In addition, an Advisory Client's investments in emerging markets may be subject to a greater risk of loss than investments in more developed and traditional markets (such as the United States and Europe). Emerging markets are more likely to experience inflation, currency and liquidity risks, geopolitical turmoil, and rapid changes in economic conditions than more developed and traditional markets. Emerging markets often have less uniformity in accounting and reporting requirements, unreliable securities valuation and greater risk associated with custody of securities. Predictions about general economic and market conditions are uncertain and the impact of such factors will be larger or smaller depending on the types of investments and the markets in which they trade.

## **Industry-Specific Investments**

For an Advisory Client that invests in a particular industry, investments involve certain additional material risks. For example, the communications and technology industries, are heavily regulated. Other more highly regulated industries may include energy, power, natural resources, healthcare, financial services (including banking and mortgage servicing), insurance and also businesses that primarily serve customers that are governmental entities, including in the defense industry. In particular, 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, the financial services industry is highly dependent on communication and information systems and is exposed to many types of operational risks. Furthermore, 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.

### **Unionized Labor**

Additionally, certain portfolio companies may have a unionized workforce or employees who are covered by a collective bargaining agreement, which could subject any such portfolio company's activities and labor relations matters to complex laws and regulations relating thereto. Moreover, a portfolio company's operations and profitability could suffer if it experiences labor relations problems. Upon the expiration of any such portfolio company's collective bargaining agreements, it may be unable to negotiate new collective bargaining agreements on terms favorable to it, and its business operations at one or more of its facilities may be interrupted as a result of labor disputes or difficulties and delays in the process of renegotiating its collective bargaining agreements. A work stoppage at one or more of any such portfolio company's facilities could have an adverse effect on its business, results of operations and financial condition.

### **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. This is particularly the case in circumstances where an Advisory Client's portfolio includes a substantial amount of distressed debt investments, which typically do not qualify as "venture capital investments" for purposes of determining the VCOC status of such Advisory Client.

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 U.S. 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 European Union (“EU”) Alternative Investment Fund Managers Directive (the “Directive”), as transposed into national law within the member states of the European Economic Area (the “EEA”), imposes requirements on EEA alternative investment fund managers managing or marketing alternative investment funds (“AIFs”) and non-EEA alternative investment fund managers (“AIFMs”) that market AIFs within the EEA. Certain Carlyle entities act as non-EEA AIFMs with respect to certain Carlyle AIFs (*i.e.*, Advisory Client funds) and are therefore in scope of certain of the Directive’s requirements. The minimum requirements under the Directive for marketing an AIF under applicable national private placement regimes include transparency, disclosure and reporting requirements to the investors of the Advisory Clients and regulators in the EEA. Where the AIF pursues a strategy of acquiring control of non-listed companies and issuers established in the EEA, the Directive restricts any distribution, capital reduction, share redemption and/or acquisition of shares for a period of 24 months following the acquisition of control of the company (these are the so-called “asset stripping” rules). In parallel, certain member states of the EEA apply more stringent measures to marketing by non-EU AIFMs, such as requiring a depositary; while other member states have chosen not to allow non-EEA AIFMs to market AIFs in their territory at all. The Directive could adversely impact Advisory Clients by, among other things: (i) limiting the territories in the EEA in which Carlyle is able to market its funds to investors; (ii) limiting an Advisory Client’s investment opportunities and Carlyle’s operating flexibility both

internally and with respect to investments made by the Advisory Client; (iii) exposing an Advisory Client and/or its manager to conflicting regulatory requirements in the United States and one or more member states of the EEA; and (iv) constraining an Advisory Client's ability to carry out its investment approach, which may make it more difficult to achieve its investment objectives and may materially increase the costs of doing business in the EEA.

## **European Market Infrastructure Regulation**

Certain aspects of the European Market Infrastructure Regulation ("EMIR") impact Advisory Client's business activities. Among other things, EMIR imposes a set of requirements on EU derivatives activities, including risk mitigation, risk management, regulatory reporting and margin and clearing requirements. Given the global scale of the derivatives activity of various Carlyle entities, including certain Advisory Clients, and the various regulatory regimes to which Carlyle is subject, EMIR could result in duplication of administration and increased transaction costs related to such derivatives activities.

## **Impact Of Brexit Referendum**

In June 2016, the United Kingdom (the "UK") held a referendum on whether to remain a member state of the EU, in which voters favored the UK's withdrawal from the EU. At this time, it is difficult to predict how the UK's withdrawal from the EU will be implemented and what the implications will be for Advisory Clients and portfolio companies. It is likely that the UK will remain a part of the EU for at least two more years; however, uncertainty or unpredictability about the impact of the UK withdrawing from the EU may continue to be a source of financial instability and/or other adverse effects, including an impact on international markets and trade. In addition, other member state withdrawals from the EU could exacerbate the potential risks and consequences for Advisory Clients and portfolio companies.

## **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, capital gains 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-U.S. jurisdictions by an Advisory Client or vehicles through which it invests may not be creditable to or deductible by investors in their respective jurisdictions. 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. In certain situations, an Advisory Client may hold investments through entities organized outside the United States that are treated as corporations for U.S. federal income tax purposes. Investors in such Advisory Clients may be subject to special rules applicable to "controlled foreign corporations," or "passive foreign investment companies" with respect to investments made through such entities, which could result in certain disadvantageous tax treatment and could subject such investors to additional reporting requirements.

## **Proposed Tax Legislation**

The United States Congress has previously considered 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, and President Trump has expressed his support for such legislation. 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 Advisory Clients.

## **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 certain Advisory Clients 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, investigations, 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, certain service providers and their respective affiliates and each of their respective members, officers, directors, agents, employees, consultants, advisors, Operating Professionals, 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. Carlyle typically engages placement agents and other similar finders and consultants in connection with the offering of interests in an Advisory Client and, to the extent permitted by such Advisory Client's governing agreements, causes such Advisory Client to indemnify such agents, finder or consultants. 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. Such indemnification obligations may be material and have an adverse effect on the returns to the investors in an Advisory Client. For example, in their capacity as directors of portfolio companies, the directors, officers, partners, affiliates, members or employees associated with the applicable general partner, CIM and their affiliates as well as Operating Professionals may be subject to derivative or other similar claims brought by shareholders or creditors of such companies. The indemnification obligation of such Advisory Client would be payable from its assets, including the unpaid capital commitments of the investors therein. If the assets of such Advisory Client are insufficient, the applicable general partner may recall distributions previously made to the applicable investors (subject to certain limitations set forth in the governing agreement of such Advisory Client). Furthermore, 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. It should be noted that Advisory Client's may, at their expense, purchase insurance for such Advisory Client, its general partner, CIM and their associated employees, agents and representatives. In addition, because the Advisory Client may advance the costs and expenses of an indemnitee pending outcome of the particular matter (including determination as to whether or not the person was entitled to indemnification or engaged in conduct that negated such person's entitlement to indemnification), there may be periods where an Advisory Client is advancing expenses to an individual or entity with whom such Advisory Client is not aligned or is otherwise an adverse party in a dispute. Moreover, in its capacity as general partner of an Advisory Client, such general partner will, notwithstanding any actual or perceived conflict of interest, be the beneficiary of any decision by it to provide indemnification (including advancement of expenses). This may be the case even with respect to settlement of actions where any indemnitee was alleged to have engaged in conduct that disqualifies any such person from indemnification or exculpation so long as such general partner (and/or its legal counsel) have determined that such person is entitled to indemnification.

### **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 similar managing fiduciary) 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, and to the extent such recalled or retained amounts are reinvested in investments, an investor will remain subject to investment and other risks associated with such investments.

## **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). If an investor defaults, it may be subject to various remedies as provided in the governing documents of an Advisory Client, including, without limitation, a forfeiture of its interests therein, preclusion from further investment in the Advisory Client and participation in further investments by the Advisory Client, reductions in its capital account balance and a forced sale of its interest therein at a discount.

## **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, structuring or sale of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. For example, investors may be given the opportunity to invest in certain investments indirectly through an entity treated as a corporation for U.S. federal income tax purposes (a "Corporation") rather than through an entity treated as a partnership for U.S. federal income tax purposes. While investing through a Corporation may provide certain tax benefits to certain investors, the investment returns of investors that invest through a Corporation may be less than the investment returns received by other investors. It is also possible that a Carlyle-sponsored investment vehicle may seek to sell shares of the Corporation in connection with the disposition of an investment, which would likely provide certain benefits to investors participating through the Corporation but may result in total sales proceeds which are lower than such proceeds otherwise would be had the sale not been structured in part as a sale of shares of the Corporation. Nonetheless, in such case such reduced sales price may be borne by all the investors participating in the investment and not just those investors who participated in the investment through the relevant Corporation. In other circumstances, the acquirer may pay less on a per unit basis for the shares of the Corporation as compared to the underlying assets (and in certain cases the quantum of the reduction may not be specified by the applicable purchaser and may be determined by Carlyle in good faith). In those instances where the acquirer pays less on a per unit basis for the shares of the Corporation, Carlyle

may nonetheless be entitled to receive the same amount of carried interest it would have received had the shares of the Corporation not been sold. Accordingly, Carlyle will have a conflict of interest in circumstances where shares of the Corporation are intended to be sold in determining the quantum of the reduction in sales proceeds attributable due to the sale of shares of the Corporation, as well as whether or not the reduction should be borne solely by the investors participating through the Corporation.

### **Public Disclosure**

Some of the interests in Advisory Clients 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 Advisory Client or its portfolio companies results from interests being held by public investors, such Advisory Client may be adversely affected. The Advisory Client may, in order to prevent any such potential disclosure, withhold information otherwise to be provided to such public investors. Conversely, potential future regulatory changes applicable to investment advisers and/or the accounts they advise could result in Carlyle and/or the Advisory Client becoming subject to additional disclosure requirements, the specific nature of which is as yet uncertain.

### **Limited Access to Information**

Investors' rights to information regarding an Advisory Client will be specified, and strictly limited, in such Advisory Client's governing documents.

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

Interests in the Advisory Clients 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 Advisory Clients 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 Advisory Client, which consent may be given or withheld in accordance with the governing documents of such Advisory Client.

### **FATCA**

The Foreign Account Tax Compliance Act ("FATCA") requires all entities in a broadly defined class of foreign financial institutions ("FFIs") to comply with a complicated and expansive reporting regime or be subject to a 30% U.S. withholding tax on certain U.S.-sourced payments (and beginning in 2019, a 30% U.S. withholding tax on gross proceeds from the sale of certain U.S. stocks and securities) and requires non-U.S. entities which are not FFIs to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S.-

sourced payments (and beginning in 2019, 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. 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 or, if subject to an intergovernmental agreement (“IGA”), register with the IRS. Failure to comply with the preceding requirements, could expose Carlyle and its investors to a 30% U.S. withholding tax, which may discourage certain investors from investing in U.S. investment funds. Prospective investors in any Carlyle-sponsored investment vehicle should consult their own tax advisors regarding all aspects of FATCA as it affects their particular circumstances.

In addition, the Organisation for Economic Cooperation and Development (the “OECD”) has developed Common Reporting Standard (“CRS”) rules for the automatic exchange of FATCA-like financial account information amongst OECD member states. Like FATCA, CRS imposes certain due diligence, documentation and reporting requirements on various Carlyle entities. While CRS does not contain a potential withholding requirement, non-compliance could subject Carlyle to certain reputational harm. Moreover, reporting under CRS is scheduled to commence in 2017 in countries that have signed on as “early adopters.” Compliance with such regimes could result in increased administrative and compliance costs and could subject certain Carlyle-sponsored investment entities to increased non-U.S. withholding taxes.

### **Partnership Audit Legislation**

Legislation was recently enacted that significantly changes the rules for U.S. federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, and, unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. There can be no assurance that a Carlyle-sponsored investment vehicle will be eligible to, or will, make an election under the alternative procedure, and if such vehicle does not or is not able to make such an election, then (1) its then-current investors, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had such vehicle elected the alternative procedure, and (2) a given investor may indirectly bear taxes attributable to income allocable to other investors or former investors, including taxes (as well as interest and penalties) with respect to periods prior to such investor’s ownership of interests. Amounts available for distribution to investors may be reduced as a result of a Carlyle-sponsored investment vehicle’s obligations to pay any taxes associated with an adjustment.

### **Presentation of Performance**

For most Advisory Clients, especially those that are pooled investment vehicles, net performance is calculated on an aggregate basis after taking into account all fees and expenses actually borne by investors in the Advisory Client as a group, but does not take into account any taxes borne or deemed to be borne by investors (such as, for example, taxes resulting from the investors’ domicile



or taxes paid or payable by vehicles designed to address certain investors' tax, regulatory or other similar issues). With respect to any particular investment vehicle, differences in timing of an investor's commitment to the investment vehicle and the economic and other terms applicable to certain investors therein may increase or decrease the net performance information realized by such investors and, accordingly, the actual net performance information of a particular investor may differ from the net performance information disclosed to such investors.

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

##### **General Buyout Strategy Risk**

The exercise of control over a portfolio company, which often results from a leveraged buyout, imposes additional risks of liability for environmental damage, product defects, failure to supervise and other types of related liability. If such liabilities are to arise, an Advisory Client may suffer a loss, which may be complete, on its investment.

##### **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. The general partner of an Advisory Client may also cause an Advisory Client to incur investment vehicle-level debt, subject to the limitations set forth in the governing agreement of the relevant Advisory Client, such as debt resulting from bridge, subscription and asset-based facilities, and borrowings may be secured by assignment of the

obligations of the investors the make capital contributions to an Advisory Client and a security interest in investments.

### **Broad Investment Mandate**

Certain Advisory Clients within buyout have a broad investment mandate. Such Advisory Clients are permitted to invest in a wide range of industries, instruments, markets and countries and utilize various investment strategies without material limitations. The Advisory Client may make equity and/or debt investments that may or may not involve control or influence over an underlying portfolio company and the Advisory Client may invest in various types of assets.

### 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 the investment strategies for Advisory Clients within the Global Market Strategies Group focus primarily on investments in debt, the related 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.

### **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 an adverse effect on an Advisory Client’s investment objectives and the rate of return on invested capital. The securities and other instruments in which an Advisory Client will invest have valuations which are based on numerous factors, including specific company characteristics. However, such securities and other instruments are also susceptible to fluctuations in interest rates and, like treasury bonds, the prices of securities and other instruments 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.

## **U.S. Risk Retention Rules**

In October 2014, final rules implementing the credit risk retention requirements of the Dodd-Frank Act (the “U.S. Risk Retention Rules”) were issued. With respect to the regulation of CLOs, the U.S. Risk Retention Rules generally require one of the CLO sponsors (which, in many cases, will likely also be the manager of a CLO) retain not less than 5% of the credit risk of the assets collateralizing the CLO. The U.S. Risk Retention Rules became effective on December 24, 2016 (the “U.S. Risk Retention Effective Date”) and although CLOs issued prior to the U.S. Risk Retention Effective Date generally are exempt from the requirements set forth in the U.S. Risk Retention Rules, the U.S. Risk Retention Rules contain provisions that may adversely affect an Advisory Client’s returns.

The U.S. Risk Retention Rules apply to any additional CLO securities issued after the U.S. Risk Retention Effective Date and any refinancing or any re-pricing of existing CLO securities that constitutes an offer and sale of securities after the U.S. Risk Retention Effective Date. Certain material amendments or actions to securities may be interpreted to be an “offer” or “sale” of securities. Therefore, the U.S. Risk Retention Rules may adversely affect an Advisory Client’s returns if a CLO issuer is unable to undertake certain material amendments or actions, and this may affect the liquidity of the CLOs and/or reduce the number of active CLO collateral managers.

## **Global Market Strategies: Distressed Credit**

### **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: Energy Credit

#### **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 and/or real estate values generally, changes in environmental and zoning laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of neighborhoods as well as particular properties to tenants or potential purchasers of such properties, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), energy and supply shortages, fluctuations in real estate fundamentals (including 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 and operating expenses, changes in interest rates, the availability of debt financing and/or

mortgage funds which may render the sale or refinancing of properties difficult or impracticable increased mortgage defaults, increase in borrowing rates, negative developments in the economy that depress travel or leasing activity, environmental liabilities, contingent liabilities on disposition of assets, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), casualties, acts of God, terrorist attacks and war and other factors which are beyond the control of the general partner or CIM. There can be 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: Energy, Power, Natural Resources and Infrastructure

### **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.

### **Infrastructure Investments**

Project revenues can be affected by a number of factors including economic and market conditions, political events, competition, regulation and the financial position and business strategy of customers. Unanticipated changes in the availability or price of inputs necessary for the operation of infrastructure assets may adversely affect the overall profitability of the investment or related project. Events outside the control of a portfolio company, such as political action, governmental regulation, demographic changes, economic growth, increasing fuel prices, government macroeconomic policies, toll rates, social stability, competition from untolled or other forms of transportation, natural disasters, changes in weather, changes in demand for products or services, bankruptcy or financial difficulty of a major customer and acts of war or terrorism, could significantly reduce the revenues generated or significantly increase the expense of constructing, operating, maintaining or restoring infrastructure facilities.

## Investment Solutions: General Risks

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

## Investment Solutions: Fund of Funds Risks

### **Layered Expenses; Calculation of Carried Interest**

Because Investment Solutions investments typically involve investing in underlying funds, in general, Investment 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 Investment Solutions investment level. As a result, where an Investment Solutions investment involves underlying funds, an Investment Solutions Advisory Client's fees and expenses will be higher than if the Advisory Client invested directly in an underlying fund.

Furthermore, the determination of whether the general partner of an underlying fund is entitled to carried interest distributions is made on a fund-by-fund basis and not in the aggregate. Therefore, carried interest in respect of one underlying fund is calculated and distributed without regard to the fees or performance (including negative performance) of any other underlying fund. Thus, it is possible that an Investment Solutions Advisory Client, as a limited partner of each of the underlying funds, would be required to bear carried interest in respect of one or more underlying funds even if the performance of the Investment Solutions Advisory Client's investments in the underlying funds in the aggregate (and therefore the performance of the Investment Solutions Advisory Client) is negative.

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

The performance of Investment 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, Investment 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**

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 identify or 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 an investment vehicle than would be the case in the absence of this arrangement.

### **Valuations of Investments**

It is possible for there to 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 an Advisory Client's track record, (ii) minimize losses from writedowns that must be returned prior to an affiliate receiving carried interest, or (iii) for certain Advisory Clients, 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 process, CIM has implemented a written policy (the "Valuation Policy"), supplemented by guidance and valuation templates. If active market quotations are readily available, CIM generally values securities and other instruments at their market price, with a discount in certain cases of restricted securities and/or other instruments. Otherwise, securities and other instruments are valued based on management's judgment and estimation in accordance with the 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 publicly traded 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 the Valuation Policy in the offering documents for the relevant Advisory Client.

### **Other Fees**

As described in Items 5 and 6, CIM and its affiliates are 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. CIM personnel will work on the business and operation of Carlyle and other projects, including CIM's existing corporate investments and other Advisory Clients, and, therefore, conflicts may arise in the allocation of resources, including due to CIM's internal policies and compliance with applicable law and regulation. Such other projects may include serving on the board of directors of companies (including those that were formerly portfolio companies), and such CIM personnel may receive and retain compensation for these activities, with no offset against management fees.

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

Carlyle is, from time to time, 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 (*e.g.*, Global Financial Services Advisory Clients).

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

CIM is, from time to time, 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 (including, without limitation, an allocation of 100% of such an opportunity to a single Advisory Client) on a basis that CIM reasonably determines in good faith to be fair and reasonable taking into account all factors CIM deems relevant, including the requirements 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 objective, mandate or policies, target return profile or projected hold period of each Advisory Client, results of underwriting analyses, including projected returns and target hold period for the investment, 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 establish Advisory Clients with investment objectives, mandates and policies that are substantially similar to those of another Advisory Client, but with a focus on investments with a different target return profile or different projected hold period (thereby making them inappropriate for the other Advisory Client). Carlyle may allocate investment opportunities to such Advisory Clients based on the anticipated targeted returns or projected hold periods based solely on Carlyle's expectations at the time such investments are made. However, there can be no assurances that the actual returns from such investments will be in line with such targets or investments will be held from the projected hold period, and such investments may as a result prove to have been suitable for the other Advisory Client.

### **Capital Calls and Use of Subscription Lines and Asset-Backed Facilities**

The general partner of an Advisory Client may fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities (the collateral for which can be, for example, one or more assets of the Advisory Client, *i.e.*, asset-backed facilities, or the undrawn capital commitments of investors, *i.e.*, subscription lines) prior to calling capital commitments. The interest expense and other costs of any such borrowings will be borne by the relevant Advisory Client and, accordingly, decrease net returns of such Advisory Client. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant Advisory Client. In light of the foregoing, the general partner of an Advisory Client has an incentive to cause such vehicle to borrow in this manner in lieu of drawing down capital commitments. As a general matter, use of leverage in lieu of drawing down capital commitments amplifies returns (either negative or positive) to investors.

### **Co-Investments**

Carlyle is permitted to 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 will in many or all cases involve a benefit to Carlyle including, without limitation, the receipt of fees or allocation of carried interest from the co-investment opportunity, and capital commitments to 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. While Carlyle's internal co-investment vehicles that invest alongside our Advisory Client funds are allocated a portion of expenses, including, but not limited to, broken deal expenses, all other co-investment vehicles (particularly those formed to invest alongside an Advisory Client fund in a single investment) generally will not share in broken deal expenses. Investing in an Advisory Client does not give investors any rights, entitlements or priority to co-investment opportunities. Investing in an Advisory Client does not give investors any rights, entitlements or priority to co-investment opportunities.

The criteria that CIM considers in assessing potential co-investment opportunities includes but is not limited to: (i) whether a potential co-investor expressed an interest in evaluating co-investment

opportunities; (ii) the potential co-investor's current relationship with CIM, including historical investment activity in Advisory Clients, the existence of accounts or vehicles formed to co-invest in investments across all or a portion of the Carlyle platform (whether or not formed in connection with the admission of an investor to an Advisory Client) and the overall size of a potential co-investor's potential commitments to Advisory Clients; (iii) the potential co-investor's ability to meet investment funding deadlines; (iv) the potential co-investment amount; (v) the potential co-investor's ability to keep target investment information confidential; (vi) past positive or negative experiences with the potential co-investor; (vii) the expected amount of negotiations required in connection with a potential co-investor's commitment; (viii) the potential for competition or other conflicts of interest with the target investment; (ix) the potential co-investor's ability to offer skillsets or relationships that are helpful to the target investment; and (x) a belief that co-investment opportunity may cultivate a long-term relationship with the co-investor that may be indirectly beneficial to other or future Advisory Clients.

In addition to mandatory investments pursuant to Carlyle's commitment to an Advisory Client, the general partner of an Advisory Client typically has the right to allocate, in its sole and absolute discretion, between 5-10% of each investment opportunity available to Carlyle to Carlyle-related funds, accounts or vehicles and Carlyle officers, employees, Operating Professionals and affiliates. The remaining portion of any such opportunity would then be subject to Carlyle's overall allocation policies, including the policy described under "Allocation of Investment Opportunities with Other Advisory Clients and Conflicting Fiduciary Duties."

### **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**

Certain Advisory Clients 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) could have conflicting interests (*e.g.*, over the terms of their respective investments, including equity v. debt 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.

### **Operating Professionals**

CIM engages and retains Operating Professionals who receive payments from, or allocations with respect to, portfolio companies (as well as from Advisory Clients) for their services (including for serving on a portfolio company's board of directors). In such circumstances, such payments from,

or allocations with respect to, portfolio companies and/or Advisory Clients will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by CIM, be deemed paid to or received by CIM (nor will such amounts be deemed paid to or received by affiliates or personnel of CIM) and such amounts will not be subject to the management fee offset provisions described in Item 5 (meaning that such compensation received from the portfolio company will be indirectly borne by the Advisory Client without any offset to such Advisory Client's management fee). Advisory Clients may indemnify these Operating Professionals for actions taken with regards to the Advisory Client or its portfolio companies. To the extent operating executives are engaged through a retainer agreement with CIM, Carlyle typically bears the expense of base retainer fees. These Operating Professionals may have the right or may be offered the ability to co-invest without fees or carry alongside or in Advisory Clients, including in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio company (which may have the effect of reducing the amount invested by and returned in respect of an Advisory Client investment). Additionally, and notwithstanding the foregoing, these Operating Professionals may be (or have the preferred right to be) investors alongside or in other Advisory Clients.

The nature of the relationship with each of the Operating Professionals and the amount of time devoted or required to be devoted by them varies considerably. They are either compensated (including pursuant to retainers and expense reimbursement, and, in any event, pursuant to negotiated arrangements which will not be confirmed as being comparable to the market rates for such services) by CIM, an Advisory Client and/or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops. Certain Operating Professionals may be subject to contractual obligations to exclusively provide certain services to CIM. Such Operating Professionals and/or other service providers may share office space with Carlyle employees. Over time, certain existing and former employees of Carlyle (including senior Carlyle personnel) may transition to an Operating Professional role. Such a transition would have the effect of shifting the burden of the compensation of such employees from CIM to the applicable Advisory Client and/or its portfolio companies.

## **Service Providers**

Certain advisors and other service providers, or their affiliates (including accountants, administrators, lenders, bankers, brokers, attorneys, consultants, investment or commercial banking firms, valuation agents and certain other service providers, advisors and agents) provide goods or services to Advisory Clients, Carlyle-sponsored or -affiliated investment vehicles and/or their portfolio companies, or have business, personal, political, financial or other relationships with Carlyle or its portfolio companies. Certain service providers, including lenders and valuation agents, are owned by a Carlyle-sponsored or -affiliated investment vehicle(s). Additionally, certain Carlyle employees have ownership interests in certain service providers to Advisory Clients and/or other Carlyle entities. Such service providers or their affiliates may be investors in an Advisory Client (or an affiliate of an Advisory Client), sources of investment opportunities or co-investors or counterparties therewith. These relationships may influence CIM in deciding whether to select or recommend such a service provider (or affiliate thereof) to perform services for such Advisory Client or a portfolio company (the cost of which will generally be borne directly or indirectly by the Advisory Client or such portfolio company, as applicable). Notwithstanding the foregoing, investment transactions for an Advisory Client that require the use of a service provider will

generally be allocated to service providers on the basis of CIM's judgment as to best execution, the evaluation of which includes, among other considerations, such service provider's provision of certain investment-related services and research that CIM believes to be of benefit to the Advisory Client.

In certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to Carlyle, the general partner of an Advisory Client, CIM or their affiliates as compared to services provided to Advisory Clients and portfolio companies, which may result in more favorable rates or arrangements than those payable by the 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. Any rights established, or any terms of the governing documents of such applicable Carlyle-sponsored investment vehicle altered or supplemented in a side letter or other similar agreement with an investor will govern solely with respect to such investor notwithstanding any other provision of the governing documents of such applicable Carlyle-sponsored investment vehicle related thereto. Such rights or terms in any such side letter may include, without limitation, (i) fee and other economic arrangements with respect to such investor; (ii) excuse or exclusion rights applicable to particular investments or terms relating to withdrawal rights from the investment vehicle, including without limitation, as a result of an investor's specific policies or certain violations of federal, state or non-U.S. laws, rules or regulations, such as so-called "pay-to-play" rules with respect to public pension plan investors, (which may materially increase the percentage interest of other investors in, and their contribution obligations, for future investments and expenses, and reduce the overall size of the Carlyle-sponsored investment vehicle); (iii) additional or modified reporting obligations of the applicable general partner (or similar managing fiduciary); (iv) waiver of certain confidentiality obligations; (v) prior consent of the general partner (or similar managing fiduciary) to certain transfers by such investor; (vi) special rights with respect to co-investment allocation and participation; (vii) rights or terms necessary in light of particular legal, regulatory or policy characteristics of an investor; (viii) potential mandatory waivers of compensation as a result of certain violations of law with regard to public pension plan investors; (ix) additional obligations and restrictions of the applicable general partner (or similar managing fiduciary) with respect to the structuring of any particular investment in light of the legal, tax and regulatory considerations of particular investors; (x) agreements to assist with the taking or defending of tax positions and (xi) certain obligations and restrictions on the applicable general partner (or similar managing fiduciary) with respect to the exercise of its discretion on certain matters, including amendments, exercising default remedies and waiving confidentiality or terms.

Except as otherwise agreed with an investor, the general partner (or similar managing fiduciary) of an Advisory Client does not have an obligation to give investors notice of any side letters entered into. However, subject to confidentiality obligations, the general partner (or similar managing fiduciary) may make available copies of all side letters or a compendium containing the provisions of any such side letters, which may be redacted of any identifying information. Such copies or compendium may be made available to an investor only after such investor has been admitted to such Carlyle-sponsored investment vehicle.

CIM enters 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 are generally not subject to the “most favored nation” provisions of the governing documents of a particular Advisory Client. Investors may be able to elect to benefit from such arrangements if they comply with the general parameters of the entire strategic partnership.

Carlyle and its affiliates and employees have made, and may in the future make, oral and written statements or expressions of intent or expectation to investors in the funds or their affiliates or acknowledge statements by such persons (“Outside Statements”) regarding Advisory Clients or Carlyle’s activities pertaining thereto. These may include, for example, the anticipated or expected allocation and terms of co-investment opportunities, the anticipated or expected allocation of investment opportunities to the Advisory Clients generally and other topics often addressed in legally binding side letters. Although such Outside Statements are not legally binding, such Outside Statements may influence allocation and other decisions of Carlyle and its affiliates and employees with respect to the operations and investment activities of the Advisory Clients and may influence a prospective investor’s decision as to whether to invest in the Advisory Clients. By virtue of not being legally binding obligations, such Outside Statements will not be considered side letters for purposes of any most-favored-nation provisions in actual side letters of the Advisory Clients. There can be no assurance that any such arrangements will not have an adverse effect on the Advisory Clients or any investor.

### **Transactions with Potential and Actual Investors and Co-Investors**

CIM and its affiliates from time to time engage in transactions with prospective and actual investors and co-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 commitment to co-invest) 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, sales of companies to investors and recommendations to underwriters for allocations in initial public offerings, or loans to co-investors (or joint venture partners) by Carlyle or a Carlyle-sponsored investment vehicle. An Advisory Client may sell investments to any third party, including investors in such Advisory Client or other Advisory Clients.

## **Personnel**

CIM and its affiliates from time to time hire short-term or long-term personnel (or interns) who are relatives of or are otherwise associated with an investor, portfolio company or a service provider. Although reasonable efforts are made to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee that CIM can control for all such potential conflicts of interest, and there may continue to be an ongoing appearance of a conflict of interest.

## **Portfolio Company Relationships**

The portfolio companies of certain Advisory Clients may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other Advisory Clients that, although Carlyle determines to be consistent with the requirements of such funds' governing agreements, may not have otherwise been entered into but for the affiliation with Carlyle, and which may involve fees and/or servicing payments to Carlyle-affiliated entities which are not subject to the management fee offset provisions described in Item 5.

## **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. In such situations, it is not expected that such Advisory Client would be compensated for providing such guarantee.

## **Atlas and International Energy**

Certain members of the international energy team will devote a portion of their time to overseeing existing portfolio companies of Atlas NV, which is not an affiliate of Carlyle. The oversight of these Atlas 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 governing agreements of the Advisory Client 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.

## **Broad Sky**

In October 2015, an Advisory Client acquired indirect equity interests in two portfolio companies through a joint venture arrangement with Broad Sky Partners LLC ("Broad Sky"). In November 2015, Broad Sky personnel became Carlyle employees. Carlyle does not control Broad Sky or its advisory clients, and Broad Sky is exempt from registration with the SEC as 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. References to CIM do not include references to Broad Sky.

The Broad Sky personnel who are Carlyle investment professionals will devote a portion of their time to ongoing oversight activities related to Broad Sky. Certain of these oversight activities relate to Broad Sky, and the ongoing obligations of these personnel as Carlyle employees could create situations in which there is a potential or actual conflict of interest.

To the extent that such conflicts of interest arise, including with respect to certain fees that Broad Sky may receive from the two portfolio companies, relevant procedures described in governing agreements of the Advisory Client 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.

### **Class Action Notices**

On occasion, CIM receives class action notifications inviting Advisory Clients to participate in a class action lawsuit and/or settlement as applicable. In assessing whether to participate, CIM will calculate an estimate of the potential recovery amount, including projected legal and administrative costs. If the cost of participation appears likely to exceed the potential recovery amount or result in a *de minimis* settlement amount for the Advisory Client, CIM may conclude that it is not appropriate for the Advisory Client to participate in the class action.

### **Investment Solutions**

From time to time, advisory clients of the other Investment Solutions investment advisers (*i.e.*, AlpInvest 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 Investment Solutions investment advisers will create additional competition in the market or independently consider the same investment opportunities as 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 an Investment 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 Investment Solutions advisory clients have an existing investment or are concurrently making an investment. In such situations, the Investment Solutions advisory clients and other Carlyle entities may have conflicting interests (*e.g.*, over the terms of their respective investments). In distressed situations, these interests may be in conflict over such matters as whether to put an issuer in default, whether to grant consents or waivers, or whether to pursue litigation. In a bankruptcy proceeding, such advisory clients' interests may be subject to enhanced scrutiny, subordinated or otherwise adversely affected by virtue of the involvement and actions of an affiliate of Carlyle relating to the company involved in the bankruptcy proceeding.



In addition, the Investment 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 an Investment 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, none of CIM, its affiliates, or any of their respective professionals have been the subject of any legal or disciplinary matter 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, investigations, inquiries, employment-related matters, disputes and other potential claims. Certain of these matters are described below. Carlyle believes that the matters described below are without merit and intends to vigorously contest all such allegations for the matters that have not been resolved. Additional information may also be available in current public filings with the SEC for The Public Company (see [www.carlyle.com](http://www.carlyle.com), go to the "Financial Information" portion of the "Public Investors" page, and click on "SEC Filings").

Along with many other companies and individuals in the financial sector, Carlyle and Carlyle Mezzanine Partners, L.P. ("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 under the state Fraud Against Taxpayers Act ("FATA"). The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In June 2017, the Court granted a motion by the New Mexico Attorney General to dismiss the lawsuit so that the Attorney General can pursue its own recovery from the defendants in the action. That ruling may be appealed by the qui tam plaintiffs.

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 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. The Guernsey liquidators who took control of CCC in March 2008 filed a suit in July 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Royal Court of Guernsey seeking more than \$1.0 billion in damages in a case styled *Carlyle*

*Capital Corporation Limited v. Conway et al.* The Guernsey liquidators 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 September 2017, the Royal Court of Guernsey ruled that Carlyle and the CCC board of directors have no liability in connection with this case. It is unclear whether the liquidators will elect to appeal the trial court decision.

The SEC has requested information about Carlyle's historical monitoring fee acceleration practices and Carlyle's relationship with a third-party investment adviser to a registered investment company that has invested in various Carlyle-sponsored investment funds. Carlyle is cooperating fully with the SEC's inquiries.

#### **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), on a best efforts basis, with respect to the offer and sale of certain interests in private investment vehicles (most of which are affiliated, and include Advisory Clients) and interests in special purpose vehicles (including debt and equity tranches of collateralized loan obligations for which CIM serves as collateral manager). 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 provide advice on and deal in financial products (managed investment schemes and securities) for wholesale clients. 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 in respect of professional investors. CHKEM does 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 license and an exempt financial adviser status 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.

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.

Duff & Phelps, a financial advisory and investment banking firm controlled by an Advisory Client, has a related entity, Duff & Phelps Securities, LLC, registered with the SEC as a broker-dealer and is a member of FINRA.

In connection with the wind down of its operations, DGAM has applied to the Ontario Securities Commission to surrender its investment fund manager and portfolio manager licenses and retain an exempt market dealer license to facilitate certain marketing activities in Canada for Advisory Clients.

### **Affiliated Business Development Companies**

Certain investment funds within Global Market Strategies 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**

CGMSIM and CCM are registered with the CFTC as CPOs and have memberships with the NFA in connection with such CFTC registrations.

### **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, or in certain cases, the advisory client of another affiliated adviser (*e.g.*, Metropolitan) to which CIM is providing sub-advisory services.

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.

**Carlyle Asia Investment Advisors Limited**

**Carlyle Australia Investment Advisors Limited**

**Carlyle Australia Real Estate Advisors Pty Ltd. (registered with the Australian Securities & Investments Commission)**

**Carlyle Brasil Consultoria em Investimentos Ltda.**

**Carlyle GMS Asia Limited (licensed by the Hong Kong Securities and Futures Commission)**

**Carlyle India Advisors Private Limited**

**Carlyle Investment Consulting (Shanghai) Co., Ltd.**

**Carlyle Japan, LLC**

**Carlyle Japan Equity Management LLC**

**Carlyle Korea Ltd.**

**Carlyle Management Hong Kong Limited**

**Carlyle Mauritius CIS Investment Management Limited (registered with the Mauritius Financial Services Commission)**

**Carlyle Mauritius Investment Advisor Limited (registered with the Mauritius Financial Services Commission; licensed with the Securities and Exchange Board of India)**

**Carlyle MENA Investment Advisors Limited (registered with the Dubai Financial Services Authority)**

**Carlyle Mexico Advisors, S. de R.L. de C.V.**

**Carlyle Mexico Holdings, S.C.**

**Carlyle Nigeria Investment Advisors Limited**

**Carlyle Peru Consultoria de Inversiones S.R.L.**

**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 Singapore Investment Advisors Pte Ltd (registered with the Monetary Authority of Singapore)**

**Carlyle South Africa Advisors (Pty) Limited (registration with the South Africa Financial Services Board)**

**CECP Advisors LLP (registered with the United Kingdom Financial Conduct Authority)**

**CECP Investment Advisors France S.A.R.L.**  
**CEP Advisors, S.r.l.**  
**Chengdu Carlyle Investment Consulting Co., Ltd.**  
**CREA Germany GmbH**  
**CSP Investment Advisors (HK) Limited**  
**PT Carlyle Indonesia Advisors**  
**TCG Gestor Ltda (registered with CVM, the Brazilian Securities and Exchange Commission)**  
**The Carlyle Group España, SL**

**Affiliated Advisers under Common Control – Separate Federal 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) CGMSIM, AlpInvest and Metropolitan, which were described above in Item 4; (ii) multiple advisers affiliated with TCW, a Los Angeles-based financial firm controlled by an Advisory Client; and (iii) Content Partners LLC (“Content”), a Los Angeles-based firm that is controlled by an Advisory Client.

Each of AlpInvest, Metropolitan, TCW, and Content has an existence independent of CIM. Certain supervised persons of CIM and Carlyle CLO in the Global Market Strategies Group segment are also supervised persons of CGMSIM.

**Relying Advisers**

CIM controls Churchill Financial LLC (“Churchill”), a part of Carlyle’s Global Market Strategies Group. Churchill is the collateral manager for a CLO of senior loans to middle-market companies.

In 2016, Carlyle formed a wholly-owned subsidiary of CIM, Carlyle CLO, which acts as collateral manager to certain Advisory Clients in the Global Market Strategies Group.

Additionally, in 2016, Carlyle formed a wholly-owned subsidiary of CIM, Carlyle IDF Management L.L.C. (“Carlyle IDF”), which acts as a sub-adviser with respect to a third-party managed Advisory Client in the Corporate Private Equity group.

Additionally, CIM directly or indirectly controls each of (i) 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, (ii) CIM Global Asia, L.L.C. (“CIM Global Asia”), an entity that provides advisory services with respect to a real estate asset located in Australia and (iii) 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, Carlyle CLO, Carlyle IDF, and Carlyle Mauritius conduct a single advisory business. Pursuant to reliance on SEC staff interpretation, Churchill, CIM Global, CIM Global Asia, Carlyle CLO, Carlyle IDF, and Carlyle Mauritius would be deemed to have registered through CIM’s Form ADV as “relying advisers”.

### **Exempt Reporting Advisers**

CELFF is exempt from registration with the SEC as 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.

### **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 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).

Carlyle owns certain economic interests in NGP. NGP focuses on investments across a range of energy and natural resource assets in North America, including oil and gas resources, oilfield services, pipelines and processing. Carlyle does not control NGP or its current funds. NGP is separately registered as an investment adviser under the Advisers Act.

In October 2015, an Advisory Client acquired indirect equity interests in two portfolio companies through a joint venture arrangement with Broad Sky. In November 2015, Broad Sky personnel became Carlyle employees. Carlyle does not control Broad Sky or its advisory clients, and Broad Sky is an “Exempt Reporting Adviser” under the Advisers Act. References to CIM do not include references to Broad Sky.

### **Hedge Fund Competitive Activities**

Carlyle may in the future form or have a financial or operational interest in the management of hedge funds or similar alternative investment vehicles. Such other investment 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, commodities, derivatives and private-equity investments), and whose investment strategies may therefore overlap with those of CIM’s Advisory Clients. It is therefore possible that such other investment 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.

### **Investment Solutions Competitive Activities**

Carlyle's Investment Solutions business, including AlpInvest and Metropolitan, 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, private credit, 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 Investment 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 Investment Solutions and the rest of Carlyle, and the separate existence of AlpInvest and Metropolitan, 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 affiliated with Carlyle (or their employees), including CGMSIM, AlpInvest and Metropolitan, 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. From time to time Carlyle may permit an investment professional within the Global Market Strategies Group to participate in certain Carlyle-related investment advisory activities outside of Global Market Strategies. To the extent such investment professional acquires material, non-public information in connection with such activities the Global Market Strategies Group may be restricted from making certain investments.

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. The Global Market Strategies Group generally operates a single restricted list to which CIM's Global Market Strategies Advisory Clients are subject. 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, and Metropolitan maintain a one-way information barrier between the Investment Solutions businesses (including the Carlyle elements of Investment Solutions), on the one hand, and the other business segments of Carlyle, on the other hand. The information barrier restricts the flow of certain non-public, commercially sensitive investment information regarding Investment 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 Investment Solutions personnel and other Carlyle personnel is subject to certain restrictions, including that no Carlyle personnel generally may serve on or participate in any AlpInvest investment committees (except that Carlyle Investment Solutions personnel may act as observers). Carlyle personnel generally may not participate on any Metropolitan investment committee (except that Carlyle Investment Solutions personnel may act as observers). In addressing the misuse of material, non-public information, Carlyle, AlpInvest 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 or similar policies, procedures or guidelines 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 or investors by writing to Carlyle Investment Management L.L.C., 1001 Pennsylvania Avenue, NW, Suite 220 South, Washington, DC, 20004, Attn: Investor Relations.

Further, Carlyle has adopted additional written policies and procedures to account for the pay-to-play regulations promulgated by the SEC, and to comply with the New York Attorney General's



Public Pension Fund Reform Code of Conduct<sup>6</sup>, which governs Carlyle's interactions with U.S. public pension funds.

Carlyle has 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 in limited circumstances engages 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 CGMSIM.

In connection with Carlyle's Investment Solutions business, transactions involving the purchase (or sale) of securities by an advisory client of one of the Investment 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 an Investment 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,

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<sup>6</sup> This code of conduct is available to clients, investors or prospective clients or investors by writing to Carlyle Investment Management L.L.C., 1001 Pennsylvania Avenue, NW, Suite 220 South, Washington, DC, 20004, Attn: Investor Relations.

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 Group Advisory Clients may follow a different procedure because of the absence of a separate Investor Advisory Committee. In the case of a principal transaction, typically a qualified independent agent is engaged to review and 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 Group 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 from time to time allows 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 advisory 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 more detail in Item 5 – "Fees and Compensation", in addition to management fees payable and carried interest allocable to CIM and its affiliates, with regards to certain Advisory Clients, including Corporate Private Equity Advisory Clients, CIM and its affiliates receive acquisition, monitoring, disposition and certain other fees with respect to advisory and related services provided in connection with investments by Advisory Clients.

CIM generally has a conflict of interest to the extent that it has an opportunity to earn such a fee in connection with investments by Advisory Clients. However, CIM believes that applicable 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. Accordingly, the agreements pursuant to which such fees are paid typically are not required to be reviewed by the Investor Advisory Committee or the investors of the participating Advisory Clients. 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. See Item 17 for additional information regarding CIM's policies on voting on behalf of Advisory Clients, which include protocols on handling conflicts of interest (*e.g.*, when Advisory Clients are invested in different parts of the capital structure).

In addition, CIM or its affiliates currently own equity interests in certain 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 CLOs give it voting rights on certain matters relevant to the funds. On matters involving retention of the collateral manager (CIM or its affiliates), 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 CLOs. 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 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 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 (which may include an allocation of 100% of such opportunity to a single Advisory Client), 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 CIM deems relevant, as well as 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 objective, mandate or policies, results of underwriting analyses, including projected returns and target hold period for each investment, 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. Final allocation decisions will generally align with the allocation of costs and expenses related to the diligence and structuring of and ongoing supervision of an investment opportunity; however, in certain situations, there may be costs such as diligence costs that are allocated to Advisory Clients that considered an investment opportunity but ultimately decided to not pursue such investment opportunity. 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, committed or reserved. 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 who are not investors in an Advisory Client 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. Co-investment allocations are made in CIM's sole discretion and 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 criteria that CIM considers in assessing potential co-investment opportunities includes but is not limited to: (i) whether a potential co-investor expressed an interest in evaluating co-investment opportunities; (ii) the potential co-investor's current relationship with CIM, including historical investment activity in Advisory Clients, the existence of accounts or vehicles formed to co-invest in investments across all or a portion of the Carlyle platform (whether or not formed in connection with the admission of an investor to an Advisory Client) and the overall size of a potential co-investor's potential commitments to Advisory Clients; (iii) the potential co-investor's ability to meet investment funding deadlines; (iv) the potential co-investment amount; (v) the potential co-investor's ability to keep target investment information confidential; (vi) past positive or negative experiences with the potential co-investor; (vii) the expected amount of negotiations required in connection with a potential co-investor's commitment; (viii) the potential for competition or other conflicts of interest with the target investment; (ix) the potential co-investor's ability to offer skillsets or relationships that are helpful to the target investment; and (x) a belief that co-investment opportunity may cultivate a long-term relationship with the co-investor that may be indirectly beneficial to other or future Advisory Clients.

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, from time to time, is 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 (*e.g.*, Global Financial Services Advisory Clients).

In addition to mandatory investments pursuant to Carlyle's commitment to an Advisory Client, the general partner of an Advisory Client typically has the right to allocate, in its sole and absolute discretion, between 5-10% of each investment opportunity available to Carlyle to Carlyle-related funds, accounts or vehicles and Carlyle officers, employees, Operating Professionals and affiliates. The remaining portion of any such opportunity would then be subject to Carlyle's overall allocation policies described above.

#### 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 ("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: Structured Credit and Private Credit Allocation Procedures

Structured Credit Advisory Clients invest primarily in broadly syndicated loans. CGMSIM, an affiliate of CIM, manages advisory clients that 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 regarding investments that are appropriate for both Advisory Clients and advisory clients of CGMSIM. In such situations, investment opportunities that are sourced by Structured Credit typically will be allocated across Structured Credit Advisory Clients first, in accordance with the Structured Credit allocation procedures described above. If excess investment amounts are available, the Structured Credit Group may furnish information about the investment opportunity to CGMSIM for it to consider for its advisory clients, or to other portfolio managers for consideration by other Advisory Clients.

CGMSIM's BDC clients (and other CGMSIM advisory clients that may invest alongside the BDCs) are subject to allocation procedures as set out under a SEC exemptive order.

#### **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 Investment Solutions, to segregate the flow of certain non-public, commercially sensitive investment information.

#### **Other Potential Conflicts**

The legal and/or organizational documents of an Advisory Client, the investment management agreement between CIM (or an affiliate) and the Advisory Client or the agreements in respect of the portfolio investments establish complex arrangements among the parties, including between investors and Advisory Clients. Questions may arise from time to time under these agreements regarding the parties' rights and obligations in certain situations, many of which may not have been contemplated at the time of the agreements' drafting and execution. In these instances, the operative provisions of the agreements, if any, may be broad, general, ambiguous or conflicting, and may permit more than one reasonable interpretation. At times there may not be a provision directly applicable to the situation. While Carlyle will construe the relevant agreements in good faith and in a manner consistent with its legal obligations, the interpretations adopted may not be, and need not be, the interpretations that are the most favorable to an Advisory Client.

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

#### **Broker Selection**

CIM has discretion to select brokers and dealers to execute transactions in securities and other instruments 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 order 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).

From time to time CIM selects brokers and dealers who are owned in part by an Advisory Client to execute transactions in securities and other instruments for 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 execution of transactions in securities and other instruments, or other investment-related services.

Portfolio trades of certain investment vehicles, generally within the Global Market Strategies Group, 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. The Global Market Strategies Group maintains approved broker-dealer lists and the Global Market Strategies Brokerage Committees meet periodically to review and analyze trades executed by approved broker-dealers as part of its requirement 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 instruments 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, 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 Group 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 Group 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 Group 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, 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 more detail 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, monitoring, disposition and certain 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 its affiliated broker-dealers including TCG Securities, CHKEM, CAEM, CSIAL, certain portfolio companies of Advisory Clients or affiliates thereof, unaffiliated placement agents or third parties for introducing investors to Carlyle in respect of an Advisory Client. Any fees 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. 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”), and 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. For client assets that are pooled investment vehicles (and subject to such financial audits and reporting delivery qualifications), CIM relies on an exception from the notification, account statement delivery obligations, and is deemed compliant with the surprise audit obligations imposed by the SEC’s custody rule.

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 (or similar managing fiduciary) 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 is permitted to invest 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. Certain Advisory Clients within CIM's Global Market Strategies Group business segment utilize a third-party service provider to assist with the processing of proxy votes.

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 Public Company (see [www.carlyle.com](http://www.carlyle.com), go to the "Financial Information" portion of the "Public Investors" page).