

# FINAL TRANSCRIPT

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## **KKR - Q1 2011 KKR and Co LP Earnings Conference Call**

**Event Date/Time: May. 04. 2011 / 2:00PM GMT**



May. 04. 2011 / 2:00PM, KKR - Q1 2011 KKR and Co LP Earnings Conference Call

## CORPORATE PARTICIPANTS

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**Bill Janetschek**

*KKR & Co. - CFO*

**Scott Nuttall**

*KKR & Co. - Head - Global Capital & Asset Management Group*

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**Michael Kim**

*Sandler O'Neill - Analyst*

**Bill Katz**

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**Patrick Davitt**

*Bank of America/Merrill Lynch - Analyst*

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## PRESENTATION

**Operator**

Please, stand by. We're about to begin. Ladies and gentlemen, thank you for standing by. Welcome to KKR's First Quarter 2011 Earnings Conference Call.

Today's call is being recorded. During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference will be open for questions.

(Operator Instructions)

I will now hand the call over to Ms. Pam Testani, a member of KKR's Investor Relations team. Please go ahead, ma'am.

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**Pam Testani** - KKR & Co. - IR

Thank you, Christie, and thank you, all, for joining us on our First Quarter 2011 Earnings Call.

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We'd like to remind everyone that today's call contains forward-looking statements that do not guarantee future events or performance. Please, refer to our SEC filings for cautionary factors related to these statements. We'll also refer to non-GAAP measures on this call, which are reconciled to GAAP figures in our press release.

Before we get started, we're pleased to announce that we've appointed Craig Larson as our new Head of Investor Relations. Craig joined KKR in our Client and Partner Group as a relationship manager in January of 2009. In that role, he was responsible for building relationships with our institutional limited partners and raising capital across all of our products.

Prior to KKR, Craig spent 17 years in investment banking at Citigroup, most recently as a managing director focused on the media and telecom sector. He has been working closely with Scott, Bill, John and me over the past several weeks to transition into the role.

We're grateful to John, our departing Treasurer and Head of IR, for building a strong foundation in Investor Relations since we went public, and we wish him the best of luck in Chicago.

Turning to our performance for the quarter, we've begun the year with strong results as last year's momentum in both our business and the markets has continued into 2011.

This morning, we reported economic net income of \$743 million for the quarter, up 10% over the same quarter last year. The strong results were driven by significant fee generation as well as value creation in our private equity portfolio, which appreciated by 6.5% in the quarter. After-tax economic net income per unit of \$0.96 for the first quarter compares favorable to \$0.93 for the first quarter of 2010.

I'll now turn it over to Bill to walk you through the drivers of our performance, and then we'll turn it to Scott to discuss the business highlights and initiatives.

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**Bill Janetschek - KKR & Co. - CFO**

Thanks, Pam. We had a strong quarter for fee-related earnings, which were \$126 million, up 33% sequentially and up 40% year over year. Much of this growth came from monitoring fee termination payments generated by IPOs of two of our private equity portfolio companies.

Fee-related earnings also benefited from new capital raised. This is the first quarter we are earning full management fees from our China Growth Fund. In addition the markets have been more active, driving higher transaction incentive fees across our segment.

As Pam mentioned, our ENI was \$743 million, up 4% from last quarter and up 10% from last year. Both increases resulted from the higher fee-related earnings I just mentioned as well as from strong performance on our balance sheet assets.

ENI also benefited from higher carried interest. With the recovery of our private equity fund valuations, more of our funds are not only accruing carry but also paying cash carry. As a result, the power of carry in our model is becoming more evident. This quarter, we generated \$73 million of realized cash carry, up from zero in the same quarter last year.

Our assets under management as of March 31st were \$61 billion, up 12% from a year ago. This growth prevailed, even after realizations of nearly \$6 billion from our private equity investments in the past year.

If you look at the change versus last quarter, AUM was essentially flat because the appreciation across our investment vehicles and new capital raised were offset by \$2.5 billion of realizations in private equity and \$400 million of redemptions of a liquid credit SMA.

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Our fee-paying AUM was just under \$46 billion, up 7.5% from a year ago and down slightly from last quarter. The decline since last quarter was largely driven by the private equity realizations I just mentioned.

In funds that are past the investment period, we earned management fees based upon invested capital. So, as we sell investments out of those funds, we reduce our fee-paying AUM by the amount of the cost that's sold. And just to clarify, none of these AUM figures include any assets for our next North America private equity fund.

Moving on to our segments, our Private Market segment generated fee-related earnings of \$91 million versus \$41 million last quarter and \$56 million last year. The increase over both comparable periods was primarily driven due to \$69 million of termination payments earned in connection with the HCA and Nielsen IPOs. These termination payments had a one-time fee-related earnings impact of \$38 million.

We also saw a significant increase in transaction fees resulting from the private equity investments we closed on during the quarter. Our Private Market ENI for the first 3 months of 2011 was \$277 million, up 6% from last quarter and 43% from last year. The increase over last year is the result of fee-related earnings growth and higher net carry interest now that all of our funds but one are accruing carry.

In our Public Market segment we generated \$15 million of fee-related earnings, down 11% from last year and 8% from the same quarter last year. Both decreases were caused by higher operating expenses as we continue to build out the platform, most notably the KKR Equity Strategies effort we started in January.

We continue to see a benefit in the Public Market segment from net carry interest, which was slightly higher this quarter than last. As a reminder, this reflects mark-to-market gains in our mezzanine and special situation vehicles, which include carry interest terms. We expect to see carry become a larger contributor to earnings in this segment, as those businesses scale and deploy capital.

In our Capital Markets and Principal Activity segment, we generated \$21 million in fee-related earnings from 14 transactions in the quarter, up 14% from last year. Economic net income in this segment was \$450 million, mostly driven by a 9% increase on our balance sheet assets.

Our balance sheet assets outperformed our overall private equity portfolio this quarter because our balance sheet had direct co-invest in certain portfolio companies that appreciated significantly in the quarter, in particularly HCA, Nielsen and NXP.

Our book value was \$9.08 per unit at the end of the quarter and includes \$620 million of unrealized carry. Following the IPO of Nielsen and HCA, over 50% of our balance sheet investments are now in publicly traded securities. We ended the quarter with over \$1 billion in cash and \$500 million of senior notes outstanding.

Finally, we declared a distribution of \$0.21 per unit for the first quarter, up materially from \$0.08 last year and up about 30% sequentially if you exclude last quarter's tax distribution. Half of this quarter's distribution was generated by cash carry. This was the most distributable cash carry we've had in a quarter since we've been public.

To give you a better sense of the cash flow that is funding our quarterly distribution, we've highlighted a new metric this quarter, gross distributable earnings. This reflected some of our fee-related earnings and cash carry.

It's important to note that this metric is net of local but not corporate taxes. It also doesn't include the cash flow from our balance sheet, which we retained that cash net of any tax distributions to reinvest in our business. In the first quarter, our gross distributable earnings were \$193 million, more than double the \$85 million generated last year.

With that, I'll pass it over to Scott.



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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Thanks, Bill. As you can see from our numbers, 2011 began on a positive note across all of our segments. In Private Markets, we've seen continued strength, particularly in private equity.

In the first quarter, our private equity funds were up 6.5% beating the S&P 500, which was up 5.9%. Over the last 12 months, our funds are up 28% versus 16% for the S&P, and over the last 2 years our funds are up over 90%, increasing over \$18 billion in value.

In aggregate, our active private equity funds are now marked at 1.5 times cost, and much of this value is in immature investments still held at or near cost. So, we've seen real progress.

The good news is that we are optimistic about our ability to create value from here. First, we continue to see improvement in the operating metrics at our private equity portfolio companies.

In the last 12 months, we've seen revenue growth across the portfolio of approximately 8% and EBITDA growth of 12%, and the momentum is strong across the US, Europe and Asia. We're quite proud of the work our management teams, deal teams and KKR Capstone are doing to drive these results.

Second, we continue to make good progress on debt refinancing. To give you a sense, at the end of last year our companies had \$56 billion of debt coming due in 2014. Over the course of the last four months alone, we've been able to reduce that number by 40% to \$33 billion.

Now, 84% of the maturities across our portfolio come down -- come due in 2014 or later, and two-thirds come due in 2015 or later. Much of the recent improvement can be attributed to efforts at EFH and First Data where our Capital Markets team has worked aggressively with management to improve maturity schedules.

The third piece of good news is that the markets have allowed us to realize a substantial value from our investments. In the fourth quarter alone, we completed IPOs, secondaries or sales at 11 of our portfolio companies.

This included three IPOs, which have traded up on average 26% and, over the last two years, we've taken 8 portfolio companies public, which have traded up an average of 49% since IPO.

The result of all this activity is that we've been able to return over \$3.5 billion to all partners since the beginning of the year compared to \$4 billion for all of last year and less than \$1 billion in 2009. These realizations also fueled the carry portion of the distribution that Bill detailed earlier.

The capital markets have facilitated not just exits but also acquisitions. We deployed about \$800 million of capital into deals that closed in the first 3 months of this year, and since the quarter ended we've committed another \$800 million to new investments, including Capsugel here in the US and Masan Consumer in Vietnam.

We're also making good progress in public markets. Each of our liquid credit strategies continues to outperform public benchmarks this quarter with secured credit returning 3.9%, bank loans plus high-yield 4.5%, high-yield standalone 5.6% and opportunistic credit 6.2%.

Every strategy is beating its benchmark over the last 12 months and since inception, and all have maintained top quartile and, in most cases, top decile rankings.

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On the alternative credit side we had an active quarter, deploying \$100 million in mezzanine and \$230 million in our special situations strategy where we invest in distressed companies and other opportunistic situations. Performance has been strong as well with our special situations investments up 9% for the quarter and 27% over the last 12 months.

This is also the first quarter that our KKR Equity Strategies, or KES team, has been at the firm. We spent the last 3 months building out their infrastructure and compliance processes, and we expect to begin managing capital for the strategy in the second half of this year.

Now shifting to capital markets, the robust market activity in both equity and debt led to a busy quarter for this segment. The group's activity is increasingly well rounded with exposure to underwriting and syndication in both debt and equity and on a global basis.

Our recent investment in expanding this business to Asia is paying off, as you can see from our participation in all three recent equity offerings in the region. Additionally, opportunistic participation in third-party transactions has gained momentum, generating \$6 million of revenue this quarter.

Our top priorities in capital markets are to keep diversifying the team's activity and to help our private equity portfolio companies continue to extend their debt maturities.

The appreciation of our balance sheet investments, which were up another 9% this quarter, has created substantial value for our unit holders. As Bill mentioned, our book value is now \$9.08 per unit, and about 50% of our balance sheet investments are now publicly traded securities.

To put this in perspective, this number was less than 10% at the time of the KKR/KPE combination. And while book value was up 9% in Q1, it's actually increased 31% in the last 12 months and over 75% since the KKR/KPE merger closed in October of 2009.

Finally, we announced in March that we've started to build a real estate capability at the firm. We've made real estate related investments through our private equity and credit funds over the course of our history and generated strong results, but we've never had a targeted effort until now.

Our new team is already finding attractive investment opportunities on a global basis. We have a number of pools of capital whose mandates can accommodate real estate, so we don't plan to raise dedicated capital just yet.

These are early days, but we think our network, our experience in prior real estate transactions and our financing capabilities make us well equipped to add real estate as a component of our investment platform. Overall, we feel we had a very good quarter and a strong start to the year, and we're optimistic about the prospects for the rest of 2011.

As always, we really appreciate you joining our call, and we're happy to take any of your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). And we'll go first to Michael Kim from Sandler O'Neill. Your line is open.

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**Michael Kim** - Sandler O'Neill - Analyst

Hi, guys. Good morning.

**Bill Janetschek** - KKR & Co. - CFO

Good morning.

**Michael Kim** - Sandler O'Neill - Analyst

First, can you maybe just talk about the outlook for fundraising, away from kind of the next North America fund? It seems like new capital raised was down sequentially. I understand there were a number of new funds that kind of hit in the fourth quarter, but kind of where do you see the greatest opportunities for bringing in new money, again, away from the North American side?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure. Thanks, Michael. It's Scott. I'll take that one. Look, I think it's going to be very difficult to look at this number on a quarterly basis. It's going to be quite lumpy. So as a reminder, we raised about \$3.5 billion in the fourth quarter. Out of the \$5 billion or so we raised over the course of last year. So Q4 was actually a very big quarter.

And the two biggest pieces of that were, frankly, the China Growth Fund, which had a primary close, and then also the Colonial Pipeline transaction, which we announced in infrastructure. So it was pretty lumpy. But we're expecting that it's going to continue to be lumpy quarter-to-quarter.

I'd say, in terms of what I would look to and what we spend time on is thinking about the overall environment and the pipeline. And with respect to the environment, I'd say it's a continuation of the trend we talked about in prior quarters. We're continuing to see increasing interest in alternatives, broadly, and a number of the products that we're bringing to market more specifically.

And in particular, I'd say we're seeing traction in our energy-related efforts. And we're continuing to see traction across our public market strategies, both on the liquid and illiquid side. So that's -- it's a little bit of color for you. And obviously we talked a bit about the KES team and we'll see how that proceeds. But so far, we continue to feel, like we did last quarter, like it's a good environment. And we feel pretty optimistic about our ability to drive capital.

**Bill Janetschek** - KKR & Co. - CFO

And, Michael, this is Bill. Just to give you a little color, if you go back in the trailing four quarters, to Scott's point, capital raising is episodic and is somewhat choppy.

In the quarter ending June 30th, it was \$300 million. In the quarter ended December 30th, it was \$400 million. And then as Scott has pointed out, in the fourth quarter, we had a significant transaction, or funds that closed in the fourth quarter, and that number was \$3.5 billion.

So it's tough to predict how much we're going to raise each and every quarter and we don't look at it on a quarter-to-quarter basis.

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**Michael Kim** - Sandler O'Neill - Analyst

Got it. Okay. And then can you maybe talk about how you're thinking about deploying your cash as realizations start to build and your cash balance continues to move higher? And where do you think about investing that capital and aside from your GP commitments, which obviously fund over time, it seems like you've got a fair amount of flexibility there.

**Bill Janetschek** - KKR & Co. - CFO

Hey, Michael, this is Bill. I could start one and Scott could jump in if he wants.

With regard to the balance sheet itself, as I mentioned, we've got about \$1 billion in cash and we've got about \$500 million of debt. But importantly, and as you pointed out, we've got about \$800 million of commitments that we're going to have to deploy in existing funds, and we're also going to make a significant commitment to the next North America fund.

Likewise, as we continue to build these platforms and introduce new strategies, we're going to be investing capital behind those strategies and so we will be putting money behind KES equity, KKR equity strategies when and if, in fact, we do launch that sometime in 2011.

So we have a good amount of liquidity there right now. But we want to be opportunistic in using that liquidity to backup the platforms that we're going to be investing in prospectively.

**Michael Kim** - Sandler O'Neill - Analyst

Okay. And then just finally, I know you continue to earn performance fees from KFN, but any change in how you're thinking about the \$7 billion of CLOs that you manage for KFN that you aren't earning management fees on?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

No real change there, Michael. Nothing new to report.

**Michael Kim** - Sandler O'Neill - Analyst

Okay. Thanks for taking my question.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Thanks.

**Operator**

And our next question comes from Bill Katz with Citigroup. Your line is open.

**Bill Katz** - Citigroup - Analyst

Okay. Thank you very much. Good morning. Just a couple of questions. Could you give a little bit more color around the public market reduction? And then I have a follow-up question on the other side of that.

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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure. Hey, Bill. It's Scott. The public market redemption was really localized to one situation. We had one client, who had given us a separate account in kind of the deficit of credit crisis that they could manage of the dislocation in leveraged loans and high yields. That investment had worked out quite well for them. And so they had made an enterprise-wide decision to move out of non-investment grade credit and kind of move on from that trade. And so that was really what that redemption related to.

**Bill Katz** - Citigroup - Analyst

Okay. That's helpful. And then just in terms of -- so I make sure I understand it, in terms of the fuel-related earnings within this group, on the comp side, is that specific to the equity loan short team and/or the real estate? Or is there anything else going on? Or maybe a better way of asking it, are you now at a sort of a full run rate on that comp line?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Yes. I think it's really two things, Bill. It's the KES team, so it's kind of the launch of the hedge fund and bringing the expenses over before revenues. That's certainly a part of it.

We've also been investing in taking the public markets business more global. And in particular, have been building our team in Europe with a focus on special situations. And so it's really those two components that explain much of the increase in compensation.

I don't think it's right to look at it necessarily with hit run rate. I think we kind of now made the investment in special sits in Europe, we've built the team for hedge funds, so I think you'll continue to see us invest in expanding the public markets enterprise with, obviously, a focus on attracting incremental capital to fund that expense.

So that's how I'd answer it. I think you'll see it -- that continue to creep up, but we'll have revenues attached.

**Bill Katz** - Citigroup - Analyst

That's helpful. And just a couple more. Just on the prior quarters, your balance sheet and cash flow, do you think you have enough liquidity, either internal or existing, to fund all your incremental growth drivers at this point?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

I think in terms of what we have on tap now, which is kind of the -- think about it as the real estate business, the hedge fund business and growing our private -- existing private markets and public markets businesses, I think we do think that the balance sheet is sufficient to do that.

It's hard to predict, though, how the strategy evolves over time. But as of now, I think we feel good about the liquidity we have.

**Bill Katz** - Citigroup - Analyst

And just one last ones, thanks for taking all my questions. I ask every quarter, I'm going to ask it again. Any sort of discussions between the LPs and GPs? I imagine that probably they're probably, at the margins, a bit happier this quarter than last quarter, in terms of returns and so forth.



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But any sort of discussion on the economics of the business, either in management fee or transaction fee type economics?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

No change from prior quarters, Bill.

**Bill Katz** - Citigroup - Analyst

Okay. Thank you very much.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Thank you.

**Bill Janetschek** - KKR & Co. - CFO

Take care, Bill.

**Operator**

And our next question comes from Patrick Davitt from Bank of America, Merrill Lynch. Your line is open.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Hey. Good morning, guys. In the vein of Michael Kim's first question, could you kind of remind us all of the strategies that currently are raising capital right now?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure, Patrick, it's Scott. I'll take a crack at it. In terms of the different strategies, one, we have not yet had a final close for our mezzanine nor our infrastructure fund.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Okay.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

So that's the first answer. Secondly, we continue to raise capital on kind of a more continuous basis for our liquid credit strategies. So think of high yield, leverage loans and the various substrategies that break off of that.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Yes.

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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

So that continues to be a focus. We obviously have the KES team, which is new to the firm, that we referenced during the comments. And that's our long-short equity hedge effort. We've also been continuing to attract capital in separate account forms for our special situations effort, which is on a global basis.

In addition, we've continued to talk to investors about our KKR national resources effort, which is our effort in oil and gas. And so that is ongoing. And then, finally, the only other thing that comes to mind is KFN's periodic raising capital in the fourth quarter and so we'll make some decisions over time.

**Bill Janetschek** - KKR & Co. - CFO

And last, but not least, the fundraising for the latest North America fund.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Right.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Right.

That's all non-PE. And then that's the focus for the time being on the private market side, is the North America fund.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

And are you comfortable giving us an idea how much committed capital there is as of March 31st that's not in fee earning AUM yet?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Not comfortable doing that. It's too early to kind of get into it. As we get closer to a close, we'll give you an update.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Okay. All right. Great. As you know the -- you know there's a lot of capital out there, valuations have been increasing, there's a lot of competition and deals. Can you kind of speak to how your approach to capital deployment evolves as valuations get kind of frothy and what kind of opportunities you're seeing to avoid overpaying in some of these large auction deals, where there's a lot of competition?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure. I mean, I think it's fairly straightforward. We -- we're focused on situations where we know we can make the company better. So we kind of like to focus on good companies that we can help management make really great companies.

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**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Yes.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

And so what we do is on the front end, we have our Capstone operational teams working with our deal teams trying to assess precisely what we're going to do in that regard, to try to improve the business.

And we are very disciplined and so while we have been doing some transactions, it is a small fraction of the pipeline that we have and the opportunities that we're seeing.

So we've been highly selective. And the way that we focus on it is, frankly, with a view, it's a big world, we're global, we're seeing opportunities all over the world in different parts of the capital structure, frankly. And so we don't need to reach for any specific assets.

But if we find something we like and we're comfortable that we can make it better. We'll have the conviction to move forward. And in the traditional side, you've seen it, we've done a couple of deals recently, Del Monte and Capsugel.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Yes.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Which come to mind. But while there has been activity, frankly, we've walked away from a far greater number than those that we've pursued.

The other thing I'd say, just from a color standpoint, is we continue to find opportunities more in the emerging markets side. So I mentioned this investment we made in Vietnam. We've been very active in China. We've made a number of investments over the last couple of years in India. And so those are more minority and growth investments. So that's the other way that we've responded to, when markets get a little frothy in the States or in Europe, we have the ability, with our global footprint, to find opportunities elsewhere.

And then finally, sometimes things will move away from a private equity opportunity and move to something that's more debt-like, which is when our public market strategies and bolt-on capital will get involved. So hopefully that gives you some color.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Yes, that's helpful. Thank you. And then real quickly, Bill, do you have the liability offset for the unrealized carry asset of \$60 million?

**Bill Janetschek** - KKR & Co. - CFO

Could you be a little bit more clear, Patrick?

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**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Right. Is there an offsetting, I guess, accrued compensation net to that?

**Bill Janetschek** - KKR & Co. - CFO

Yes. So the -- yes, to be clear, sorry. The \$600 million is what actually goes to the public -- the way to look at this, simply, there's about, say, \$1 billion of unrealized carry.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Okay.

**Bill Janetschek** - KKR & Co. - CFO

40% of that goes to the carry pool and then that amount of \$600 million is what you're showing -- what we're showing on the balance sheet.

**Patrick Davitt** - Bank of America/Merrill Lynch - Analyst

Great. Perfect. Thanks a lot, guys.

**Bill Janetschek** - KKR & Co. - CFO

You bet.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Thank you.

**Operator**

And our next question comes from Robert Lee with KBW. Your line is open.

**Robert Lee** - KBW - Analyst

Thank you. Good morning, everyone. I know there's a limit to what you can say about the North American fundraise, about the new ones. But I was wondering if we could maybe just get some color around the edges? I think specifically one of the things I was curious about is you invested pretty heavily, the last several years, in building out your distribution platform. You talked a lot about wanting to expand your roster of LPs.

Does it mean -- did you say you could provide any color on how you're thinking to go out and raise this fund? Are you seeing a broadening of your LP base of this? Is it really still dominated by kind of the same investments -- the same historic investors who have invested in your funds in the past? Or anything you can offer on that?

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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure, Robert. It's Scott. Look, I think what we're looking to is to expand the roster. And we are out having conversations with, frankly, several hundred prospects that have never invested with us before.

And so it's a bit early, frankly, to give you any color for the North American fund. And as you point out, we're fairly limited in terms of what we can say. But what we do look to is kind of recent data, and I'm happy to take you through it, but we talked about this a bit last quarter.

So for last year, as an example, the \$5 billion that we raised, just about all of that was, quite frankly, for first-time products. So we didn't have a traditional private equity fund in the market. And so of that amount, somewhere between 35% and 40% actually came from first-time investors to KKR. So it's kind of first-time investors for first-time products.

And we were quite pleased with that result, which is kind of the proof point for us that the investment in distribution is starting to work.

And so our hope is that as we raise money for the North American private equity fund, we'll continue to see that trend and attract new investors to our private equity platform, which is, of course, the platform we have with the longest track record. And so we're hopeful that the trend from last year will continue in private equity.

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**Robert Lee** - KBW - Analyst

All right. Great. And then maybe just one quick question, just related specifically to Europe.

I know that's kind of a broad region. My sense is it's been kind of more problematic for yourselves and others to find investments there, just given a lot of the things that have happened in the last several years. And are you seeing any opening at all within Europe in terms of the opportunity set for investments? Or, I guess, going down that path, also, I mean, it also seems like it's been given tougher regulatory environment for private equity firms, with different proposed regulations.

Just anything you can comment about how you're thinking of that as a place for capital deployment or future capital raising?

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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure. Well, we've actually been -- let me take deployment first. I put this in two parts. First, in terms of private equity. We've actually been quite busy. Although there wasn't a lot in the first quarter, per se, if you think about last year's deal activity, a significant amount of that actually came from Europe.

So we've managed to put a significant amount of capital to work there in a variety of different types of investments throughout the region, with a -- maybe a preponderance of it, UK and the Nordic region in particular, last year.

So we have been finding some interesting opportunities. And yet you have to deal with the regulatory environment, but we're pretty adept at operating within the existing regulations. And we've been finding some interesting risk rewards. So that's actually been a good market for us.

And as we look at our pipeline, we continue to think it's quite full and there's plenty to do. Valuations aside. So we'll see how much of it gets done.

In terms of capital raising, I think it's a continuation of the basic message we sent in the past that we had, frankly, underinvested in distribution globally, but frankly, in Europe, we had probably underinvested even more than the average. And so we've been

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building that team. And as part of building that team out, we've been introducing ourselves to a number of new potential investors. And so we're actually finding that we're getting some traction across the region on the capital raising front.

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**Robert Lee** - *KBW - Analyst*

Great. That was it. Thanks for taking my questions.

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**Operator**

And our next question comes from Michael Carrier with Deutsche Bank. Your line is open.

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**Michael Carrier** - *Deutsche Bank - Analyst*

Thanks, guys. Just one question on the transaction fees. It just seems like typically that goes in line with deployment and it looks like the transaction fees were up sequentially, yet the capital deployed was down. So just wondering, I know it's a volatile line item, so anything else in that line or did you get any fees on the exits?

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**Bill Janetschek** - *KKR & Co. - CFO*

No, it's hard to really benchmark the actual equity that we invest to the fee that we are entitled to on a particular transaction closing because it could have a lot to do with whether or not we own all of the equity and recapture all of the transaction fees or the leverage on a particular transaction. So if there's more leverage to the transaction fee than we usually get, on the equity investment it's going to be somewhat higher.

So it's really hard to predict what a run rate transaction fee would be on the equity that we actually deploy out of the funds.

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**Michael Carrier** - *Deutsche Bank - Analyst*

Okay.

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**Scott Nuttall** - *KKR & Co. - Head - Global Capital & Asset Management Group*

And just a little bit more color for you, Michael. Sometimes the growth equity investments that we'll be making in different parts of the world, there will be no or very little transaction fees associated with it. So it really depends on the mix.

The more traditional buy-out activities tend to have more consistent transaction fees attached.

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**Michael Carrier** - *Deutsche Bank - Analyst*

Okay. That's helpful. And then just on some of the new strategies, you guys give a lot of color on whether it's mezzanine, the infrastructure, liquid credit, the equity strategy team. And so I guess, just from -- like sizing up, and I know it's tough, but if you look over the next 12 months, like are there a few strategies where you'd say, yes, this is where we're likely to see stronger capital raises. Whereas, on the real estate side or something else, it's going to be maybe over the next 12 to 36 months?

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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

It's really hard to get too precise about that, Michael. I'd tell you that we're actually pretty pleased with the pipeline we're building across all the different products. It's very hard to predict when things are going to hit or in what amounts.

So it's hard to really answer your question with any specificity. But the good news is that we feel pretty good about the environment, overall.

**Michael Carrier** - Deutsche Bank - Analyst

Okay. Thanks guys.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

You're welcome.

**Operator**

And our next question comes from Marc Irizarry with Goldman Sachs. Your line is open.

**Marc Irizarry** - Goldman Sachs - Analyst

Oh. Great. Thanks. Scott, can you just discuss the strategy for real estate a little bit? Maybe what's sort of the opportunity you see there as for KKR? And when we should sort of expect some of the initiatives there to sort of manifest themselves in some AUM growth?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Sure. Thanks, Marc. I think, first, I'd have to say the team has been on the ground for a very short period of time. So the overall strategy is kind of taking shape, but at a pretty high level, what I'd tell you is we think there's a fairly large supply-demand disconnect in real estate broadly. A lot of the traditional providers of capital to that space have gone away or certainly been impaired in some manner. And that's across private investment firms, the banks, etcetera.

That intrigues us. The amount of capital required is quite large. So that supply-demand disconnect is interesting to us.

We think it's quite broad based. So I think our strategy's going to be a global one. And so we see an opportunity in Europe, US, Asia, South America. So there's opportunities in lots of different parts of the world.

And as I mentioned, we think it can take different forms. So some of this could be done side-by-side with our private equity fund, in terms of buying platforms or companies in the real estate space. Some of it may be specific securities. So the team is working with our special situations team and there's -- that pool of capital could actually invest in different real estate opportunities.

So we're seeing opportunities up and down the capital structure. And frankly, what we're doing is focusing on trying to suss out the best risk-reward that we can see.

It is too early to tell you when we're going to raise a dedicated pool of capital for the strategy. But we'll keep you updated as the team continues to build and they look at opportunities.

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**Marc Irizarry** - Goldman Sachs - Analyst

Okay. And then just on private equity, like I guess, a good portion of your balance sheet investments, your general partner investments, are now public. Can you talk about the -- all of your -- across all of your private equity portfolios, how much of your valuations are public marks versus other? Or maybe what the percentage of publicly traded companies is as a percentage of your total private equity AUM?

**Bill Janetschek** - KKR & Co. - CFO

Yes. Marc, this is Bill. As it relates to private equity portfolios, that we manage, right now if we take a look at the numbers, as of March 31st, the pure level one, which is the public securities, are about 35%. And we also have a significant amount of level two investments, which are converts, which approximate about 7%.

So overall, we have about 42% of our overall portfolio in the level one or level two assets, which is a little different than the value on our balance sheet, which is, as Scott and I have mentioned earlier, right now, when you take a look at -- because of the mix of some of the co-investments that we've made, we actually have about 50% of our balance sheet in publicly traded securities.

**Marc Irizarry** - Goldman Sachs - Analyst

Okay. And then on your general partner co-investments, if you look by fund, it looks like there's maybe in some of the public market businesses, like mezz or infrastructure, that the GP co-invest is maybe a little bit higher. Can you just talk about sort of what the -- when you're raising funds in the future, what's the general partner co-investment look like across different strategies? Is it -- is there a change here? Is there sort of a one-off?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

I think, Marc, really what's going on there is that the GP co-invest went into the first close. And so as we have subsequent closings, we would expect that percentage to come down. But I'd say the overall market hasn't really changed from what we talked about in prior quarters.

**Marc Irizarry** - Goldman Sachs - Analyst

Okay. Great. Thanks.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Thank you.

**Operator**

And our next question comes from Chris Kotowski from Oppenheimer. Your line is open.

**Chris Kotowski** - Oppenheimer & Co. - Analyst

Yes. Good morning. First a numbers question and then a more philosophical question.

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And the numbers question is you show capital markets investments income of \$429. But then when you look at the unrealized investment or the total mark-to-market value of the investments, it went up by about 200 -- a little over \$200 million to \$5,046, so that must mean there were realized gains of around \$215 million, give or take. Right? Is that basically a correct calculation?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

I think -- it sounds like your logic is accurate, Chris, but I think we'd probably want to go through the exact pages of the press release to make sure we understand how you're building it up.

**Chris Kotowski** - Oppenheimer & Co. - Analyst

Right, but --.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

But, I think you've got the basic math right that the differential between the two should be realizations that occurred during the quarter.

**Chris Kotowski** - Oppenheimer & Co. - Analyst

Okay. But then, that number would not yet be in the distribution calculation on page 18 of the report, right?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Correct.

**Chris Kotowski** - Oppenheimer & Co. - Analyst

That you're going to do at year-end from whatever the tax liability is.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Yes.

**Bill Janetschek** - KKR & Co. - CFO

Yes.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

That's correct. So, that last is important so that there is kind of the gross realizations, and our distribution policy is to retain that -- the capital gains that we realize on the portfolio -- sorry, the balance sheet net of taxes. So, any tax distribution will be made as part of the year-end tax -- and in overall distribution

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**Chris Kotowski** - *Oppenheimer & Co. - Analyst*

Okay. And then -- actually, yes, so the next question I had was with your Company we have a lot of different earnings numbers that we're all looking at and tracking. There's the fee-related earnings.

And I guess I just wanted to know philosophically how important is that number to you? Is it important that it be at some absolute level that it's growing? Or, is it -- or, are -- or, should we think that, hey, all the action is really on the distributable earnings ultimately and that's what you focus on?

And then secondarily, I was wondering -- you've highlighted on the call and on the front page of the press release that the gross distributable earnings number and -- I mean, it's a number you had published before in the page 18 calculations.

And I was just wondering why did you feel the need to highlight this now? Is that a number that we shouldn't particularly be focusing in on? Or, is it -- or, is it still ENI and FRE that we should focus on?

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**Bill Janetschek** - *KKR & Co. - CFO*

Hey, Chris. This is Bill. I'll take this -- the second quarter first. You are right. It's not a new metric, the distributable cash earnings. We've always shown it as a distribution number on the distribution page of the press release.

However, we just thought it would be easier, as we've talked to several investors and analysts alike, that our stated distribution policy is to, generally speaking, pay out all fee-related earnings and all cash carry, net of local taxes.

And so, because that is our distribution policy we just wanted to call out and, in this way, people could see that metric quarter over quarter or year over year as to what the number is. And that's why we decided to highlight it this quarter, nothing more and nothing less.

With regard to your first question, all the three streams of our earnings are important to us. And so, we have fee-related earnings. We have cash carry, and then we have earnings off our balance sheet and, obviously, each one is critical to the overall performance of KKR as a whole. And it's not as if one is more important than the other.

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**Chris Kotowski** - *Oppenheimer & Co. - Analyst*

Okay, fair enough. Thank you.

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**Scott Nuttall** - *KKR & Co. - Head - Global Capital & Asset Management Group*

Thank you.

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**Operator**

And your next question comes from Wayne Cooperman with Cobalt Capital. Your line is open.

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**Wayne Cooperman** - *Cobalt Capital - Analyst*

Hey, Craig. How are you doing?

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**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

How are you doing, Wayne?

**Wayne Cooperman** - Cobalt Capital - Analyst

Good. Congratulations. I've got -- my questions pretty much got answered, so I guess I'll see you later.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Okay. Thanks.

**Bill Janetschek** - KKR & Co. - CFO

Okay. Great. That was the easy one.

**Operator**

And your next question comes from Michael Kim with Sandler O'Neill. Your line is open.

**Michael Kim** - Sandler O'Neill - Analyst

Hey, guys, just a follow-up on the P&L. If I look at the fee credits this quarter, they came in higher than expected. I understand a lot of that was related to kind of the step up in monitoring and transaction fees, but anything else that impacted that line this quarter and then how we should be thinking about the split going forward, any help there?

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

No. You're thinking about it the right way. The transaction monitoring fees were higher, and taking those against broken deal expenses produced the net credit back to our LPs.

And they're -- most of you, you know that we have a fee-sharing agreement on the equity that we manage in our private equity funds to share those fees 80% to the LPs and 20% to KKR and that produces a credit, but nothing strange this quarter.

**Michael Kim** - Sandler O'Neill - Analyst

Okay. Thanks, for that.

**Operator**

And our next question comes from Marc Irizarry from Goldman Sachs. Your line is open.

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**Marc Irizarry** - Goldman Sachs - Analyst

Great. You know, this might be a little bit of a tough one to answer, but on the tax rate can you give us some guidance, Bill, in terms of how we should think about the tax rate. It looks like it kind of stepped a little bit here this quarter. But, how should we think about the tax rate for ENI purposes?

**Bill Janetschek** - KKR & Co. - CFO

That's a good question, Mark. I mean, we think about this a lot. The way to think about this is, and we touched on this last quarter but I'll just go through it again.

With the three earnings streams we've got, we've got fee-related earnings, and most of that is going to be obviously subject to corporate-level tax. And one thing that I do want to point out is that when you're doing the calculation you need to take the fee-related earnings and back off the management fee refund because the two of those net is what we're going to actually have to pay tax on.

As it relates to carry interest, traditionally that's going to pass through to the investors and not go through the corporate blocker, and you shouldn't ascribe any tax rate on that.

And lastly, with regard to the assets on our balance sheet, because of the transaction that took place with KKR and KPE and the merger, about 30% of the balance sheet actually ends up going through the corporate blocker.

So, the way to do quick math is to just take the investment income from the Principles Activity segment at 30% and ascribe a corporate rate to that, and you should get very close to what the provision is for this quarter.

**Marc Irizarry** - Goldman Sachs - Analyst

Okay, great. Thanks.

**Bill Janetschek** - KKR & Co. - CFO

You bet.

**Operator**

And we have no further questions at this time.

**Scott Nuttall** - KKR & Co. - Head - Global Capital & Asset Management Group

Great, and we appreciate everybody joining our call, and we look forward to talking to you next quarter. Thank you.

**Operator**

That concludes our call for today. Thank you, for your participation.

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