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# THE CARLYLE GROUP

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## Item 1. Cover Page

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

March 30, 2020

Carlyle Investment Management L.L.C.  
1001 Pennsylvania Ave NW, Suite 220 South  
Washington, DC 20004  
[www.carlyle.com](http://www.carlyle.com)

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 Catherine Ziobro 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. While these may not be material, in certain sections, including conflicts of interest, investment risks (including public health and current market conditions risk factors) and fees and expenses, additional clarification and detail has been provided as part of our annual updates.

The following is a discussion of the material changes to CIM's Brochure since the annual update filed March 30, 2019.

On January 1, 2020, The Carlyle Group L.P. completed its conversion (together with related restructuring steps and transactions, the "Conversion") from a Delaware limited partnership to a Delaware corporation named The Carlyle Group Inc. (the "Public Company"). Pursuant to the Conversion, at the specified effective time on January 1, 2020, each common unit of The Carlyle Group L.P. outstanding immediately prior to the effective time converted into one share of common stock, par value \$0.01 per share ("Common Stock") of the Public Company and each special voting unit and general partner unit was canceled for no consideration. In addition, holders of the partnership units in Carlyle Holdings I L.P., Carlyle Holdings II L.P., and Carlyle Holdings III L.P. (collectively, "Carlyle Holdings") exchanged such units for an equivalent number of shares of Common Stock and certain other restructuring steps occurred.

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

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

Carlyle, founded in 1987, is one of the world's largest and most diversified multi-product global investment firms, 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 Credit, and (iv) Investment Solutions.

Various entities affiliated with the Public Company (Nasdaq: CG), an affiliate of CIM, directly and indirectly own and control CIM. On January 1, 2020, the Public Company completed its Conversion from a Delaware limited partnership to a Delaware corporation named The Carlyle Group Inc. Pursuant to the Conversion, at the specified effective time on January 1, 2020, each common unit of The Carlyle Group L.P. outstanding immediately prior to the effective time converted into one share of Common Stock of the Public Company and each special voting unit and general partner unit was canceled for no consideration. In addition, holders of the partnership units in Carlyle Holdings exchanged such units for an equivalent number of shares of Common Stock and certain other restructuring steps occurred. In connection with the Conversion, senior Carlyle professionals and certain of the other former limited partners of Carlyle Holdings who became holders of shares of Common Stock in connection with the Conversion were generally required to grant an irrevocable proxy to Carlyle Group Management L.L.C., which is wholly owned by Carlyle's founders and other senior Carlyle professionals. This proxy entitles Carlyle Group Management L.L.C. to vote such shares of Common Stock until the earlier of (i) such time as Carlyle Group Management L.L.C. ceases to have voting power over shares of Common Stock representing at least 20% of the total voting power of all the then outstanding shares of capital stock of the Public Company entitled to vote in the election of directors and (ii) January 1, 2025. Consequently, Carlyle Group Management L.L.C. currently controls a majority of the voting power of the Public Company's outstanding common stock 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 Stock. From and after the consummation of the Conversion, the Public Company holds directly and indirectly all of the outstanding equity interests in Carlyle Holdings, whose subsidiaries operate and control all of the business and affairs of Carlyle and its affiliates.

The Public Company is managed by a Board of Directors who are elected by the holders of its Common Stock (Carlyle Group Management L.L.C., which is wholly owned by Carlyle's founders and other senior Carlyle professionals, currently controls a majority of the voting power of the Public Company's outstanding common stock pursuant to the irrevocable proxies described above). 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 and Kewsong Lee, Carlyle's Co-Chief Executive Officers, Peter J. Clare, Chief Investment Officer for Corporate Private Equity, 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 certain members of the Executive Group and other members of senior management, the Management Committee serves as a resource to the Executive Group.

Additional information about the Public Company is available in its current public filings with the SEC. Unless specifically stated otherwise, references in this Brochure to CIM do not include Carlyle, the Public Company or any of Carlyle’s other affiliated entities.

### **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, through its relying adviser Carlyle CLO Management L.L.C. (“Carlyle CLO”), generally provides advisory services directly to the investment vehicle as collateral/investment manager.

As of December 31, 2019, CIM managed approximately \$142.6 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, 2019, 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 Items 8 and 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.

Through a series of delegation agreements, CIM provides portfolio management services with respect to certain private investment funds that are managed by CIM Europe S.à.r.l. (the “CIM AIFM”), an affiliated alternative investment fund manager licensed with the Luxembourg

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<sup>1</sup> “Advisory Client” means any fund, pooled investment vehicle or account 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 stockholders of the Public Company.

Commission de Surveillance du Secteur Financier (the “CSSF”) under the Directive (as defined below).

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 United States 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 United States 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 or had 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 Credit, 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. In addition to the U.S., Carlyle also sponsors corporate private equity funds in Europe, Asia, Japan, Middle East and North Africa (“MENA”), Sub-Saharan 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.

- *Middle Market and Growth Capital.* Carlyle's middle market and growth capital Advisory Clients are advised by regionally-focused teams in the United States, Europe and Asia, with each team seeking private equity investments in middle market and lower middle market investment opportunities consistent with specific regional investment criteria. The investment mandate for Carlyle's middle market and 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 residential and retail properties, senior-living facilities, industrial properties, self-storage properties, office buildings and hotels, oil and gas exploration and production, midstream, refining and marketing, power generation, pipelines, wind and solar 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. 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 in Europe and the United States, 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's activities also 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 invest opportunistically in the European market.
- *Energy.* Carlyle's energy activities focus on buyouts, growth capital investments and strategic joint ventures in the midstream, upstream, energy and oilfield services sectors around the world.

NGP is primarily responsible for Carlyle's North American energy investment strategy<sup>2</sup>; however, CIM does not control the investment decisions of any NGP funds. 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.

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. The international energy team focuses on investments across the energy value chain outside of North America. 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.

- *Infrastructure.* Our infrastructure business is comprised of teams that invest in six primary sectors: energy infrastructure, water and waste, transportation, digital infrastructure, power generation and renewables, including our global infrastructure opportunities fund<sup>3</sup>, our North American power fund and our renewable and sustainable energy strategy launched in 2019. Carlyle's North American power investment team leverages the expertise of the operating professionals at Cogentrix Energy L.L.C., a Carlyle portfolio company.

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 investments of Atlas NV).

### Global Credit

Carlyle's Global Credit business segment ("Global Credit"), established in 1999 with Carlyle's first high yield fund, advises a group of advisory clients that pursue investment strategies including loans and structured credit, direct lending, opportunistic credit, energy credit, distressed credit and aviation finance.

CIM, Carlyle Global Credit Investment Management L.L.C. ("CGCIM"), Carlyle Aviation Securities Partners LLC ("CASP") and Carlyle Aviation PDP Management LLC ("CAPDP") are

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<sup>2</sup> CIM and Riverstone Investment Group L.L.C., a separately registered and unaffiliated investment adviser, jointly advise several legacy energy and renewable resources funds. Carlyle and Riverstone have mutually decided not to pursue additional jointly managed funds.

<sup>3</sup> In 2016, Carlyle launched a global infrastructure fund focused on infrastructure assets, business and investments in global developed markets with strong commercial systems and rule of law. Previously, Carlyle's infrastructure business invested solely in North American infrastructure companies and assets.



the primary investment advisers that provide advice to Global Credit advisory clients. For the purposes of this Brochure, references to CIM do not include references to CGCIM, CASP or CAPDP. The Global Credit team includes investment professionals located in the United States, Europe and Asia.

- *Loans and 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. With the exception of one CGCIM advisory client, CIM and its relying adviser, Carlyle CLO Management L.L.C. ("Carlyle CLO"), advise 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.

- *Direct Lending:* Carlyle's direct lending business includes its business development companies ("BDCs") that invest primarily in middle market first-lien loans and second-lien loans of middle market companies that lack access to the broadly syndicated loan and bond markets (including TCG BDC Inc., which became a publicly-traded BDC in June 2017).

CGCIM acts as the investment 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. CGCIM also acts as the adviser to a registered investment company, Carlyle Tactical Private Credit Fund (formerly known as OFI Carlyle Private Credit Fund).

- *Opportunistic Credit:* Carlyle's opportunistic credit team invests primarily in highly-structured and privately-negotiated capital solutions supporting corporate borrowers through secured loans, senior subordinated debt, mezzanine debt, convertible notes, and other debt-like instruments, as well as preferred and common equity in such borrowers. The opportunistic credit team also considers investing in special situations and market dislocations. CGCIM acts as investment adviser to the opportunistic credit fund.
- *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. CGCIM acts as investment adviser to the energy credit funds.
- *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. CGCIM acts as investment adviser to the distressed credit funds.

- *Aircraft Financing and Servicing.* Carlyle Aviation Partners is a multistrategy investment platform that is engaged in commercial aviation aircraft financing and investment and providing investment management services related to the commercial aviation industry. Carlyle Aviation Partners includes CASP, CAPDP and Carlyle Aviation Management Limited (“CAML”). CAML 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.
- *Capital Solutions.* Carlyle Capital Solutions (“CCS”) is a loan syndication and capital markets business that Carlyle launched in 2018. The primary focus of CCS is to underwrite, originate and syndicate loans and underwrite securities of third parties and Carlyle portfolio companies, through TCG Capital Markets, a broker-dealer affiliated with CGCIM, and TCG Senior Funding. Please see Item 10 for additional information regarding CCS.

### Investment Solutions

Carlyle’s Investment Solutions segment primarily operates through AlpInvest Partners, B.V. (“AlpInvest”) and Metropolitan Real Estate Equity Management, LLC (“Metropolitan”), and offers private equity and real estate investment programs focused on funds of funds, secondary purchases of existing portfolios and managed co-investment programs. AlpInvest is the private equity asset manager in the Investment Solutions segment, and Metropolitan is the private real estate asset manager in the Investment Solutions segment<sup>4</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. AlpInvest invests globally across the private equity spectrum (including buyout, growth capital, venture, subordinated private debt and distressed debt) through direct subscriptions for interests in

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<sup>4</sup> Carlyle has substantially wound 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 surrendered its investment fund manager and portfolio manager licenses, and retained an exempt market dealer license with the Ontario Securities Commission to facilitate certain marketing activities in Canada for advisory clients.

private equity and mezzanine funds, co-investments in single portfolio companies alongside private equity and mezzanine funds, and secondary market purchases of interests in private equity funds and private operating companies. For the purposes of this Brochure, references to CIM do not include references to AlpInvest.

### *Metropolitan*

Carlyle owns 100% of the equity interests of Metropolitan, an investment adviser separately registered under the Advisers Act. 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>5</sup> generally receive management fees, incentive 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, investment banking, underwriting, syndication, 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>5</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 CGCIM, AlpInvest, Metropolitan, CASP and CAPDP, 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 TCW Group, Inc.).

Certain fees are excluded from the definition of “Service Fees” and not subject to a management fee offset. For certain Advisory Clients, fees earned by broker-dealer affiliates of CIM who are U.S.-registered broker-dealers (or other affiliates providing similar services with respect to loans) conducting a financial services, loan origination, structuring, placement or other similar business as a broker, dealer, distributor, syndicator, arranger or originator of securities or loans are not considered “Service Fees” subject to any management fee offset. These affiliated broker-dealer fees include offering, placement, syndication, underwriting, solicitation or similar fees in connection with activities for an Advisory Client such as an initial public offering of securities and the distribution of debt or equity securities of a portfolio company, or similar activities with respect to loans. In addition, Carlyle’s advisory professionals may be involved in such activities of broker-dealer affiliates of CIM who are U.S.-registered broker-dealers (or other affiliates providing similar services with respect to loans), and their activities may give rise to fees that are not subject to any management fee offset, even though such persons are involved in investment-related activities on behalf of one or more Advisory Clients. In addition, fees attributable to co-investors or internal or external coinvestment vehicles and fees eligible to be treated as expenses of an Advisory Client may also be excluded from “Service Fees” and not subject to a management fee offset.

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 boards 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 his or her 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

On occasion, former Carlyle employees may be asked to serve on the boards of directors of companies in which an Advisory Client continues to have an ownership interest. To the extent the

former Carlyle employee is offered standard board compensation for his or her services, depending on the facts and circumstances, including the duration of the separation from Carlyle, such standard board compensation may not be subject to the management fee offset or otherwise shared with the Advisory Clients, investors and/or portfolio companies.

On occasion, Carlyle may hire a former employee of a company in which an Advisory Client had an ownership interest. To the extent the former portfolio company employee continues to vest in compensation from the portfolio company, such compensation may not be 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 and Administration Fees**

For most Advisory Clients that are pooled investment funds, the annual management fee is typically in the range of 1.0-2.0 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 1.5 percent of contributions for unrealized investments or the current value of the investment. An Advisory Client's borrowings may also be taken into account for purposes of calculating the management fee, as provided in the Advisory Client's governing documents. 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 Global Credit, for CLOs, management fees generally range from 0.4 to 0.5 percent 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.

Certain Advisory Clients are also charged a flat annual administration or structuring fee to cover a portion of Carlyle's internal administration costs, which are paid (and rebated if necessary) in a similar fashion as management fees. The amounts of any such fees are set forth in the agreements under which an Advisory Client was established.

#### Performance-Based Arrangements<sup>6</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, incentive 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, including Advisory Clients relying on Section 3(c)(7) of the 1940 Act, 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, incentive 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. In the case of open-ended fund Advisory Clients, the incentive allocation is generally calculated on a basis that includes unrealized appreciation of the Advisory Client's assets. The manner of calculation and application of performance fees, incentive fees or carried interest profit allocations are disclosed in the offering documents for, and detailed in the governing agreements of, each Advisory Client.

Management fees, incentive 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 or had business relationships with Carlyle

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

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 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 Advisory Client's share of such fees paid to CIM or such affiliate (*e.g.*, in general, 100% in the case of Carlyle's recently-formed Advisory Clients and 65-80% in older 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. Affiliates of CIM, such as CCS, may also receive fees in respect of administrative or placement services provided to loan syndicates lending to an Advisory Client or a Carlyle-affiliated advisory client.

In the case of fees related to consulting, business transition, advisory or monitoring, 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. Alternatively, such fees may continue after a public offering or sale while Carlyle continues to have a board seat or until the Advisory Client's ownership level falls below a given threshold.

In the case of fees related to business transition services (which may be called "transaction fees" in certain situations), 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 (sometimes called a “structuring 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 Professionals are engaged through a retainer agreement with CIM, Carlyle may elect to bear the expense of base retainer fees, while in other cases, Advisory Clients may bear such 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, receive in-kind payments such as stock or stock options, 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 (including for the avoidance of doubt, any depositary appointed pursuant to Article 21 of the Directive), paying and transfer agents, advisors, attorneys, accountants, tax advisors, consultants, appraisers, 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 (including retainer fees and other compensation) related to developing, sourcing, bidding on, evaluating, negotiating, structuring, obtaining regulatory approvals for, acquiring, purchasing, trading, settling, maintaining custody of, holding, operating, monitoring, financing, refinancing, accounting and disposing of actual or proposed investments (including related information management and trading systems, whether maintained at Carlyle or otherwise, and travel expenses, which includes, without limitation, meals, business or first class air travel, first class lodging, private car transportation, and may include the use of chartered travel or private air travel, as appropriate and in accordance with travel policies, and any financing, legal, accounting, loan administration, 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, specialty and custom software (including software for monitoring risk, compliance and the overall portfolio), as well as related development costs, 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 and other bank service fees, travel and related expenses and other investment costs, fees and expenses incurred in connection with actual investments, (viii) 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, (ix) out-of-pocket expenses incurred in connection with complying with provisions in side letter agreements, including “most favored nations” process and provisions, (x) out of pocket expenses incurred in connection with legal, tax, regulatory and statutory 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, including reporting on and compliance with Form PF, DAC 6, FATCA and CRS (each 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 (or its related vehicles) 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; filing fees, registration fees, and other fees paid to local regulatory authorities; the costs incurred in connection with maintaining a local registered agent (or similar local representative); or other related overhead expenses), (xi) 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), (xii) expenses of dissolving, winding up and terminating the Advisory Clients and intermediate entities, (xiii) 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; (xiv) out-of-pocket costs and expenses, if any, associated with any third-party examinations or audits (including similar services) of the Advisory Clients, the CIM AIFM, or CIM that are attributable to the operation of such Advisory Clients or requested by one or more investors in an Advisory Client, (xv) 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, including, but not limited to, the arranging thereof and any related expenses and professional fees incurred in connection with any procedure reports for lenders and any indemnification obligations and agent servicing fees), (xvi) the out-of-pocket and legal and other expenses of the Investor Advisory Committee (including, but not limited to, travel-related expenses for members and certain observers of certain Investor Advisory Committees), (xvii) certain expenses associated with any meeting or conference of the Advisory Clients (including meetings or conferences attended by investors in the Advisory Clients), (xviii) out-of-pocket expenses associated with completed transactions that are not reimbursed by the seller or capitalized as part of the acquisition price of the transaction, 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), IT system-support professionals, 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, tax regulatory and statutory compliance with U.S. federal, state, local, non-U.S. or other law and regulation, or the support of the related IT systems. In connection with such expenses, the general partner of an Advisory Client may have a conflict of interest in allocating certain expenses among investors of the Advisory Client as well as among each Carlyle-sponsored investment vehicle and any co-investment vehicles.

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, review of Advisory Client marketing materials, initial and ongoing reviews of current or potential investors in support of anti-money laundering or know-your-customer requirements, 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 certain 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. Moreover, Carlyle or the Advisory Client may not be in a position to verify the risks or reliability of such service providers. The Advisory Client may suffer adverse consequences from actions, errors or failure to act by such third parties, and will have obligations, including indemnity obligations, and limited recourse against them.

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, conflicts relating to different expense arrangements with certain Advisory Clients, or allocations of certain in-house personnel expenses). 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. For example, certain expenses may be allocated across all investment vehicles comprising an Advisory Client regardless of whether each investment vehicle is directly incurring the expense. 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. Brokerage and other transaction costs are also discussed in more detail in Item 12 – “Brokerage Practices”.

#### Organizational/Offering Expenses

Typically, legal, accounting, filing and other expenses (together with any value added tax thereon) 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 (which may include expenses for chartered travel or private air travel in accordance with Carlyle's policies), filing fees and expenses, marketing material preparation experts (including outsourcing to third parties of marketing

materials compliance reviews), initial and ongoing reviews of current or potential investors in support of anti-money laundering or know-your-customer requirements, 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, and for the avoidance of doubt, all initial notifications, filings and compliance contemplated by the Directive and the Luxembourg Law of 12 July 2013 on alternative investment fund managers, as applicable, and including all fees and expenses incurred in connection with any licensing, filing or registration requirements in a jurisdiction where the Advisory Client's interests may be offered. 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 to the extent paid to locally licensed intermediaries, representatives or distributors that an Advisory Client is legally required to engage in order to offer interests in such Advisory Client in particular jurisdictions or 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 certain Advisory Clients generally are required to bear out-of-pocket costs and expenses incurred in connection with developing, negotiating and structuring 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, (iv) any break-up, reverse break-up, topping, termination and other similar fees payable by an Advisory Client in connection with investments are that are not ultimately made and (v) any 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 (through its relying adviser Carlyle CLO) 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, incentive and other fees in connection with advisory and other services provided to certain 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 Carlyle's investment allocation policies. Carlyle's Chief Investment Officer and the investment or credit 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 below, these investment opportunities are allocated in accordance with Carlyle's written policies and procedures, taking into account the applicable provisions of the Advisory Client's investment advisory agreement, collateral management agreement or other governing document as well as regulatory restrictions applicable to the Advisory Client.

In allocating investment opportunities, there could be incentives to favor Advisory Clients with higher potential management or performance fees, incentive fees or carried interest allocations over Advisory Clients with lower potential performance fees, incentive fees or carried interest allocations.<sup>7</sup> Additionally, as described in Item 8, performance fee, incentive fee or 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

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<sup>7</sup> For example, if one Advisory Client is in a net loss position and another Advisory Client is in a net gain position, the Advisory Client in the net loss position will either (i) not generate a carried interest from such investment, or (ii) generate less carried interest from such investment to the extent profits are required to make up for previous losses.

investments on behalf of an Advisory Client than would be the case in the absence of this arrangement.

To seek to reduce the effect of such incentives, CIM and its affiliates have adopted written investment policies and procedures pursuant to which they seek to allocate investment opportunities that may be appropriate for more than one Advisory Client in a fair and equitable manner, bearing in mind, among other things, the size, investment objectives, focus, mandate or policies, risk tolerance, return targets, projected hold periods, diversification considerations, permissible and preferred asset classes, and liquidity needs of each Advisory Client. The policies seek to provide consistent treatment of such Advisory Clients with similar investment objectives and guidelines to the extent possible, consistent with legal, regulatory and contractual restrictions. 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 (or 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.

## **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 (through its relying adviser Carlyle CLO). 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 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 retail and residential properties, senior-living facilities, industrial properties, self-storage facilities, office buildings and hotels, oil and gas exploration and production, midstream, refining and marketing, power generation, pipelines, wind and solar 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 energy (through NGP), energy infrastructure, water and waste, transportation, digital infrastructure, power generation and renewables.

Investments in operating companies are pursued after completing analyses that typically include evaluating: (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 Credit

Those Global Credit investments managed by CIM or its relying adviser, Carlyle CLO, primarily focus on credit opportunities in loans and structured credit. CIM's investment goals through Global Credit include generating attractive current income, risk-adjusted returns, and capital appreciation, while avoiding defaults, maximizing recoveries, and preserving principal. Each of CIM's Global Credit 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 direct lending, opportunistic credit, energy credit, and distressed credit investment teams primarily manage advisory clients for CIM's affiliated investment adviser, CGCIM. For additional information regarding the methods of analysis, investment strategies and risk of loss of CGCIM, please see Part 2 of Form ADV for CGCIM, available at: <http://www.adviserinfo.sec.gov/>.

### Investment Solutions

The Investment Solutions business primarily operates through AlpInvest and Metropolitan. 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. **Past performance is not necessarily indicative of future results and all investors should be prepared to lose the value of their investment. There can be no assurance that projected or targeted returns for any Advisory Client will be achieved.**

### **Role of Carlyle Investment 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 the investment professionals who manage the Advisory Client's investment program 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.

The roles and responsibilities within Carlyle of certain investment professionals are likely to be modified during the life of any Advisory Client, including modifications that result in less time devoted to such Advisory Client. Any fiduciary duties owed by such professionals to an Advisory Client would be modified accordingly. 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 advisory team or investment or credit 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.

Although Carlyle's founders remain committed to Carlyle's business, they and other key personnel are not obligated to remain employed by Carlyle. If they were to depart from Carlyle, it could have an adverse impact on certain of Carlyle's future operations.

#### **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 irregular accounting, employee misconduct and other fraudulent practices) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities. In the event of fraud by any Advisory Client portfolio company or any of such portfolio company's managers or affiliates, an Advisory Client may suffer

a partial or total loss of capital invested in such portfolio company, and there can be no assurance that any such losses will be offset by gains (if any) realized on an Advisory Client's other investments.

CIM will generally negotiate the pricing of transactions, establish the capital structure of an investment (where applicable) 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. Other participants in the industry may disagree with the feasibility of projections and investors should make their own determination about the prospects of any Advisory Client.

#### **Effect of Substantial Losses on the Operations of CIM and the General Partner of Each Advisory Client**

If, due to extraordinary market conditions or other reasons, an Advisory Client or any of its affiliates were to incur substantial losses, the revenues of CIM and its affiliates may decline substantially. Such losses may hamper CIM and its affiliates' ability to (i) retain employees and (ii) provide the same level of service to such Advisory Client as it has in the past.

#### **Misconduct of Carlyle Personnel; Third-Party Service Providers**

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and there is a risk that employee misconduct could occur with respect to Carlyle. Misconduct by employees or by third-party service providers could cause significant losses to an Advisory Client. Employee misconduct could include, among other things, binding an Advisory Client to transactions that exceed authorized limits or present unacceptable risks and other unauthorized activities or concealing unsuccessful investments (which, in either case, may result in unknown and unmanaged risks or losses), or otherwise charging (or seeking to charge) inappropriate expenses to an Advisory Client or Carlyle. In addition, employees and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting the Advisory Client's business prospects or future activities. Furthermore, because of Carlyle's diverse businesses and the regulatory regimes under which they operate, misdeeds by a Carlyle entity (or its personnel) may result in foreclosing an Advisory Client's ability to conduct its activities in the manner otherwise intended. It is not always possible to deter misconduct by employees or service providers, and the precautions the Carlyle takes to detect and prevent this activity may not be effective in all cases.

## **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. Each such Carlyle-sponsored investment vehicle is subject to all of the business risks and uncertainties associated with any new investment vehicle, including the risk that it will not achieve its investment objective and that the value of an interest in such investment vehicle could decline substantially. The prior experience of CIM, the investment professionals or the performance of any other Carlyle investment does not provide assurance of future investment performance or returns.

## **Ongoing Turmoil in the U.S. and Global Financial Markets**

The turmoil over the past decade in the U.S. and global financial markets and the broader current financial environment have been and continue 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. Oil price shocks have resulted from disputes among members of the Organization of Petroleum Exporting Countries (“OPEC”). 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.

In addition, the performance of certain Advisory Client investments will be substantially dependent upon prevailing prices of oil, natural gas, coal and other commodities (such as metals) and the differential between prices of specific commodities that are a primary factor in the profitability of certain conversion activities such as petroleum refining (“crack spread”) and power generation (“spark spread”). Commodity prices are likely to continue to be volatile and subject to wide fluctuations in response to any of the following factors: (i) relatively minor changes in the supply of and demand for each commodity; (ii) market uncertainty; (iii) political conditions in international commodity producing regions; (iv) the extent of domestic production and the importation of commodities in certain relevant markets; (v) the foreign supply of commodities; (vi) the price of foreign imports; (vii) the price and availability of alternative fuels; (viii) the level of consumer demand; (ix) the recent imposition of tariffs by the U.S. and other countries; (x) the price of steel and the outlook for steel production; (xi) weather conditions; (xii) the competitive position of oil, gas or coal as a source of energy as compared with other energy sources; (xiii) the industry-wide refining or processing capacity for oil, gas or coal; (xiv) the effect of United States and non-U.S. federal, state and local regulation on the production, transportation and sale of commodities; (xv) with respect to the price of oil, actions of the Organization of Petroleum Exporting Countries; (xvi) the expected consumption of coking coal in steel production; (xvii) the amount and character of excess electric generating capacity in a market area; (xviii) overall economic conditions; and (xix) a variety of additional factors that are beyond the control of Carlyle, CIM or an Advisory Client. A substantial or extended decline in commodity prices may materially and adversely affect an Advisory Client’s investment activities as well as the financial condition,

results of operations and liquidity of an Advisory Client's investments and the ability of such investments to finance planned capital expenditures.

See also "Current Market Conditions" below.

### **Trade Disputes with China**

The U.S. administration under President Donald Trump has advocated greater restrictions on international trade generally and significant increases on tariffs on certain goods imported products. Sustained tension between the United States and China over trade policies has introduced and could significantly introduce additional trade barriers and undermine the stability of the global and regional economy. In addition, China and other countries have retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. This retaliation has resulted in an escalation to a trade war, which is having an adverse effect on manufacturing levels, trade levels and industries, including telecommunication, logistics, retail sales and other businesses and services that rely on telecommunication, trade, commerce and manufacturing. Recently, the U.S. administration has taken rigorous actions against Chinese telecommunication businesses on national security grounds. Such prohibitions by the U.S. administration could increase uncertainty over the broader trade negotiation between China and the U.S., and result in material and adverse effects on the information and telecommunication industry both in China and globally. Any further escalation in the trade war between China and the U.S., or news and rumors of any escalation, could affect activity levels within Carlyle's digital ecosystem and have a material and adverse effect on the business, financial condition, results of operations of Advisory Clients and their investments, especially investments in the information and telecommunication industry. This, together with future downturns in the global economy, significant introductions of trade barriers and bilateral trade frictions between the region's major trading partners and the United States and key export markets in Europe could adversely affect the financial performance of Advisory Clients and their portfolio investments, causing an Advisory Client to lose invested capital in addition to anticipated profits.

### **Public Health Risks, Epidemics and Pandemics**

Countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu and most recently, the COVID-19 coronavirus pandemic. The COVID-19 pandemic has resulted in, among other events, unprecedented global travel restrictions and regional and country-wide quarantines, a significant increase in illness of the general workforce, slowing and/or the complete idling of certain significant U.S. and global businesses and sectors and general economic and market turmoil and uncertainty, including the travel, entertainment and hospitality industries. The full extent of the impact on financial markets, supply chains, and business activity for the U.S. and global economies, and potential changes in U.S. or other economic and fiscal policies that may be adopted to address the pandemic and related externalities are not yet fully identified or understood. In addition, in response to the spread of COVID-19, many businesses, including CIM, have encouraged or mandated that their personnel work from home in an effort to help slow the spread of the coronavirus pandemic. Notwithstanding such precautionary measures, CIM and its portfolio companies may still experience a significant increase in illness of their respective personnel.

To the extent personnel, as a result of working remotely, rely more heavily on external sources for information and technology systems for their business-related communications and information sharing, that business will likely be more vulnerable to cybersecurity incidents and cyberattacks and could have more difficulty resuming normal operations in the event it is the target of such incident or attack. See “Cybersecurity Breaches, Identity Theft, Privacy Breaches, and Other Threats” below for an additional discussion about cybersecurity risks.

The COVID-19 pandemic, other outbreaks of infectious diseases in the future, or any other serious public health concern, together with any resulting restrictions on travel or quarantines imposed, could have a negative impact on the economy, and business activity in any of the countries in which an Advisory Client may invest, and thereby adversely affect the performance of the Advisory Client’s investments, and its ability to implement its investment program.

### **Current Market Conditions**

The ongoing COVID-19 coronavirus pandemic and oil price shocks resulting from disputes among members of the Organization of Petroleum Exporting Countries (“OPEC”), together with, among other events, the ensuing global market turmoil, unprecedented global travel restrictions and regional and nationwide quarantines that have been implemented by several governments and the slowing and/or complete idling of certain significant U.S. and global businesses and sectors, have led to a market correction in the U.S. and elsewhere, and have led most market participants and commentators to expect an economic downturn in North America, Europe and/or globally. Political and economic leaders in the U.S. and abroad have begun implementing measures to attempt to address the increasing uncertainty in global markets and the global economy. Such measures have included and may include in the future additional travel bans impacting the movement of people and goods between the U.S. and other major economic centers and material monetary and/or fiscal policy changes. In addition, key public health officials in the U.S. have indicated that they believe the COVID-19 pandemic will worsen in the near term, which would be expected to lead to increased social and economic uncertainty. Moreover, no actual or potential resolution of the OPEC disputes regarding production and output levels has been publicly disclosed.

To the extent that current conditions continue (or worsen as some expect), it is anticipated that there will be adverse impacts on the availability of financing or credit to business (including, to existing or future Advisory Client portfolio companies), on asset prices and valuations of such business, and more generally the public and private markets, which in each case, could impact an Advisory Client’s ability to implement its investment objective, consummate transactions and/or adequately assess and react to actual and potential downside risks to the Advisory Client’s existing portfolio of investments. In addition, the full impacts of the pandemic and energy price shocks on markets, business activity and the U.S. and global economy, as well as potential changes in U.S. economic and fiscal policies that may be adopted to address the pandemic, price shocks and related externalities, are not yet fully identified or understood.

Further, there is an increased risk of default in an Advisory Client’s portfolio of investments due to the slowing and/or idling of large segments of business activity in light of the COVID-19

pandemic. These investments could face material declines in demand and could face both increased governmental intervention and regulation and/or litigation in respect of current events. Further, such investments may face decreased cash flows and may as a result, be unable to meet their debt obligations. See “Availability of Financing” for additional important information in this regard. Current market conditions may also increase the risk that investors in an Advisory Client fail to make capital contributions and therefore default on the obligations to such Advisory Client. See “Failure to Make Capital Contributions” for a discussion of the potential impact of such defaults.

### **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 assurances that the assumptions made or the beliefs and expectations currently held by CIM will prove correct and actual events and circumstances may vary significantly.

### **Availability of Financing**

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, particularly if valuations decline and assets become ineligible for borrowing, and the financing that is available may be on significantly 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.

See “Current Market Conditions” above for an additional discussion of the potential impact such market conditions may have on the availability of financing and credit to Advisory Clients and their potential or existing investments and portfolio companies.

### **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, without limitation, 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, individuals 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, legal, due diligence and other costs on investments which may not be successful.

There can be no assurance that CIM on behalf of an Advisory Client will be able to locate, consummate and exit investments that satisfy its target equity range, 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. In addition, in some cases an Advisory Client may be prohibited by contract or legal or regulatory reasons from selling certain securities for a period of time. To the extent that there is no liquid trading market for an investment, the Advisory Client may be unable to liquidate that investment or may be unable to do so at a profit. Moreover, there can be no assurances that private purchasers of an Advisory Client's investment will be found. 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**

Each Carlyle-sponsored investment vehicle may make investments that 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. Such winding-up and final distribution may occur several years after the investment vehicle enters into dissolution.

## **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 or as required by applicable law), 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 CIM 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 within Global Credit.

Carlyle has erected an information barrier to segregate the flow of material, non-public information between Global Credit 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 Global Credit, 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 Global Credit to participate in certain

Carlyle-related investment advisory activities outside of Global Credit. To the extent such investment professional acquires material, non-public information in connection with such activities, Global Credit may be restricted from making certain investments.

The establishment and maintenance of the information barrier discussed above means Global Credit 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 associated with Global Credit, on the one hand, and personnel of the rest of CIM and Carlyle, on the other hand, may be limited, reducing potential synergies.

Within Carlyle Aviation Partners, there is an information barrier affecting Carlyle Aviation Securities Partners, the purpose of which is to control the flow of material, non-public information to Carlyle Aviation Securities Partners.

At the same time, as discussed more fully in Item 10, (with the exception of an information barrier affecting Carlyle Aviation Securities Partners, described above) within Global Credit, there is no information barrier between supervised persons of CIM or Carlyle CLO and supervised persons of other Carlyle-affiliated advisers that are part of the group. Therefore, CIM or Carlyle CLO may in some cases be unable to trade on behalf of certain Advisory Clients because all of Global Credit is restricted from trading.

Carlyle also has erected a one-way information barrier between Investment Solutions (which includes AlpInvest and Metropolitan) 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 investment managers will cause an advisory client of such manager to hold, when otherwise permitted under its investment restrictions, interests in one or more Carlyle advisory clients. 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 CIM's Advisory Clients in the financial services sector.

### **Compliance with Anti-Money Laundering and Know Your Customer Requirements**

In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, the general partner of an Advisory Client typically requests investors to provide documentation verifying, among other things, such investors' identity and source of funds used to purchase the interests of such Advisory Client. The amount and types of such information requested may vary depending on an Advisory Client's domicile (due to local regulatory requirements), and complying with such requests may be burdensome, inconvenient, and intrusive. The general partner of an Advisory Client may decline to accept a subscription on the basis that such information that is provided or if this information is not provided. Requests for documentation and additional information may be made at any time during which an investor holds an interest in an Advisory Client. Such general partner may be required to provide this information, or report the failure to comply with such requests, to appropriate governmental authorities, in

certain circumstances without notifying the investors that the information has been provided. The general partner of an Advisory Client or its affiliates will take such steps as are determined necessary to comply with applicable law, regulation, orders, directives or special measures.

### **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. Similar considerations apply in respect of a parallel or feeder fund of an Advisory Client that is denominated in a different currency than the main fund of an Advisory Client. 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. It should be noted that the fees, costs and expenses incurred by an investor in converting their local currency to U.S. dollars (if applicable) in order to meet capital calls will be borne solely by such investor and will be in addition to the amounts required by such capital call (and will not be part of or otherwise reduce an investor's capital commitments and/or unfunded capital commitments, as applicable).

Carlyle may enter into hedging transactions, if available, 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. Further, such hedging transactions could result in diminished returns (or increased losses on capital) to the extent overall returns are less than an Advisory Client's costs or losses associated with such hedging transactions.

### **Risks Associated with Hedging Transactions**

In connection with the acquisition, financing, holding or disposition of certain investments, an Advisory Client may employ hedging techniques designed to reduce certain risks, including, among others, the risk of adverse movements in interest rates, securities prices and currency exchange rates. While an Advisory Client may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices or currency exchange rates, or the transactional fees associated with such mechanisms may result in a poorer overall performance for such Advisory Client than if it had not entered into such hedging transactions. These arrangements

may also require the posting of cash collateral at a time when the Advisory Client has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, which may reduce the returns generated by the Advisory Client.

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.

### **Interest Rate Risks**

In order to seek to reduce the interest rate risk inherent in an Advisory Client’s underlying investments and capital structure, an Advisory Client may enter into interest rate transactions, including but not limited to, interest rate swaps and caps. Depending on the state of interest rates in general, an Advisory Client’s use of interest rate transactions could enhance or harm the overall performance of the Advisory Client.

The London Inter-bank Offered Rate (“LIBOR”) and certain other interest rate “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could negatively impact Advisory Clients.

### **Pay-to-Play Laws, Regulations and Policies**

In light of controversies and highly-publicized incidents involving money managers, a number of states and municipal pension plans have adopted so-called “pay-to-play” laws, regulations or

policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including investments by public retirement funds. The SEC also has adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation with respect to a government plan investor for two years after the adviser or certain of its executives or employees make a contribution to certain elected officials or candidates. Carlyle has adopted policies and procedures to account for these pay-to-play laws, regulations or policies, and to comply with the New York Attorney General's Public Pension Fund Reform Code of Conduct (the "Pension Fund Reform Code"), which governs Carlyle's interactions with U.S. public pension funds. If CIM, the general partner of an Advisory Client or their associated employees or affiliates fail to comply with the Pension Fund Reform Code or such pay-to-play laws, regulations or policies, such non-compliance could have an adverse effect on an Advisory Client by, for example, providing the basis for the withdrawal of the affected government plan investor.

### **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 continues to evolve, 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, and under December 2017 U.S. tax law changes (defined below as the "Tax Act"), the availability of the deduction of certain interest expenses may be limited. 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, including the U.S., 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 public or private markets) industry, or other changes that could adversely affect alternative investment firms and the funds they sponsor, including an Advisory Client. In addition, and in particular in 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. Furthermore, the OECD, as defined below, has proposed changes to numerous long-standing principles through its base erosion and profit shifting project. Several of the proposed measures, including measures covering

treaty abuse, the deductibility of interest expense, local nexus requirements, transfer pricing and hybrid mismatch arrangements are potentially relevant to investment structures and could have an adverse impact on each Advisory Client and investors.

Political leaders in the U.S. and certain European nations have recently been elected on protectionist platforms, fueling doubts about the future of global free trade. The U.S. government has indicated its intent to alter its approach to international trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries, and has made proposals and taken actions related thereto. In addition, the U.S. government imposed tariffs on certain foreign goods, including steel and aluminum, and has indicated a willingness to impose additional tariffs on imports of other products. Some foreign governments, including China, have instituted retaliatory tariffs on certain U.S. goods and have indicated a willingness to impose additional tariffs on U.S. products. Global trade disruption, significant introductions of trade barriers and bilateral trade frictions, together with any future downturns in the global economy resulting therefrom, could adversely affect the financial performance of an Advisory Client and its investments. In particular, although the U.S. and China have agreed to a partial trade deal with respect to their ongoing trade dispute, certain issues remain unresolved, which is expected to be an ongoing source of instability, potentially resulting in significant currency fluctuations and/or have other adverse effects on international markets, international trade agreements and/or other existing cross-border cooperation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise). While this dispute has already had negative economic consequences on the U.S. markets, to the extent that this trade dispute escalates into a “trade war” between the U.S. and China, there could be additional significant impacts on the industries in which the Advisory Client participates and other adverse impacts on the Advisory Client’s investments.

### **Actions of the Committee on Foreign Investment in the United States**

The actions of the Committee on Foreign Investment in the United States (“CFIUS”), an inter-agency committee authorized to review transactions that could result in control of a U.S. business by a foreign person, may adversely impact the prospects of an Advisory Client’s portfolio companies in the context of mergers with, or acquisitions by, a foreign person. CFIUS may recommend that the President block such transactions, or CFIUS may impose conditions on such transactions, certain of which may materially and adversely affect an Advisory Client’s ability to execute its investment strategy. In addition, the CFIUS process will continue to evolve. In particular, a set of reform measures known as the Foreign Investment Risk Review Modernization Act (“FIRRMA”) was enacted into law, which broadens the jurisdiction of CFIUS with respect to certain investments. Such legislation could impact the ability of non-U.S. investors to participate in an Advisory Client’s investments, which may impair such Advisory Client’s ability to execute its investment strategy. FIRRMA expands the ability of CFIUS to review an Advisory Client’s acquisition or disposition of certain investments including certain non-controlling investments by foreign persons over certain U.S. businesses involved in critical technologies or critical infrastructure or that collect and store sensitive personal data of U.S. citizens, as well as acquisitions of real estate and leaseholds near U.S. military or other sensitive government facilities. The reforms enacted by FIRRMA include (i) a requirement of mandatory disclosures to CFIUS of all transactions in which a foreign government owned or controlled entity proposes to acquire a

substantial interest in a U.S. business active in critical infrastructure, critical technologies, or that has access to sensitive personal data of U.S. citizens, and (ii) jurisdiction for CFIUS to review any investment (other than truly passive investment) by a foreign person in the same types of companies regardless of the percentage ownership interest of the foreign person. CFIUS published final regulations on January 13, 2020 that will implement many of FIRRMA's provisions. These final regulations took effect on February 13, 2020, and may potentially increase the number of transactions involving any Advisory Client that would be subject to CFIUS review and investigation and the timing and substantive risks described above. The outcome of CFIUS's process may be difficult to predict, and there is no guarantee that, if applicable to a portfolio company, the decisions of CFIUS would not adversely impact the Advisory Client's investment in such company. An Advisory Client's governing document may include certain provisions that may require investors that are, or are instrumentalities of, a non-U.S. government to be excluded from participating in an investment that may be deemed sensitive from a national security perspective.

### **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.

### **Cybersecurity Breaches, Identity Theft, Privacy Breaches, and Other Threats**

Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. There has been an increase in the frequency and sophistication of the cyber and security threats that CIM faces, with attacks ranging from those common to businesses generally to those that are more advanced and persistent, which may target CIM because it processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Advisory Clients and personally identifiable information regarding investors, employees, and portfolio companies. Similarly, service providers of CIM or an Advisory Client, especially an administrator, may process, store and transmit such information. As a result, CIM may face a heightened risk of a security breach, online extortion attempt, or disruption with respect to this information resulting



from an attack by computer hackers, foreign governments, cyber extortionists or cyber terrorists. If successful, these types of attacks on the Carlyle network or other systems could have a material adverse effect on our business and results of operations, due to, among other things, the loss of investor or proprietary data, interruptions or delays in our business and damage to Carlyle's reputation. Carlyle suppliers, contractors, investors, and other third parties with whom Carlyle does business also experience cyber threats and attacks that are similar in frequency and sophistication. In many cases, Carlyle and CIM have to rely on the controls and safeguards put in place by their suppliers, contractors, investors and other third parties to defend against, respond to, and report these attacks.

Because employees and contractors may introduce vulnerabilities in systems if they are the target of "phishing," social engineering or other attacks through the firm's email systems, Carlyle has implemented a security awareness training program. The objective of this program is to inform Carlyle personnel of their responsibility for information security and includes quarterly online training, live awareness events and phishing simulations.

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 cybersecurity 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, typhoons, earthquakes, wars, terrorist attacks and other similar events. Measures designed to manage risks relating to these types of events cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service or sabotage systems change frequently and may be difficult to detect for long periods of time. If these systems are compromised, become inoperable for extended periods of time or cease to function properly, an Advisory Client and/or a portfolio company and/or issuer may have to make a significant investment to fix or replace them. 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, employees, and portfolio companies. A cybersecurity incident or data privacy breach could have numerous material adverse effects, including on the operations, liquidity and financial condition of an Advisory Client. Cyber threats and/or incidents or data privacy breaches could cause financial costs from the theft of Advisory Client assets (including proprietary information and intellectual property) as well as numerous unforeseen costs including, but not limited to: costs related to regulatory intervention or fines (including under the European General Data Protection Regulation (the "GDPR")), litigation costs, preventative and protective costs, remediation costs and costs associated with reputational damage, any one of which could be materially adverse to an Advisory Client. The costs related to cyber or other security threats or disruptions or data privacy breaches may not be fully insured or indemnified by other means.

The service providers of Carlyle and its Advisory Clients are subject to the same information security threats as Carlyle. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of any

Advisory Client and personally identifiable information of the investors (and beneficial owners thereof) may be lost or improperly accessed, used or disclosed.

### **Future Investment Techniques and Instruments**

An Advisory Client may employ investment techniques and invest in other instruments that such Advisory Client's general partner believes will help achieve the Advisory Client's investment objective. Although such investment techniques or instruments are required not to violate specific investment restrictions or limitations for the Advisory Client, such investment techniques and instruments may not be specifically described in such Advisory Client's governing documents or offering materials. Such investments may also entail risks not described herein or in such Advisory Client's governing documents or offering materials. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings, which could result in unsuccessful investments and, ultimately, losses to an Advisory Client. In addition, any new investment strategy or technique developed by an Advisory Client may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment an Advisory Client.

### **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 instruments of an issuer domiciled in 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 and credit 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 or instruments; (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 and intellectual property rights; (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.

Accounting, auditing, financial and other reporting standards, practices and disclosure requirements in certain of the countries in which an Advisory Client may invest are not equivalent to those in the United States and certain Western European countries and may differ in fundamental ways. Accordingly, information available to an Advisory Client, including both general economic

and commercial information and information concerning specific enterprises or assets, may be less reliable and less detailed than information available in more economically sophisticated countries and less information may be available to investors. As a result, an Advisory Client's due diligence activities may provide less information than due diligence reviews conducted in more developed countries. The lower standards of due diligence in certain countries will increase the risk related to the investments in these countries. While an Advisory Client will endeavor to conduct appropriate due diligence in connection with each of its investments, no guarantee can be given that they will obtain the information or assurances that an investor in a more sophisticated economy would obtain before proceeding with an investment.

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, policy changes 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.

### **Risks from Operations of Other Portfolio Companies**

It is possible that the activities of one portfolio company may have adverse consequences on one or more other portfolio companies, even in cases where the portfolio companies are held by different Carlyle-sponsored investment vehicles and have no other connection to each other. In particular, the laws and regulations governing the limited liability of such companies vary from jurisdiction to jurisdiction, and in certain contexts (including, by way of example only, bankruptcy, environmental liabilities, consumer protection or pension / labor law matters) the laws of certain jurisdictions may provide not only for carve-outs from limited liability protection for the portfolio company that has incurred the liabilities, but also for recourse to assets of other entities under common control with, or that are part of the same economic group as, such company. For example, if one of Carlyle's investments is subject to bankruptcy or insolvency proceedings in a jurisdiction and is found to have liabilities under the local consumer protection laws, the laws of that jurisdiction may permit authorities or creditors to file a lien on, or to otherwise have recourse to, assets held by other Carlyle portfolio companies in that jurisdiction. There can be no assurance that any Advisory Client will not be adversely affected as a result of the foregoing risks.

### **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.

### **Investments in Debt**

An Advisory Client may invest in certain permitted debt investments as provided under its governing documents, which can create various risks for the Advisory Client. For example, debt investments typically do not provide the holders with any governance rights, and so the Advisory Client's ability to influence the success of such investment may be significantly limited. In addition, the market for selling debt may not be as liquid as the market for selling equity securities, which may impair the ability of the Advisory Client to sell the investment at the opportune time. An Advisory Client's investment may be in debt which is subordinate to other outstanding indebtedness of a portfolio company, which exacerbates the risk that the value of the investment will be impaired if the portfolio company does not perform. If the debt investment is in a portfolio company in which an Advisory Client holds an equity investment, there is a risk that the Advisory Client's debt investment could be subjected to equitable subordination or recharacterization, either of which would potentially impair the value materially. One of the fundamental risks associated with an Advisory Client's debt investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments on its outstanding debt obligations when due. An Advisory Client's return to its investors would be adversely impacted if an issuer of debt securities in which the Advisory Client invests becomes unable to make such payments when due.

### **Distressed Companies**

An Advisory Client may make investments in companies that are experiencing financial or operational difficulties or are otherwise out-of-favor. An investment in the securities of financially troubled issuers or operationally troubled issuers involves a high degree of credit and market risk. There is a possibility that an Advisory Client may incur substantial or total losses on its investments.

### **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"), as modified by Section 3(42) of ERISA (the "Plan Asset Regulations"), 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 Plan Asset Regulations in order to avoid holding "plan assets" within the meaning of the Plan Asset Regulations, 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 alternative investment fund managers ("AIFMs") that market alternative investment funds ("AIFs") to professional investors within the EEA. The CIM AIFM, an affiliate of CIM organized in Luxembourg, acts as an EEA AIFM with respect to certain Carlyle AIFs and certain other Carlyle entities, including CIM, act as non-EEA AIFMs with respect to other Carlyle AIFs. Both the CIM AIFM and the Carlyle entities that act as non-EEA AIFMs are in scope of the Directive's requirements to varying degrees.

The general partner of certain Advisory Clients has formed parallel AIFs in Luxembourg primarily to facilitate the participation of investors in the EEA under the Directive. Control over portfolio management is retained by CIM, as the CIM AIFM has delegated its portfolio management and marketing functions to CIM.

The CIM AIFM is subject to the requirements of the Directive, such as rules relating to remuneration, minimum regulatory capital requirements, restrictions on the use of leverage, requirements in relation to liquidity, risk management, valuation of assets, etc. As a delegate undertaking portfolio management for an authorized AIFM, CIM could also be deemed to be subject to certain remuneration requirements similar to those applicable to the CIM AIFM. Any required changes to compensation structures and practices could make it harder for CIM to recruit and retain key personnel.

Where a Carlyle 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). These rules apply to the CIM AIFM (as an authorized EEA AIFM) and to a non-EEA AIFM marketing under the EEA private placement regimes.

To the extent that Carlyle relies on a non-EEA AIFM marketing a Carlyle AIF under EEA national private placement regimes, certain member states of the EEA apply more stringent measures, 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 in

these circumstances 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; (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 (v) materially increasing the costs of doing business in the EEA.

## **European Market Infrastructure Regulation**

Certain aspects of the European Market Infrastructure Regulation ("EMIR") could impact an 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.

## **EU Markets in Financial Instruments Directive II**

The EU Markets in Financial Instruments Directive II ("MiFID II") is an extensive package of reforms that entered into force on January 3, 2018, in the form of a directive, a regulation, an implementing directive, numerous delegated regulations and extensive guidelines. It is intended to overhaul and expand the existing body of law regulating investment firms, which has been in effect since 2007. MiFID II applies to investment firms, but not to SEC-registered advisers acting in the capacity of an AIFM. MiFID II requires investment firms to comply with more prescriptive and onerous transparency and record keeping obligations and enhanced obligations, which for example, relate to: the receipt of and payment for investment research, best execution, product governance and financial promotions. Although MiFID II does not directly apply to non-EEA AIFMs, it may indirectly apply where a non-EEA AIFM engages an investment firm authorized under MiFID II to provide investment services, such as advising, portfolio management, acting as a placement agent or receiving and transmitting client orders. In such instances, compliance with the additional requirements of MiFID II are likely to result in greater overall complexity, and higher compliance and administration costs.

## **Data Protection Regulation**

On May 25, 2018, the GDPR replaced the then-existing data protection directive and, as a regulation, has direct effect in all EU member states. Although a number of the existing principles for the protection of personal data will remain, the GDPR was designed to harmonize data privacy laws across Europe and change the way organizations approach data privacy. It applies to (i) all organizations that process personal data of EU 'data subjects' in the context of the activities of an establishment in the EU (regardless of whether the processing takes place in the EU) and (ii) organizations outside the EU that offer goods or services to data subjects in the EU, or that monitor the behavior of EU data subjects. Personal data is information that can be used to identify a natural

person, including a name, a photo, an email address, or a computer IP address. For those subject to it, compliance with the GDPR requires organizations to analyze and evaluate how they handle data in the ordinary course of their business. The costs of compliance with the GDPR and the potential for fines and penalties in the event of a breach may have an adverse impact on an Advisory Client, particularly because penalties for non-compliance are material. The more serious breaches of GDPR could incur a fine of up to the greater of €20 million or 4% of aggregate global turnover for the preceding year.

In addition to the EU, the United States is going through a period of active consideration of additional data privacy and cybersecurity laws. These include the California Consumer Privacy Act (“CCPA”), effective January 1, 2020; the Stop Hacks and Improve Electronic Data Security (SHIELD) Act, aspects of which took effect on October 23, 2019, and other aspects of which took effect on March 21, 2020; a range of proposed additional laws in California, New York, Texas, Washington and other states; and a range of proposed additional laws at the federal level. The cumulative effects of CCPA and other recently adopted laws include an increased ability of individuals, relative to companies, to control the use of their personal data; increased obligations of companies to maintain the security of data; and increased exposure to fines or damages for companies that do not accord individuals their specified privacy rights, that experience data breaches or that do not maintain cybersecurity at certain levels of quality. There can be no assurance that these systems will be effective in mitigating the business impact of individuals’ increased privacy rights or in avoiding fines or damages.

### **United Kingdom Exit from the European Union**

The United Kingdom (“UK”) ceased to be a member of the European Union (“EU”) on January 31, 2020, with the benefit of a transition period lasting until December 31, 2020. During the transition period, all of the current rules and arrangements will remain in place while the UK and the EU seek to negotiate a free trade agreement (“FTA”). The FTA will govern the trading relationship between the UK and the EU following the transition period.

The UK will remain subject to EU law with access to the single market and privileges to provide services until the end of the transition period, but any further privileges after that date will depend either on extending the transition period, or on the terms of the FTA (if the parties have agreed an FTA). It is not clear whether the FTA will cover the provision of services by UK firms.

If the UK and the EU are unable to agree the terms of an FTA by December 31, 2020, and do not agree to extend the transition period, the UK will become a third country vis-à-vis the EU on the expiry of the transition period. As a third country, the cross-border trade in goods between the UK and the EU will depend on any multilateral trade agreements to which both the EU and the UK are parties (such as those administered by the World Trade Organisation (“WTO”)) and the provision of services by UK firms will be generally restricted to those that could be provided by firms established in any third country.

UK regulated firms and other UK businesses could be adversely affected under an FTA or under WTO terms. A tariff or non-tariff barrier, customs checks, the inability to provide cross-border services, changes in withholding tax, restrictions on movements of employees, restrictions on the



transfer of personal data, etc., all have the potential to materially impair the profitability of a business, require it to adapt, or even relocate.

Given the relatively short time within which to negotiate an FTA, there is a risk that the UK may leave the transition period without a future trade agreement and may not seek an extension. In such circumstances, it is probable that the adverse effects of leaving on unfavorable terms would principally affect the UK (and those having an economic interest in, or connected to, the UK). However, given the size and global significance of the UK's economy, uncertainty about whether it will secure an FTA by the end of the transition period, and thus uncertainty as to the substance of its future legal, political and economic relationships with Europe may continue to be a source of instability, produce currency fluctuations or have other adverse effects on international markets, international trade and other cross-border cooperation arrangements.

The uncertainty surrounding the UK's future relationship with the EU could therefore adversely affect Advisory Clients, the performance of their investments and the ability to achieve their investment objectives (especially if the investments include, or expose the Advisory Client to, businesses that have relied on access to the single market or whose value is affected adversely by the UK's future relationship with the EU).

### **Taxation in Other Jurisdictions**

If an Advisory Client makes investments or carries on activities 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 and may be subject to additional reporting requirements. 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 addition, the general partner of an Advisory Client may enter into agreements with certain tax jurisdictions relating to the taxation of an Advisory Client's investments, including agreements providing for a composite rate of withholdings or other tax applicable to an Advisory Client's investments. It is possible that such an arrangement could result in some investors being allocated more tax than they otherwise would in the absence of such agreement (for example, an investor that may be entitled to a lower tax rate pursuant to an applicable tax treaty). 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. Moreover, various rules and measures have been proposed and/or implemented in jurisdictions outside of the United States to address global tax issues, including perceived treaty abuse, the deductibility of interest expense, local nexus requirements, transfer pricing and hybrid mismatch arrangements. Such rules could impact the structures used by an Advisory Client and may have an adverse effect on such Advisory Client's investors and/or investments.

## **Cayman Islands Placed on European Union List of Non-Cooperative Jurisdictions**

On February 18, 2020, it was announced that the Cayman Islands has been placed on the EU's list of non-cooperative jurisdictions for tax purposes. The Cayman Islands government issued a press release on February 18, 2020, affirming that the jurisdiction introduced appropriate legislative changes on February 7, 2020, relating to the EU's criteria, but that the listing appears to stem from such legislation not being enacted by February 4, 2020, which was the date of the EU's Code of Conduct Group meeting to advise the EU Finance Ministers prior to the Finance Ministers' decision regarding the listing on February 18, 2020. The Cayman Islands government press release states that the Cayman Islands remains fully committed to cooperating with the EU, and will continue to constructively engage with them with the view to be delisted as soon as possible. It is unclear as to whether the Cayman Islands being placed on such list will have a significant, or any, effect on an Advisory Client, any feeder vehicle or other alternative investment vehicles, their respective investors, or an Advisory Client's investments. There can be no assurance that the Cayman Islands will be delisted, or that being placed on such list (and any subsequent legislative actions related thereto) will not have a materially adverse effect on a fund, any feeder vehicle or alternative investment vehicles, a fund's investments or investors, particularly those residing or domiciled in the EU.

## **Impact of Certain Tax Legislation**

In December 2017, a broad-based reform of the U.S. Internal Revenue Code of 1986, as amended (the "IRS Code"), was signed into law (the "Tax Act"), which fundamentally changed the IRS Code. Among the numerous changes included in the Tax Act are (i) a reduction to the corporate income tax rate, (ii) new limitations on the utilization of net operating losses, (iii) partial limitations on the deductibility of business interest expense, (iv) a partial shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with a transitional rule which taxes certain historic accumulated earnings and rules which prevent tax planning strategies which shift profits to low-tax jurisdictions), and (v) a suspension of certain miscellaneous itemized deductions, including deductions for investment fees and expenses, until 2026. Changes to the IRS Code made by the Tax Act and any further changes in tax laws or interpretation of such laws may be adverse to an Advisory Client and its investors.

Carlyle's ability to achieve the investment objectives of each Advisory Client depends to a substantial degree on its ability to retain and motivate its investment professionals and other key personnel, and to recruit talented new personnel. Carlyle's ability to recruit, retain and motivate its professionals is dependent on its ability to offer highly attractive incentive compensation, and such compensation may be impacted by changes in tax legislation. The Tax Act subjects allocations of income and gain in respect of entitlements to carried interest and gain on the sales of profits interests in certain partnerships realized in taxable years beginning after 2017 to higher rates of U.S. federal income tax than under prior law in certain circumstances. Further, in addition to the changes implemented by the Tax Act, Congress has previously considered legislation that would treat carried interest as ordinary income for U.S. federal income tax purposes. Enactment of this legislation could cause Carlyle's investment professionals to incur a material increase in their tax liability with respect to their entitlement to carried interest. In addition, other countries could clarify or modify their tax treatment of carried interest. This might make it more difficult for

Carlyle to incentivize, attract and retain these professionals, which may have an adverse effect on Carlyle's ability to achieve the investment objectives of the Advisory Clients. In addition, this can create a conflict of interest as the tax position of Carlyle may differ from the tax positions of the Advisory Clients and/or the investors and therefore, these rules may have an additional impact on the investment decisions made by the Advisory Clients, including with respect to decisions on the timing and structure of dispositions and whether to pursue other realization events during the holding period of an investment such as non-liquidating distributions. For example, the Tax Act gives Carlyle an incentive to cause an Advisory Client to hold an investment for at least three years in order to obtain lower tax rates on carried interest gains even if there are attractive realization opportunities earlier than three years.

### **Phantom Income**

Each U.S. investor will be, and a non-U.S. investor 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**

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, inquiries, employment-related matters, 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 (a) members, shareholders, stockholders, unit holders and partners (in each case in their respective capacities as such), (b) officers, directors, agents, employees, Operating Professionals and senior advisors and (c) any other person who

serves at the request of its general partner on behalf of such investment vehicle as an officer, director, partner, member, senior advisor, Operating Professional or employee of or advisor to any other entity 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, finders 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 to fund indemnification obligations (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.

### **Absence of Recourse**

Each Advisory Client's governing documents will include exculpation, indemnification and other provisions that will limit the circumstances under which the general partner of an Advisory Client, CIM and others can be held liable to an Advisory Client. Additionally, certain service providers to an Advisory Client and its general partner, CIM, their respective affiliates and other persons, including, without limitation, the members of the Investor Advisory Committee, members of the investment committee of an Advisory Client's general partner and placement agents and finders, may be entitled to exculpation and indemnification (in certain cases on terms more favorable to them than those available to indemnitees as provided under an Advisory Client's governing

documents generally). As a result, the investors may have a more limited right of action in certain cases than they would in the absence of such limitations.

### **Recycling; Reinvestment**

Under certain circumstances, proceeds distributable (or previously distributed) to the investors in a Carlyle-sponsored investment vehicle may be retained and reinvested (or recalled for reinvestment) by its general partner (or 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 or other of its payment obligations to a Carlyle-sponsored investment vehicle, and the capital contributions and/or other payments 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. The general partner of the Advisory Client may, subject to certain limitations, require an additional funding of capital contributions from the non-defaulting investors to fund the shortfall caused by a defaulting investor. A default by an investor may also limit the Advisory Client's ability to incur borrowings and avail itself of what would otherwise have been available credit. Investors in an Advisory Client may be controlled by Carlyle, to the effect that Carlyle controls whether the investor funds required capital contributions or other payments to an Advisory Client. To the extent such an investor does not so fund required capital contributions or other payments, Carlyle may elect not to impose default remedies under the governing documents of the Advisory Client. If any failure to fund relates to the actions or inactions of a third-party investor in such investor, Carlyle may elect to impose default remedies under the governing documents of such investor in lieu of at the Advisory Client.

### **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 capital contributions for investments (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.

## **Distributions In-Kind**

In connection with the winding up and dissolution of an Advisory Client, such Advisory Client may make distributions in-kind, including, in the form of investments that are not marketable or are otherwise illiquid. At the time of such distribution, such investments may be experiencing periods of limited liquidity, price volatility or a decline in market value and may have certain investment and transfer restrictions limiting marketability. The ability of investors to liquidate positions in such investments is subject to these risks, and investors must be prepared to hold such investments for an extended period of time. The value of the investments distributed may increase or decrease before such investments are sold, and such investor will incur transaction costs in connection with the sale of any such investment. Additionally, investments distributed to an investor may not be readily marketable or saleable and may have to be held by such investor for an indefinite period of time. The risk of loss and delay in liquidating these investments will be borne by the investor, with the result that such investor may ultimately receive less cash than it would have received if it had been paid in cash. In addition, when investments are distributed to investors in-kind, such investors may then become debt or minority equity holders in the issuer and may be unable to protect their interests effectively. See also “Carried Interest” below.

## **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, including the Advisory Client's competitive advantage in finding attractive investment opportunities. 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 certain Advisory Clients will be specified, and strictly limited, in such investment vehicle's subscription, governing or offering documents.

### **No Public Market for Interests; Restrictions on and Limitations Relating to Transfers**

An investment in an Advisory Client requires a long-term commitment, with no certainty of return. Interests in private fund Advisory Client vehicles have not been registered under the Securities Act, or applicable securities laws of any U.S. state or the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and any other applicable securities laws or an exemption from such registration is available. There is no public market for the interests in such investment vehicles and one is not expected to develop. An investor will not be permitted to directly or indirectly assign, sell, pledge, exchange or transfer any of its interests or any of its rights or obligations with respect to its interests without the prior written consent of the general partner (or other similar managing fiduciary) of such applicable Advisory Client, which consent may be given or withheld in accordance with the governing documents of such Advisory Client. Any transfer by an investor to a person other than an affiliate of such investor with substantially the same beneficial ownership generally will be subject to a right of first refusal for the benefit of the general partner of the Advisory Client (which right is generally transferable to an affiliate of such general partner, including their respective employees). Following exercise by such general partner (or its affiliate or any respective employee) of such right of first refusal with respect to an investor's interest, the person that exercised such right may transfer such interest to a third party. In addition, the general partner of an Advisory Client may condition its consent to any sale or transfer of an investor's interest in such Advisory Client on the transferee or transferor making an unrelated investment in another Advisory Client, or on other matters which are solely in the interests of the general partner or Carlyle.

## **FATCA and CRS**

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. payments 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. payments. FATCA also contains complex provisions requiring participating FFIs to withhold on certain “foreign passthru payments” made to nonparticipating FFIs and to holders that fail to provide the required information. The definition of a “foreign passthru payment” is still reserved under the current U.S. Treasury Regulations; however, the term generally refers to payments that are from non-U.S. sources but that are “attributable to” certain U.S. payments as described above. Under proposed U.S. Treasury Regulations, on which taxpayers may rely, withholding on these payments is not set to apply before the date that is two years after the date of publication of final U.S. Treasury Regulations defining the term “foreign passthru payment.” In general, non-U.S. investment funds, such as any non-U.S. Carlyle-sponsored investment vehicle advised by CIM or underlying entities in which such vehicle invests, may be considered FFIs. 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. IGAs are generally intended to result in the automatic exchange of tax information through reporting by an FFI to the government or tax authorities of the country in which such FFI is domiciled, followed by the automatic exchange of the reported information with the IRS. These reporting requirements may apply to underlying entities in which an Advisory Client invests and the Advisory Client may not have control over whether such entities comply with the reporting regime. Any amounts withheld pursuant to FATCA that are allocable to an investor may, in accordance with the governing document of such Advisory Client, be deemed to have been distributed to such investor to the extent the taxes reduce the amount otherwise distributable to such investor. 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, compliance with such regimes could result in increased administrative and compliance costs and could subject certain CIM-sponsored investment entities to increased non-U.S. withholding taxes.

## **Partnership Audit Legislation**

Under current law, U.S. federal income tax audits of partnerships are conducted at the partnership level, 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.

### **Valuation of Advisory Client Interest and Investments**

Because there is significant uncertainty as to the valuation of illiquid investments, the values of such investments may not necessarily reflect the values that could actually be realized by an Advisory Client. Under certain conditions, an Advisory Client may be forced to sell investments at lower prices than it had expected to realize or defer, potentially for a considerable period of time, sales that it had planned to make. In addition, under limited circumstances, the general partner of such Advisory Client may not have access to all material information relevant to a valuation analysis with respect to an investment. As a result, the valuation of such Advisory Client's investments, and as a result the valuation of the interests themselves, may be based on imperfect information and is subject to inherent uncertainties.

Also see "Current Market Conditions" above for an additional discussion of the potential impact such market conditions may have on asset prices and valuations for Advisory Clients and their potential or existing investments and portfolio companies.

### **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.

Certain Advisory Clients utilize subscription lines of credit to fund investments prior to the receipt of capital contributions from investors. Because the capital contributions from investors are delayed when using a subscription line of credit, the investment period of such investor capital is shortened, which may increase the net internal rate of return of an Advisory Client. However, because interest expense and other costs of borrowings under subscription lines of credit are an expense of the Advisory Client, the Advisory Client's net multiple of invested capital will be reduced.

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 for Control Investments**

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.

##### **Concentration Risk**

The portfolio of an Advisory Client may be concentrated in a limited number of portfolio companies and industries. Beyond asset diversification requirements or concentration limitations set forth in an Advisory Client's applicable governing documents or contractual agreements, Advisory Clients do not have fixed guidelines for diversification and investments may be concentrated in relatively few industries. As a result, the aggregate returns realized may be significantly adversely affected if a small number of investments perform poorly or if the Advisory Client needs to write down the value of one or more investments. Additionally, a downturn in any particular industry in which the Advisory Client is invested could also significantly impact the aggregate returns realized.

##### **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 an investment. 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.

To the extent that an Advisory Client co-invests with any vehicles managed or controlled by Carlyle, including any other Carlyle funds, vehicles and accounts (including vehicles formed to permit Carlyle professionals or other qualified individuals to co-invest alongside such Advisory Client), the Advisory Client may incur indebtedness and guarantee obligations together with such vehicles on a joint and several or cross-collateralized basis (which may be on an investment-by-investment or portfolio-wide basis). While such arrangements may be joint and several with respect to the Advisory Client, such arrangements may not necessarily impose reciprocal joint and several obligations on such vehicles. As a result of the incurrence of indebtedness on a joint and several or cross-collateralized basis, the Advisory Client may be required to contribute amounts in excess of its pro rata share, including additional capital to make up for any shortfall if such vehicles are unable to repay their pro rata share of such indebtedness. Moreover, an Advisory Client could also lose its interests in performing investments in the event such performing investments are cross-collateralized with poorly performing or non-performing investments.

### **Broad Investment Mandate**

Certain Advisory Clients within the buyout strategies 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. Certain of the investments may be in businesses with little or no operating history. 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. In addition, less mature companies could be deemed to be more susceptible to irregular accounting or other fraudulent practices. In the event of fraud by any company in which an Advisory Client invests, such Advisory Client may

suffer a partial or total loss of capital invested in that company. There can be no assurance that any such losses will be offset by gains (if any) realized on such Advisory Client's other assets.

## Global Credit

### **Bankruptcy Risks**

Given that the investment strategies for Advisory Clients within Global Credit 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 number 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. An Advisory Client may invest in loans either through primary issuances or secondary transactions, including potentially on a synthetic basis. The value of an Advisory Client's investment in loans may be detrimentally affected to the extent a borrower defaults on its obligations. There can be no assurance that the value assigned by CIM to collateralize an underlying loan can be realized upon liquidation, nor can there be any assurance that any such collateral will retain its value. Furthermore, circumstances could arise (such as in the bankruptcy of a borrower) that could cause an Advisory Client's security interest in the loan's collateral to be invalidated. Also, much of the collateral will be subject to restrictions on transfer intended to satisfy securities regulations, which will limit the number of potential purchasers if an Advisory Client intends to liquidate such collateral. The amount realizable with respect to a loan may be detrimentally affected if a guarantor, if any, fails to meet its obligations under a guarantee. There may be a monetary, as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral. Finally, loans may become non-performing for a variety of reasons. Non-performing debt obligations may require substantial

workout negotiations, restructuring or bankruptcy filings that may entail a substantial reduction in the interest rate, deferral of payments and/or a substantial write-down of the principal of a loan or conversion of some or all of the debt to equity.

### **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 that 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). CLOs are also subject to the risk that distributions from collateral assets will be inadequate to make interest or other payments and the quality of the collateral may decline in value, default or be downgraded.

## **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.

### **Real Assets: Real Estate**

Real estate investments may be particularly sensitive to adverse changes in economic and employment conditions, which may have adverse impacts on the availability of credit to businesses as well as on asset prices, including real estate, and more generally the public and private markets.

Further, there is an increased risk of default in real estate investments due to the slowing and/or idling of large segments of business activity and in particular, investments in the hospitality industry, office sectors, and multifamily residential, in particular the “active adult” sector and other senior living investments in light of the reported disproportionate impact of the COVID-19 pandemic on older segments of the population. Such investments could face material declines in demand, operating income (and increasing expenses) and/or the ability to maintain current rental rates, for example, and could face both increased governmental intervention and regulation and/or litigation in respect of current events. Further, such investments may face decreased cash flows and may as a result, be unable to meet their debt obligations.

Advisory Clients may make investments in non-performing, underperforming, or other troubled assets or undercapitalized real estate companies, which involve a degree of financial risk and are experiencing or are expected to experience severe financial difficulties, which may never be overcome and, as a result, may lead to a loss of some or all of the Advisory Client’s investment.

### **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, Renewables 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. For example, current and pending greenhouse gas regulations or policies may increase compliance costs for portfolio companies, such as for monitoring or sequestering emissions, or reducing demand in hydrocarbons.

##### **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.

### Fund of Funds Strategies

Certain of CIM's Advisory Clients focus on investing in underlying funds. In general, such 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 Advisory Client level. As a result, where an investment strategy involves underlying funds, such Advisory Client's fees and expenses will be higher than if the investor 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 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 Advisory Client's investments in the underlying funds in the aggregate (and therefore the performance of the Advisory Client itself) is negative. Such underlying funds often include other Advisory Clients advised by CIM or an affiliate thereof.

With respect to investments involving underlying funds, 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:



## **Incentive Fees and Carried Interest**

As described in Items 5 and 6, incentive fees and 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. Pursuant to an Advisory Client's governing documents, the general partner of such Advisory Client may be required to return excess amounts of carried interest as a "clawback." This clawback obligation creates an incentive for the general partner to defer disposition of one or more investments or delay the liquidation of an Advisory Client if the disposition and/or liquidation would result in a realized loss to the Advisory Client or would otherwise result in a clawback situation for such general partner.

In addition, the manner in which a general partner of an Advisory Client's entitlement to carried interest is determined may result in a conflict between its interests and the interests of investors with respect to the sequence and timing of disposals of investments. For example, the members and partners of the general partner of an Advisory Client are generally subject to U.S. federal and local income tax (unlike certain of the investors). Investors should note in this regard that recently enacted tax reform legislation relating to the taxation of carried interest provides for a lower capital gains tax rate in respect of investments held for at least three years. Carlyle may be incentivized to operate an Advisory Client, including to hold and/or sell investments, in a manner that takes into account the tax treatment of its carried interest. While each Advisory Client's general partner generally intends to seek to maximize pre-tax returns for the relevant Advisory Client as a whole, such general partner may nonetheless be incentivized, for example, to hold investments longer to ensure long-term capital gains treatment and/or realize investments prior to any change in law that results in a higher effective income tax rate on its carried interest.

## **Valuations of Investments**

There may be situations in which CIM is incentivized to influence or manipulate the valuation of investments. For example, CIM could be motivated to overstate valuation in order to: (i) improve 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 Advisory 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.

### **Carlyle Capital Solutions**

As described in Item 5, the fee potential inherent in using CIM's affiliated broker-dealer (or an affiliate providing similar services with respect to loans) for a particular investment or transaction could be viewed as an incentive for the general partner of an Advisory Client to seek to refer, allocate or recommend an investment or transaction to an Advisory Client. It is possible that a CIM-affiliated broker-dealer (or an affiliate providing similar services with respect to loans) or one or more other Carlyle-sponsored investment vehicles may provide financing as part of a third-party purchaser's bid for or acquisition of an investment of an Advisory Client. The involvement of a CIM-affiliated broker-dealer (or an affiliate providing similar services with respect to loans) or one or more other Carlyle-sponsored investment vehicles as a provider of debt financing in connection with the potential acquisition of investments by third parties from an Advisory Client will give rise to potential or actual conflicts of interest, including the possibility of the general partner of the Advisory Client being motivated to cause such Advisory Client to agree to terms with a third party with respect to which a CIM-affiliated broker-dealer (or an affiliate providing similar services with respect to loans) or one or more other Carlyle-sponsored investment vehicles is providing such debt financing that are less favorable to the applicable Advisory Client's portfolio company and/or the Advisory Client than might have been obtained from another third party that did not have access to such financing, which may adversely impact an Advisory Client. In addition, Carlyle's advisory professionals may be involved in such activities of broker-dealer affiliates of CIM who are U.S.-registered broker-dealers (or affiliates providing similar services with respect to loans), and their activities may give rise to fees that are not subject to any management fee offset, even though such persons are involved in investment-related activities on behalf of one or more Advisory Clients.

### **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. Although Carlyle's founders are committed to Carlyle's business, the founders engage in personal investment or other activities as permitted under current policies, applicable offering documents and other governing documents; and to the extent such activities present conflicts of interest, CIM employs appropriate mitigation procedures. Other of Carlyle's key personnel may, to the extent permitted by the governing documents of the relevant Advisory Clients and Carlyle's internal policies, make personal investments outside of Carlyle and its Advisory Clients. For example, one of our founders has created a family office and has engaged an investment adviser to manage certain of his non-Carlyle personal investments. Such personal investments may be substantial and divert attention from CIM and the Advisory Clients.

### **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. 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 (including any related co-investment 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, investment focus, 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, applicable law and other regulatory guidance 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.

Further, related to Carlyle's Global Credit business, certain Advisory Clients (or advisory clients) may invest primarily in loans, which are generally made to private companies that are, in many cases, controlled by private equity firms or in which private equity firms otherwise hold, directly or indirectly, a financial interest in the form of debt and/or equity. Such other private equity firms likely will be competitors of Carlyle, Advisory Clients or Carlyle advisory clients. Accordingly, Carlyle's interests in respect of the Advisory Clients making direct loans may be in conflict with those of other Advisory Clients or Carlyle advisory clients (*e.g.*, those advisory clients seeking to make equity investments in such companies).

The governing documents of certain Advisory Clients provide that Carlyle will not be required to allocate investment opportunities to them after they reach "Full Investment" (generally, when unpaid capital commitments of the non-defaulting investors of an Advisory Client are equal to or less than 10% of aggregate capital commitments of the non-defaulting investors of such Advisory Client). Allocations are further discussed below in Item 11.

### **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.

In addition, the batching of capital calls may amplify the magnitude of potential defaults by investors as a result of there being fewer but larger capital calls. To the extent a subscription facility is due upon demand by a lender, such a demand may be issued at an inopportune time at which liquidity is generally constrained, potentially resulting in greater defaults as a result of liquidity constraints on investors and/or investors facing similar capital calls in multiple funds and being unable to satisfy all such demands simultaneously. Moreover, the existence of a subscription facility may impair an investor's ability to transfer its interest in an Advisory Client as a result of restrictions imposed on such transfers by the lender. Moreover, tax-exempt investors should note

that the use of borrowings by an Advisory Client may cause the realization of unrelated business taxable income.

Investors should note that an Advisory Client's general partner may have the right to borrow for the purpose of funding distributions to limited partners. To the extent a general partner elects to do so in order to accelerate a distribution that is expected to be made to the limited partners in connection with a legally binding agreement or the declaration of a dividend or similar distribution by a portfolio company, the proceeds from such borrowing will be split between the limited partners and such general partner on the same basis as the proceeds would be distributed upon consummation of the transaction contemplated by the applicable binding agreement (or dividend announcement). Accordingly, the general partner has an incentive to cause the Advisory Client to borrow for this purpose in order to accelerate its receipt of carried interest. To the extent an applicable transaction is not consummated or dividend not made (or, in either case, materially delayed) the Advisory Client may be required to call capital or dispose of other assets to repay the applicable borrowing and the general partner may be required to make a clawback payment to applicable limited partners.

## **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. In making such allocation decisions, the general partner will be entitled to consider any interests and factors as it desires, including placing its own interests ahead of the interests of any other person. 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/upfront 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 its 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.

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 timing of the potential co-investor's commitment to the Advisory Client, (iv) the size of the potential co-investor's interest to be held in the underlying portfolio company as a result of the Advisory Client's investment (which is likely to be based on the size of the potential co-investor's capital commitment and/or investment in the

Advisory Client), (v) whether the potential co-investor has demonstrated a long-term and/or continuing commitment to the potential success of Carlyle, the Advisory Client, or other funds or co-investments, (vi) the potential co-investor's ability to meet investment funding deadlines; (iv) the potential co-investment amount; (vii) the potential co-investor's ability to keep target investment information confidential; (viii) past positive or negative experiences with the potential co-investor; (ix) the expected amount of negotiations required in connection with a potential co-investor's commitment; (x) the potential for competition or other conflicts of interest with the target investment; (xi) the potential co-investor's ability to offer skillsets or relationships that are helpful to the target investment; and (xii) 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 discretion, between 5-10 percent of each investment opportunity available to Carlyle to Carlyle-related funds, accounts or vehicles, and Carlyle directors, officers, employees, Operating Professionals, partners, members, consultants, advisors, senior advisors and affiliates ("Carlyle Co-Investors"). Furthermore, Carlyle has formed (and may in the future form additional) funds, accounts or vehicles for the benefit of third-party investors that will be entitled to a portion of such allocation with respect to some or all of the investment made by Advisory Client(s), such as funds, accounts or vehicles formed specifically or solely to participate in investments alongside Advisory Client(s). Such arrangements include programs designed to invest across Carlyle's platform that are structured in part to invest alongside one or more Advisory Clients through a single account or vehicle, with Carlyle's management fee and carried interest (or incentive allocation) in respect of investments made alongside an Advisory Client generally determined by reference to the terms of the applicable Advisory Client and calculated solely with respect to such investments.

Carlyle may be permitted, without the consent of investors or of an Investor Advisory Committee of an Advisory Client, to sell investments from an Advisory Client to an entity formed to hold co-investment, on the terms and conditions stated under the governing documents of the Advisory Client. Carlyle Co-Investors may not participate in any such transaction, and accordingly would retain the entirety of its investment in the underlying portfolio investment.

The foregoing co-investment rights generally result in an Advisory Client being allocated a smaller share of an investment than would otherwise be the case in the absence of such co-investment rights. In making co-investment allocation decisions, the general partner will be entitled to consider any interests and factors as it desires, including placing its own interests ahead of the interests of any other person. For example, the general partner may take into account the potential fees and carried interest that may be earned as a result of the participation of such other Carlyle-related funds, accounts or vehicles. Such fees or carried interest payable by investors in such other Carlyle-related funds, accounts or vehicles may be higher than the fees or carried interest payable by investors in the Advisory Client. Such other Carlyle-related funds, accounts or vehicles may also provide for management fees to be payable solely based on invested capital, which would create an incentive for Carlyle to allocate greater amounts of investment opportunities to such other Carlyle-related funds, accounts or vehicles. Following the allocation to Carlyle Co-Investors described above, 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, or actions taken with respect to, 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 actual or 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 Professionals are engaged through a retainer agreement with CIM, Carlyle may elect to bear the expense of base retainer fees. Certain Operating Professionals have the right or are 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 are 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 and Deal Sourcers**

Services required by an Advisory Client (including some services historically provided by Carlyle to its sponsored investment vehicles) may for certain reasons, including efficiency considerations, be outsourced in whole or in part to third parties in the discretion of Carlyle or the general partner of an Advisory Client in connection with the operation of the Advisory Client, and such general partner will have an incentive to outsource such services at the expense of the Advisory Client in order to leverage the use of Carlyle's employees. Such outsourced services may include, without limitation, deal sourcing, asset management, information technology, licensed software, depositary, data processing, trading, settlement, client relations, administration, marketing material reviews, anti-money laundering/know-your customer and similar customer due diligence reviews, custodial, accounting, legal and tax support and other services. Outsourcing may not occur uniformly for all Carlyle-sponsored investment vehicles and, accordingly, certain costs may be incurred by an Advisory Client through the use of third-party service providers that are not incurred for comparable services used by other Carlyle-sponsored investment vehicles. The decision by Carlyle to initially perform particular services in-house for the Advisory Client will not preclude a later decision to outsource such services, or any additional services, in whole or in part to third parties. The costs, fees or expenses of any such third-party service providers will be an expense of the Advisory Client and borne by such Advisory Client. Carlyle will determine (in its discretion based on relevant experience, its belief regarding market practice and such other factors as it determines relevant under the circumstances) the fees, carried interest and other consideration payable to deal sourcers (who may be exclusive to Carlyle), asset managers and other service providers.

Certain advisors and other service providers, or their affiliates (including, without limitation, accountants, administrators, lenders, bankers, brokers or other deal sourcers, attorneys, consultants, custodians, 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, its affiliates, employees and its portfolio companies. Certain service providers, including lenders, are owned by Carlyle, a Carlyle-sponsored or -affiliated investment vehicle(s), including, for example, Chronograph and iCapital. 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 (i) investors in an Advisory Client (or an affiliate of an Advisory Client), (ii) affiliates of Carlyle, the general partner of a Carlyle-sponsored investment vehicle, and/or their affiliates, (iii) sources of investment opportunities, (iv) co-investors or counterparties or (v) entities



in which Carlyle and/or a Carlyle-sponsored investment vehicle has an investment, and payments by a Carlyle-sponsored investment vehicle and/or such portfolio company may indirectly benefit Carlyle and/or such other Carlyle entity. These relationships and the potential of leveraging the capabilities of its personnel through the use of service providers (as such, for example, deal sourcers and operating or development partners who, in each case may be exclusive to Carlyle) may influence CIM in deciding whether to select or recommend such a 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. Moreover, an Advisory Client or Carlyle may not be in a position to verify the risks or reliability of such third-party service providers. An Advisory Client may suffer adverse consequences from actions, errors or failure to act by such third parties, and will have obligations, including indemnity obligations, and limited recourse against them.

## **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 (but not any of such investor's assignees or transferees unless so specified in such side letter) notwithstanding any other provision of the governing documents of such applicable Carlyle-sponsored investment vehicle related thereto and matters arising under any side letter may be considered matters contemplated in the governing documents of an Advisory Client and the limitation on liability provisions therein shall apply equally to any side letter. 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 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, except with respect to most-favored-nations provisions. 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, depending on the terms of “most favored nation” provisions, 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 (including secondees and interns) who are employees, 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.

In addition, from time to time, certain Carlyle personnel (including secondees and temporary personnel or consultants that may be short-term or long-term arrangements) may be seconded to one or more Advisory Client portfolio companies and provide finance, administrative and other services to such portfolio companies and the compensation for such personnel during the secondment will be borne by such portfolio companies (in whole or in part). To the extent Carlyle receives any fees or expense reimbursement from such Advisory Client portfolio companies with respect to such personnel, they will not be subject to the management fee offset provisions and the investors may not receive the benefit of such fees or compensation. Such personnel may also be seconded to one or more investors.

## **Portfolio Company Relationships**

The portfolio companies of certain Advisory Clients and the borrowers or issuers of financial instruments held by certain Advisory Client portfolios 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 Advisory Clients' 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.

## **Valuation Matters**

The fair value of all investments or of property received in exchange for any investments will be determined by an Advisory Client's general partner in accordance with its governing agreement. Accordingly, the carrying value of an investment may not reflect the price at which the investment could be sold in the market, and the difference between carrying value and the ultimate sales price could be material. The valuation of such investments will be determined by such general partner in accordance with procedures set forth in the Advisory Client's governing agreement. The valuation of investments will affect the amount and timing of such general partner's carried interest and, under certain circumstances, the amount of management fees payable to CIM. Valuations are subject to determinations, judgments and opinions and other third parties or investors may disagree with such valuations. The valuation of investments may also affect the ability of Carlyle to raise a successor fund to an Advisory Client. As a result, there may be circumstances where the general partner is incentivized to determine valuations that may be higher than the actual fair value of investments.

## **Insurance**

The general partner of an Advisory Client will cause such Advisory Client to purchase, and/or bear premiums, fees, costs and expenses (including any expenses or fees of insurance brokers and insurance lawyers) for, insurance to insure such Advisory Client, its general partner, CIM, Carlyle and/or their respective directors, officers, employees, agents, representatives, members of the Advisory Client's Investor Advisory Committee and other indemnified parties, against liability in connection with the activities of such Advisory Client. This includes a portion of any premiums, fees, costs and expenses for one or more "umbrella" or other insurance policies maintained by Carlyle that cover the Advisory Client, other Carlyle advisory clients, CIM and/or Carlyle (including their respective directors, officers, employees, agents, representatives, members of the Investor Advisory Committee and other indemnified parties). Carlyle will make judgments about the allocation of premiums, fees, costs and expenses for such "umbrella" or other insurance policies among Advisory Clients, other Carlyle advisory clients, CIM and/or Carlyle on a fair and reasonable basis, in its sole discretion, and may make corrective allocations should it determine subsequently that such corrections are necessary or advisable. There can be no assurance that a different allocation would not result in an Advisory Client bearing less (or more) premiums, fees, costs and expenses for insurance policies.

## **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.

## **Fortitude Re Insurance-Related Strategic Asset Management Relationships**

Carlyle has a 19.9% ownership interest in Fortitude Reinsurance Company Ltd., a Bermuda domiciled reinsurer ("Fortitude Re"), and certain Advisory Clients have signed an agreement to acquire an additional ownership interest. After closing, Carlyle and such Advisory Clients will have an ownership interest in Fortitude Re of 71.5%, inclusive of the initial 19.9% interest previously acquired by Carlyle.

CIM has entered into an investment management agreement and other investment advisory arrangements with Fortitude Re and certain affiliated ceding companies pursuant to which Fortitude Re has invested in, and has granted Carlyle with discretionary authority to continue to invest certain of Fortitude Re's assets into various Carlyle-sponsored funds and other investment vehicles. Under these agreements, CIM is the exclusive provider of alternative asset management and advisory services with respect to certain new business acquired by Fortitude Re with respect to certain asset classes, and provides (among other services) advice on asset allocation and selection of investment advisors with respect to all asset classes. Carlyle receives compensation, including management fees and carried interest, in connection therewith which are ultimately borne by Fortitude Re. These amounts will not offset the management fee payable by any Advisory Client to CIM and will not be shared with any Advisory Client. Carlyle expects to continue to pursue strategic asset management relationships with other insurance and reinsurance companies.

## **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. References to CIM do not include references to Broad Sky.

The Broad Sky personnel who are Carlyle investment professionals 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 remaining portfolio company, 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 are likely to 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. For example, AlpInvest may seek to co-invest alongside a third-party private equity fund that is actively bidding on a target company in competition with one or more of CIM's Advisory Clients. If the other third-party fund secures the investment for its advisory clients, AlpInvest's advisory clients will participate in the transaction and not CIM's Advisory Clients.

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, or actions taken with respect to, 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. Further, a Carlyle-advised BDC or a Carlyle-advised investment company registered under the Investment Company Act of 1940 (a "RIC") may seek to make an

investment in an issuer at or around the same time that an Investment Solutions advisory client seeks to make an investment in the same issuer. SEC regulations may prohibit the Carlyle-advised BDC or RIC and the Investment Solutions advisory client from making the investment. Additionally, a Carlyle-advised BDC or RIC may seek to make an investment in an issuer in which an Investment Solutions advisory client holds an existing substantial (direct or indirect) interest and can exert some measure of control, which may preclude the Carlyle-advised BDC or RIC from making the investment.

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.

Furthermore, transactions involving the purchase (or sale) of securities by an Advisory Client from (or to) an advisory client of an Investment Solutions adviser (*e.g.*, the acquisition of a portfolio company from a third-party private equity fund where an AlpInvest advisory client is a co-investor) may constitute a cross-trade or a principal transaction in certain circumstances. Accordingly, prior to any potential cross-trade or principal transaction involving an Advisory Client, CIM 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.

## **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. Additional information may also be available in current public filings with the SEC for the Public Company (see [ir.carlyle.com](http://ir.carlyle.com)).

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 in state court in New Mexico, which purports to be a *qui tam* suit on behalf of the State of New Mexico under the state Fraud Against Taxpayers Act ("FATA"). The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by

campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In September 2017, the Court dismissed the lawsuit and the plaintiffs then filed an appeal seeking to reverse that decision. That appeal is pending. The Attorney General may also pursue its own recovery from the defendants in the action.

Carlyle Capital Corporation Limited (“CCC”) was a fund sponsored by Carlyle that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. The Guernsey liquidators who took control of CCC in March 2008 filed a suit on July 7, 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.* On September 4, 2017, the Royal Court of Guernsey ruled that Carlyle and Directors of CCC acted reasonably and appropriately in the management and governance of CCC and that none of Carlyle, its affiliates or former directors of CCC had any liability. In December 2017, the plaintiff filed a notice of appeal of the trial court decision. A hearing before the Guernsey appellate court took place from October 8 through October 18, 2018. On April 12, 2019, the Guernsey Court of Appeal dismissed the appeal and affirmed the trial court’s decision. On July 31, 2019, the plaintiffs filed a notice of appeal with the Judicial Committee of the Privy Council. The Privy Council hearing is scheduled for October 2020.

A Luxembourg subsidiary of CEREP I, a real estate fund, has been involved since 2010 in a tax dispute with the French authorities relating to whether gain from the sale of an investment was taxable in France. In April 2015, the French tax court issued an opinion in this matter adverse to CEREP I, holding the Luxembourg subsidiary of CEREP I liable for approximately €105 million (including interest accrued since the beginning of the tax dispute). CEREP I paid approximately €30 million of the tax obligations and Carlyle paid the remaining approximately €75 million in its capacity as a guarantor. Carlyle appealed the decision of the French tax court. In December 2017, the French appellate court reversed the earlier tax court opinion and awarded Carlyle a refund of the full €105 million of tax and penalties (inclusive of amounts paid by CEREP I) and awarded interest on the refund of €12.5 million, before tax. The French tax authorities appealed the decision. The parties agreed to settle this matter by reducing the tax claim to €37.1 million of French tax and interest. The remaining €80.5 million will be retained by Carlyle and CEREP I.

## **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**

#### **TCG Securities**

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 investment funds and 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 through its relying adviser Carlyle CLO). 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 relevant Carlyle-affiliated advisers') policies and procedures.

### TCG Capital Markets

In 2018, Carlyle obtained FINRA approval for TCG Capital Markets L.L.C. ("TCG Capital Markets"), an affiliated broker-dealer entity that operates as part of the CCS platform within Global Credit, and engages in the underwriting, syndication and placement of securities of corporate issuers in private transactions, among other related activities, including U.S.-based marketing and fundraising for Global Credit Advisory Clients. In addition, TCG Capital Markets is registered as a broker-dealer with the SEC and in 49 states and the District of Columbia. The CCS platform also includes TCG Senior Funding, L.L.C., an affiliate of TCG Capital Markets, which has been established to underwrite, originate and syndicate loans.

As discussed in Item 5, TCG Capital Markets and its affiliates may collect a fee for syndicating and underwriting loans and certain securities to third-party participants and portfolio companies. Certain registered representatives of TCG Capital Markets 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 Capital Markets when engaging in securities-related transactional activities in addition to CIM's (or the relevant Carlyle-affiliated investment advisers') policies and procedures.

CCS may, from time to time, manage or otherwise participate in underwriting syndicates and/or selling groups with respect to the securities, debt instruments and loans of portfolio companies and other non-controlled entities in or through which Advisory Clients and other Carlyle-affiliated advisory clients have invested including in respect of securities or other instruments of such portfolio companies in which Advisory Clients and other Carlyle-affiliated advisory clients have invested, and with respect to securities and other instruments held directly or indirectly by certain co-investment vehicles. In addition, CCS may otherwise be involved in the private placement of such securities and other instruments, and/or may provide capital markets advisory services to portfolio companies and other noncontrolled entities in or through which Advisory Clients or other Carlyle-affiliated advisory clients invest, including in connection with mergers and acquisitions, and may provide acquisition financing and other corporate lending services to such entities in addition to financing provided through investments of Advisory Clients or other Carlyle-affiliated advisory clients. CCS may also provide syndication services to such entities including in respect of co-investments in transactions participated in by Advisory Clients or other Carlyle-affiliated advisory clients. CCS may receive fees, including underwriting, placement, transaction and syndication fees, commissions, underwriting discounts, interest payments and other compensation,

which may be payable in cash or securities and/or loans, in respect of the activities described above and may elect to waive such fees. CCS may, as a consequence of such activities, from time to time hold positions in instruments or securities and/or loans issued by portfolio companies, including, for example, where CCS commits to fund the shortfall amount, if any, resulting from the incomplete syndication of debt, including loans, or equity. Under such circumstances, CCS may commit to provide capital support for the syndication on a short-term basis (*i.e.*, to provide certainty to Advisory Clients or other Carlyle-affiliated advisory clients that there will be sufficient capital to complete the proposed transaction) or fund a different instrument or security in the portfolio company than that held by Advisory Clients or other Carlyle-affiliated advisory clients to facilitate the syndication. In either scenario, CCS typically will sell its holdings prior to Advisory Clients or other Carlyle-affiliated advisory clients disposing of their respective investments in the portfolio company.

CCS also may act as placement agent or underwriter of securities and/or loans of a third party that Advisory Clients or other Carlyle-affiliated advisory clients may purchase. CCS may act as the placement agent, on a best efforts basis, with respect to the offer and sale of certain interests in private investment vehicles and special purpose vehicles for Advisory Clients or other Carlyle-affiliated advisory clients in certain jurisdictions. CCS does not generally receive compensation for such service; however if compensation is received, such compensation would be made on a fully disclosed basis. CCS does not otherwise execute transactions on behalf of Advisory Clients or other Carlyle-affiliated advisory clients. While fees, commissions, upfront placement fees, interest payments and other compensation paid to CCS are generally believed to be reasonable and charged at rates that are market rates for the relevant activities, such compensation could be determined through negotiation with related parties. Advisory Clients or other Carlyle-affiliated advisory clients generally do not have the right to share in the compensation received by CCS for its role in any transaction, unless specifically required (*e.g.*, Exemptive Relief).

The relationship CGCIM and CIM have with CCS may give rise to a potential conflict of interest between CGCIM and CIM, and Advisory Clients or other Carlyle-affiliated advisory clients that have an interest in any portfolio companies or investment vehicles with respect to which CCS provides services. In particular, CGCIM or CIM may be seen as incentivized to seek to influence the decision to retain CCS, or transact with CCS, instead of other unaffiliated broker-dealers or other service providers or counterparties that may be more appropriate or offer better terms. Where CCS acts as a lender to a portfolio company in which Advisory Clients or other Carlyle-affiliated advisory clients hold investments in the same or different levels of the capital structure, the arrangement may lead to a conflict between CCS and the Advisory Clients or other Carlyle-affiliated advisory clients in the event of a default by, or the liquidation of, the portfolio company or a restructuring or renegotiation of the terms of the loan. In certain circumstances, including without limitation, where a portfolio company becomes distressed and the participants in the relevant offering have a valid claim against the underwriter, the participating Advisory Clients or other Carlyle-affiliated advisory clients may have a conflict in determining whether to seek recourse or sue CCS. CGCIM or CIM could also be seen as incentivized to structure portfolio company transactions, including related co-investment opportunities, so that they require the use of a broker-dealer (and consequently provide an opportunity for CCS to be retained by a portfolio company or acquisition company established for the relevant transaction and generate fees,

including underwriting, placement, transaction and syndication fees, commissions, underwriting discounts, interest payments or other compensation for such an affiliated broker).

CCS also provides financing and capital markets services to third parties that are not portfolio companies including third parties that are competitors of portfolio companies of particular Advisory Clients or other Carlyle-affiliated advisory clients, or that are service providers, suppliers, customers, or other counterparties with respect to such companies (“competitor companies”) and may act as placement agent in respect of investment funds that are sponsored and managed by other third-party investment managers, including funds that may compete with Advisory Clients or other Carlyle-affiliated advisory clients. In addition, CCS may also be engaged to provide financing or other capital markets services to third parties in connection with transactions that may also be appropriate for Advisory Clients or other Carlyle-affiliated advisory clients. In some cases, these services offered to third parties in connection with a transaction may be provided concurrently with services being provided in a similar manner to Advisory Clients or other Carlyle-affiliated advisory clients even if the Advisory Clients or other Carlyle-affiliated advisory clients has a competing interest with the third party. In providing such services to third parties, including to competitor companies, CCS may come into possession of information that they are prohibited from acting on (including on behalf of an Advisory Clients or other Carlyle-affiliated advisory clients) or disclosing to CGCIM or CIM or its affiliates as a result of applicable confidentiality requirements or applicable law, even though such action or disclosure would be in the best interests of Advisory Clients or other Carlyle-affiliated advisory clients.

CCS’ ability to receive commissions or other transactional compensation in certain capital markets transactions on the basis of an Advisory Clients’ or other Carlyle-affiliated advisory clients’ participation may be limited in certain circumstances. As a result, in the event that such services are provided to an issuer that is or becomes a potential investment opportunity for Advisory Clients or other Carlyle-affiliated advisory clients, this limit on compensation may create a conflict of interest with such Advisory Clients or other Carlyle-affiliated advisory clients. Where CCS serves as underwriter with respect to a security or loan in which an Advisory Client or other Carlyle-affiliated advisory client invests, such Advisory Client or other Carlyle-affiliated advisory client may be subject to a “lock-up” period during which time the investment may not be sold, and may prejudice the Advisory Clients’ or other Carlyle-affiliated advisory clients’ ability to dispose of such investment at an opportune time. CCS may have access to confidential and/or material, non-public information regarding Advisory Clients, other Carlyle-affiliated advisory clients or their portfolio companies and, subject to applicable law and confidentiality agreements, may use such information in connection with financing and other services provided by CCS. CIM reviews such transactions to ensure that the requirements of Section 206(3) of the Advisers Act in respect of principal transactions between any Advisory Clients or other Carlyle-affiliated advisory clients and Carlyle or its affiliates (including CCS) are complied with in the context of such transactions.

In addition, Carlyle’s advisory professionals may be involved in such activities of broker-dealer affiliates of CIM who are U.S.-registered broker-dealers (or affiliates providing similar services with respect to loans), and their activities may give rise to fees that are not subject to any management fee offset, even though such persons are involved in investment-related activities on behalf of one or more Advisory Clients.

### Other Affiliated Broker-Dealers

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 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 relevant 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 relevant 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 relevant Carlyle-affiliated advisers’) policies and procedures.

Carlyle Japan Equity Management L.L.C. (“CJEM”) holds a Japanese Type II Financial Instruments Business Operator license from the board of T2FIFA, a self-regulatory organization in Japan. Pursuant to this license, CJEM is permitted to perform marketing activities to and private placements for specified investors with respect to interests in a limited partnership.

An Advisory Client holds a significant interest in The TCW Group, Inc. (“TCW”), a Los Angeles-based financial firm. TCW has a related entity, TCW Funds Distributors, which is registered with the SEC as a limited purpose broker-dealer and is a member of FINRA.

DGAM retains an exempt market dealer license with the Ontario Securities Commission to facilitate certain marketing activities in Canada for Advisory Clients.

### **Affiliated Business Development Companies and Registered Investment Company**

Certain investment funds within Global Credit have each elected to be treated as BDCs that are advised by CIM’s affiliate, CGCIM, and are subject to all relevant provisions under the 1940 Act as BDCs. CGCIM also acts as the adviser to a registered investment company, Carlyle Tactical Private Credit Fund (formerly known as OFI Carlyle Private Credit Fund).

### **Affiliated Alternative Investment Fund Managers**

In January 2018, the CIM AIFM, an affiliate of CIM, was authorized in Luxembourg to operate as an alternative investment fund manager for purposes of the Directive. Through a series of delegation agreements, CIM provides portfolio management services with respect to certain private investment funds that are managed by the CIM AIFM.

Carlyle Real Estate SGR S.p.A. holds an authorization from the Bank of Italy to carry on fund management and real estate activities, which license was extended in 2017 to carry out AIFMD-compliant fund management and real estate activities.

AlpInvest also holds a license as an AIFM from the Netherlands Authority for Financial Markets pursuant to the Directive.

### **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.**  
**Carlyle Brasil Consultoria em Investimentos Ltda.**  
**Carlyle Global Credit Asia Limited (licensed with the Hong Kong Securities and Futures Commission)**  
**Carlyle India Advisors Private Limited**  
**Carlyle Investment Consulting (Shanghai) Co., Ltd.**  
**Carlyle Japan, 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 UK Limited**  
**Carlyle Real Estate SGR S.p.A. (registered with Banca D'Italia Eurosystem)**  
**Carlyle Singapore Investment Advisors Pte Ltd (licensed 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 Advisors Ireland Limited**  
**CECP Investment Advisors France S.A.R.L.**  
**CEP Advisors, S.r.l.**  
**CREA Germany GmbH**  
**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) CGCIM, AlpInvest, Metropolitan, and Carlyle Aviation Securities Partners, which were described above in Item 4; (ii) multiple advisers affiliated with TCW, a Los Angeles-based financial firm (in which an Advisory Client holds a significant interest); and (iii) Content Partners LLC (“Content”), a Los Angeles-based firm that is controlled by an Advisory Client.

Each of AlpInvest, Metropolitan, Carlyle Aviation Securities Partners, TCW, and Content has an existence independent of CIM. Certain supervised persons of CIM and Carlyle CLO in Global Credit are also supervised persons of CGCIM.

**Relying Advisers**

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

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 CIM Global, CIM Global Asia, Carlyle CLO, Carlyle IDF, and Carlyle Mauritius conduct a single advisory business. Consequently, each of CIM Global, CIM Global Asia, Carlyle CLO, Carlyle IDF, and Carlyle Mauritius are deemed to have registered through CIM’s Form ADV as “relying advisers”.

### **Exempt Reporting Advisers**

CELF and CAML are 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) 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.

In November 2018, Carlyle acquired a passive minority share of the outstanding equity securities of Institutional Capital Network, Inc. (“iCapital”). iCapital provides fund administration services to certain Advisory Clients. iCapital is an affiliate of iCapital Advisors, LLC, which is registered as an investment adviser under the Advisers Act. References to CIM do not include references to iCapital Advisors, LLC.

### **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, direct lending, 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 CGCIM, AlpInvest, Metropolitan, and Carlyle Aviation Securities Partners may conduct other business activity that could present a potential conflict of interest with Carlyle, CIM and/or CIM’s Advisory Clients. For example, within Global Credit, advisory clients of CGCIM and Advisory Clients may be in competition for similar investment opportunities. Please see “Allocation of Investments” below for a more detailed discussion of the procedures adopted regarding this potential overlap.

### **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 Global Credit 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 Global Credit, 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 Global Credit to participate in certain Carlyle-related investment advisory activities outside of Global Credit. To the extent such investment professional acquires material, non-public information in connection with such activities Global Credit may be restricted from making certain investments.

At the same time, within Global Credit, with the exception of an information barrier affecting Carlyle Aviation Securities Partners, there is no information barrier between CIM and other separately registered investment advisers affiliated with CIM that are part of the group. Global



Credit generally operates a single restricted list to which CIM's Global Credit 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 Global Credit 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 Global Credit maintains a separate restricted trading list for Global Credit 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, including Carlyle's Policies and Procedures Regarding Material, Non-Public Information and the Prevention of Insider Trading. The Code of Conduct provides

guidance in specific areas, including but not limited to, confidentiality of Carlyle information, personal investments, gifts and entertainment, protection of persons who engage in “whistle blowing” activities from retaliation and personal political activities. This Code of Conduct is available to Advisory 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>8</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 secondary market transactions in which it knowingly transacts, directly or through a broker-dealer, with advisory clients of CGCIM or Carlyle Aviation Securities Partners.

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.

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<sup>8</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.

## 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 Credit Advisory Clients), either the Advisory Client or an independent representative of the Advisory Client must receive notice of the transaction and consent to the transaction prior to CIM or an affiliate settling the principal transaction. An Investor Advisory Committee is typically established for each Advisory Client to, among other things, receive notice of, advise on and provide consent to certain conflicts of interest matters, such as principal transactions.

Certain Global Credit 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 Global Credit 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 Global Credit) 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 Investor Advisory 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. See also Item 8 – "Co-Investments" regarding transfers of an investment from an Advisory Client to an entity formed to hold co-investment.

Global Credit 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 Credit Compliance and Regulatory Committee, a committee comprising senior personnel from Carlyle's compliance department and Global Credit, 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 may own equity interests in certain CLOs to which CIM provides advisory services pursuant to separate collateral management agreements. CIM's equity interests and contractual rights in these CLOs may 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 could 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 or begin investing 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 offers of participation 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. For additional disclosure regarding co-investments, please see the "Co-Investments" disclosure found in Item 8.

As described above, 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/upfront 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 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).

To the extent an investment opportunity is rejected by the investment committee of a general partner of an Advisory Client, Carlyle, such general partner and its affiliates may not be restricted from pursuing such opportunity outside of the Advisory Client's investment program. In such a

circumstance, Carlyle may allocate such an opportunity to another Carlyle investment fund and/or managed account or to one or more entities established for the benefit of, or otherwise controlled by, one or more senior executives of Carlyle and/or their family members.

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 discretion, between 5-10 percent of each investment opportunity available to Carlyle to Carlyle Co-Investors. As discussed in Item 8. Methods of Analysis, Investment Strategies and Risk of Loss – Potential Conflicts of Interest – Co-Investments, Carlyle has formed (and may in the future form additional) funds, accounts or vehicles for the benefit of third-party investors to participate in investments alongside Advisory Clients that will be entitled to a portion of such allocation with respect to some or all of the investments made by Advisory Client(s), including programs designed to invest across Carlyle's platform that are structured in part to invest alongside one or more Advisory Clients through a single account or vehicle. Any remaining portion of any such opportunity would then be subject to Carlyle's overall allocation policies described above.

### **Global Credit Procedures**

Within Global Credit, there may be multiple investment vehicles, including Advisory Clients, advisory clients of CGCIM and CCS, who have the ability to participate in an investment opportunity. Because multiple advisory clients often seek similar investments (*e.g.*, loans), allocating investment opportunities among multiple Global Credit advisory clients is more prevalent relative to the private equity or real assets contexts.

The objective of Global Credit with respect to allocations of investment opportunities is to ensure that all advisory clients to which its investment teams provide investment advisory services, including Advisory Clients, are treated in a fair and equitable manner under the particular circumstances. Accordingly, CGCIM and Carlyle CLO (a relying advisor of CIM) have established allocation policies and procedures for Global Credit in an effort to ensure that investment opportunities are allocated among advisory clients, including Advisory Clients, and CCS, in a fair and equitable manner. These policies and procedures seek to provide consistent treatment, to the extent possible and consistent with legal, regulatory and contractual restrictions, of advisory clients within Global Credit that have similar investment objectives and guidelines. There can be no assurance that the application of these policies and procedures will result in fair or equivalent allocation of, or participation in, investment opportunities, or comparable performance of investments allocated to one advisory client as compared to another.

CGCIM and Carlyle CLO advisory clients may vary substantially in size, investment objectives, risk tolerance, return targets, permissible asset classes, preferred asset classes and liquidity requirements. At the same time, certain investment opportunities may be appropriate for multiple advisory clients ("Overlapping Opportunities"). More specifically, these allocation policies and procedures also require that co-investment allocations involving one or more CGCIM advisory clients that are BDCs or a RIC (together, the "Regulated Funds") must also be in accordance with the terms and conditions of the exemptive relief granted by the SEC to CGCIM and certain of its affiliates, on January 17, 2018 (the "Exemptive Relief"). In addition, these allocation policies and procedures also require that investment allocations in non-negotiated co-investment transactions amongst advisory clients involving one or more Regulated Fund Advisory Clients must comply



with certain SEC no-action guidance regarding funds regulated under the 1940 Act investing alongside an affiliate (*e.g.*, if the transaction involves no negotiation of terms other than price and certain other conditions are met).

The primary allocation principles for each Global Credit advisory client are derived from respective prospectus, fund partnership or operating agreements and related side letters, offering memoranda, investment or collateral management agreements, limited liability company agreements, trust indentures or other charter documents (“Client Agreements”) that govern the investment programs for such advisory clients. These allocation parameters may include: investment objective or category, industry focus, geography, security or instrument type, diversification requirements, available commitments or liquidity, target investment size, applicable law and/or regulatory guidance. Subject to the foregoing investment parameters, the investment or credit committees have the discretion to construct what, in their business judgment, constitutes an appropriate investment portfolio for a Global Credit advisory client. As such, in determining what they believe to be an appropriate portfolio for a particular Global Credit advisory client, they may give consideration to factors in addition to those outlined above. After consideration of the various factors, it may not be desirable for a Global Credit advisory client to participate in an investment opportunity or acquire all of an investment opportunity.

An allocation of an Overlapping Opportunity will generally be made in accordance with the allocation policies and procedures adopted and implemented by CGCIM and Carlyle CLO. The terms of the Client Agreements (and, in consideration of the Exemptive Relief as applicable) with respect to certain Global Credit advisory clients may require CGCIM to allocate investment opportunities to such Global Credit advisory clients in priority to allocations to other vehicles. As a result, there will likely be circumstances where Overlapping Opportunities appropriate for Advisory Clients are allocated instead to such other advisory clients of CGCIM.

In addition, it is anticipated that there will be situations where CCS underwrite, originate and syndicate loans or securities in which Global Credit advisory clients may wish to invest. In such cases, the Global Credit advisory clients will receive their full participation requests ahead of CCS.

A Global Credit allocation committee (“GCAC”) has been established to oversee the allocation of investment opportunities in accordance with the allocation policies and procedures adopted by CGCIM and Carlyle CLO. The GCAC has established a Global Credit Screening Committee to review and assess potential investments, and make an initial assessment regarding which Global Credit advisory client(s) should review the potential investment. The Global Credit Screening Committee is authorized by the GCAC to review allocations among Regulated Funds and other advisory clients investing in middle market loans as well as allocations among Regulated Funds and Advisory Clients of Carlyle CLO.

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

As a general rule, Carlyle CLO Advisory Clients are expected to be the primary investors in broadly syndicated loans. Overlapping Opportunities in the primary or secondary broadly syndicated loan market sourced by the US Structured Credit platform first will be allocated across US Structured Credit Advisory Clients in accordance with the Carlyle U.S. Structured Credit Allocation Policy, provided, however, that any negotiated Overlapping Opportunity in broadly

syndicated loans with attributes meeting certain investment criteria must be shown to the Regulated Fund advisory clients in accordance with the Exemptive Relief. When the amount of an Overlapping Opportunity that falls outside of such criteria exceeds the amount that US Structured Credit desires, CGCIM will be offered the Overlapping Opportunity for its advisory clients. While CGCIM is not often expected to source broadly-syndicated opportunities, to the extent it does, such investment allocations are subject to review and approval by the GCAC or the Global Credit Screening Committee, as applicable.

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 Credit Compliance and Regulatory Committee to determine the reasonableness and fairness of the allocations.

### **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 and other confidential 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. Certain other Advisory Clients, CIM affiliates or affiliated investment advisers may utilize an affiliate for execution of transactions in securities and other instruments, or other investment-related services. In addition, please see "Affiliated Broker Dealer" in Item 10 above with respect to conflicts involved in the selection of a broker-dealer affiliated with CIM.

Portfolio trades of certain investment vehicles, generally within Global Credit, 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. From time to time, CIM engages 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, CIM maintains approved broker-dealer lists and the Global Credit Compliance and Regulatory Committee meets 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 Credit Compliance and Regulatory Committee 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.

CIM does not currently participate in any soft dollar relationships with brokers for research or any other service.

From time to time, Global Credit 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, Global Credit 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 Credit Compliance and Regulatory Committee 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.

### **Trade Errors**

Carlyle seeks to detect and correct trade errors. Should a trade error occur and be detected before the trade has been settled in the Advisory Client account, Carlyle will reverse the trade or reallocate, as necessary and appropriate. In any event, the Advisory Client account will be made whole (put in a position as if the error had not been made), with Carlyle absorbing any loss, where Carlyle's conduct does not meet the standard for exculpation set forth in the governing documentation for the relevant Advisory Client(s), and not in other cases. Advisory Clients regulated under the 1940 Act will be made whole with Carlyle absorbing losses any time a trade error cannot be reversed or reallocated.

### **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 or other governing documents.

The portfolio investments in leveraged bank loans 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 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 Credit 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 Global Credit 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. Existing investors are notified electronically when updates to this Brochure are available for their review, and a copy is posted to the respective investor reporting site.

#### **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 have and may in the future enter into cash compensation arrangements with its affiliated broker-dealers, including TCG Securities, TCG Capital Markets and affiliates, CHKEM, CAEM, CJEM, 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 and Carlyle’s Head of Investor Relations.

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

CIM uses unaffiliated, qualified, third-party custodians to hold the assets of its Advisory Clients for which it has custody 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 of 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 Global Credit 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 is reasonably likely to 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 [ir.carlyle.com](http://ir.carlyle.com)).

## **Item 19. Requirements for State Registered Advisers**

This item is not applicable as the Adviser is not registered in any state.