

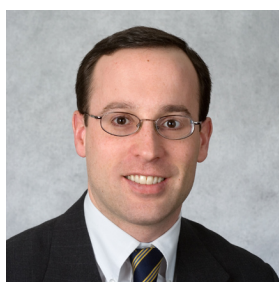
Client Advisory | June 2009

The Carlyle Group Settles with New York Attorney General Result is New Code of Conduct Governing Relationships Between Private Equity Firms and Public Pension Funds Across the Country

The Carlyle Group settled on a Public Pension Fund Reform Code of Conduct with the Office of the Attorney General of New York on May 14, 2009. The settlement was a direct result of the Attorney General's investigation of "pay-to-play", or kickbacks, and corruption in public pension fund management, including the misuse of placement agents, lobbyists and other intermediaries to influence public pension funds' decision-making.



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The Code of Conduct is intended to increase transparency and accountability around investment firms' efforts to attract pension fund investments and investment management services. The settlement has broad implications for all investment firms doing or seeking to do business with public pension funds across the country.

The Code of Conduct, which governs all transactions between the Carlyle Group (or any other investment firm that signs the Code) and any public pension fund anywhere in the United States:

- bans the use of non-employee placement agents, lobbyists or other intermediaries when doing business with a public pension fund;
- prohibits campaign contributions above \$300 by investment firms, their employees or their relatives to elected officials that have, or can appoint others that have, responsibility or oversight over the decision-making process of a public pension fund, during the two-year period prior to the time the investment firm starts to do business with the public pension fund, and throughout the term of the business relationship;
- prohibits gifts of any kind by investment firms, their employees or their relatives to public pension fund officials, employees, fiduciaries or their relatives;
- requires public disclosures regarding campaign contributions (even those

unrelated to public pension funds), the names and roles of investment firm personnel who could have any contact with employees of a public pension fund, and compensation to third parties that is related to public pension fund activities;

- targets "revolving door" employment practices by banning the hiring of a public pension fund official in the two-year period following his or her separation from the public pension fund, unless he or she will have no contact with or role regarding the pension fund;
- prohibits any unauthorized use or disclosure of confidential or sensitive information of a public pension fund, including any use that might reasonably be expected to diminish the value of a pension fund investment, or give an advantage to a disclosing party or any third party; and
- requires prompt disclosure, and cure, of actual or apparent conflicts of interest.

The investment firm must provide various certifications and disclosures to the New York Attorney General regarding the items listed above. The certifications and disclosures are required to be made semi-annually, annually, or on a transaction-specific basis, depending on the specific disclosure item, and are required to be published on the investment firm's website and the Attorney General's website.

The Code of Conduct also mandates adoption of internal policies and protocols

to implement its principles, as well as dissemination of, and annual training on, the Code of Conduct.

Material violations of the Code of Conduct are grounds for withdrawal by the public pension fund from an investment fund, excused participation in future investments, and/or the pursuit of any other applicable remedies. If an investment firm's business relationship with a public pension fund is terminated due to a violation of the Code of Conduct, the firm may be disqualified from any future business relationship with the public pension fund for up to ten years.

Any investment firm that is currently managing public pension fund money or that wants to manage public pension fund money in the future, particularly in New York, should

understand the Code of Conduct and be prepared to agree to its terms. An investment firm's preparation for agreeing to the Code of Conduct should include considering whether the mandated internal policies should be adopted now, analysis of the firm's current use of third party intermediaries with respect to public pension funds, collection of information required to be disclosed and certified to the public pension funds, and identification of any terms with respect to which the firm is not in compliance.

We will continue to monitor any related developments closely and provide further Client Advisories. Please contact one of the attorneys listed below if you have any questions or would like a copy of the Carlyle Group settlement agreement.

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