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CORPORATE PARTICIPANTS

Craig Larson
KKR & Co. L.P. - Head - IR

Bill Janetschek
KKR & Co. L.P. - CFO

Scott Nuttall
KKR & Co. L.P. - Member - Global Capital & Asset Management

CONFERENCE CALL PARTICIPANTS

Robert Lee
Keefe, Bruyette & Woods, Inc. - Analyst

Michael Kim
Sandler O'Neill - Analyst

Michael Carrier
Deutsche Bank - Analyst

Patrick Davitt
Bank of America/Merrill Lynch - Analyst

Howard Chen
Credit Suisse - Analyst

Marc Irizarry
Goldman Sachs - Analyst

Chris Kotowski
Oppenheimer & Co. - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's Second Quarter 2011 Earnings Conference Call. 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.

I will now hand the conference over to Craig Larson, Head of Investor Relations for KKR. Please go ahead.

Craig Larson - *KKR & Co. L.P. - Head - IR*

Thank you, Dana. Welcome to our second quarter 2011 earnings call. I'm joined on today's call by Scott Nuttall and Bill Janetschek.

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

I will begin today's call with a brief discussion of our results. Then I'll pass it Bill to discuss our performance in more depth, and Scott to take you through the business environment and our activities since last quarter.

In summary, in the second quarter we saw three underlying themes across our businesses. The first was continued strong investment performance in both our Private Markets and Public Market segments. Our Private Equity portfolio companies continue to show revenue and EBITDA growth year-over-year despite the uneven economic backdrop.

Additionally, our Private Equity funds appreciated by about 4% in the quarter and 10% year-to-date around 400 basis points ahead of S&P for both periods. This outperformance also extended to our Public Market strategies, as Scott will discuss later in the call.

The second thing we've seen is strong investment activity in our Private Markets business. Since March 31st we've announced 12 new investments globally totaling $3.6 billion in equity with about 60% of this coming from our funds and the rest from co-investors. We expect most of these transactions to close in the second half of this year.

The third theme is a continued ability to monetize investments despite the volatile market backdrop. Since March 31st we've announced or closed realizations in seven investments, including Hilcorp Resources, which Bill will talk more about in a few minutes. We expect to realize over $2 billion from these monetizations, or 2.4 times cost.

Turning to financial metrics, this morning we reported quarterly economic net income of $315 million and after tax ENI per unit of $0.36, compared to $433 million and $0.48 in the second quarter of 2010. While our investments increased in value this quarter it was less of an increase than we saw last year.

As we have discussed in the past, because our quarterly fee earnings can be meaningfully impacted by when transactions close they're typically lumpy. For example, though we've announced 12 investments since March 31st we only benefited from fees related to the three that closed in the quarter. Looking at year-to-date results can help normalize for these types of timing issues.

For the first six months of 2011 our fee-related earnings were $202 million. This is a 32% increase over the $154 million reported for the same period last year, driven by fee-related earnings growth across all three of our reporting segments, 31% in Private Markets, 29% in Public Markets and 38% in Capital Markets and principle activities.

ENI, which you'll remember is significantly impacted by mark-to-market, was $1.1 billion in the first half, down 5% from last year because our balance sheet appreciated less significantly in the first half of 2011. However, on a cash basis performance was immaterially. Gross distributable earnings since the start of the year were $296 million, up 83% from $162 million last year.

I will now turn it over to Bill.

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

Thanks, Craig. Assets under management $62 billion as of June 30th, up 14% year-over-year and up 1% versus last quarter. Both increases were largely due to the appreciation of our investments, as well as new capital raised. This was partially offset by capital that we returned to our limited partners through realization.

We ended June with over $46 billion of fee-paying AUM, an increase of 12% versus last year and 2% sequentially. The increase over both periods was due primarily to new capital raised. As with last quarter, none of these AUM figures include assets related to our next North American Private Equity Fund because no commitments have been formally accepted.

Looking at our operating performance, fee-related earnings for the quarter were $76 million, up 20% over the same period last year, but down from $126 million in the first quarter of this year. The year-over-year growth is the result of two main trends, first, the increased activity in our Capital Markets business and, second, the growth and performance of our Public Markets segment. The decline versus the first quarter related to the nonrecurring monitoring fee termination payments we received from the ATA and the OSIM IPOs in the first quarter, as well as a lower level of transaction fees.

As Craig mentioned, we had a particularly active quarter on the Private Markets side from an investment standpoint, but many of those transactions haven't closed yet. As they do we expect the recognition related to fees in future quarters.

Our ENI was $315 million, down from $433 million in the second quarter of last year. While the rate of appreciation of our investments was slower than in prior periods, the value of our investments continues to increase, which as you know impacts ENI through carry and other investment income.

Our Private Equity portfolio, which affects carry, is up $1.3 billion for the quarter and $8.6 billion year-over-year. Our book value, which is driven by our balance sheet investments, is now 25% higher than it was last June.

Turning to our business segments, in Private Markets we generated fee-related earnings of $38 million. This compares to $42 million in the second quarter last year and $91 million last quarter. The decline from last year is mostly due to the expenses we've incurred as we continue to build out new investment businesses like real estate, as well as our fundraising team.

This was partially offset by an increase in management fees from new capital raised over the past year, most of which has been in new strategies. As I mentioned a minute ago, the decline versus last quarter was largely because we had net monitoring fee termination payments of nearly $40 million and higher transaction fees in the first three months of the year.

Private Markets ENI in the quarter was $128 million, compared to $155 million last year and $277 million last quarter. The declines for both periods was driven by lower net carried interest this quarter and to a lesser extent the fee-related earnings trends I just discussed.

Our Public Markets segment generated $21 million of fee-related earnings in the quarter, which compared to $12 million last year and $15 million last quarter. The improvement in both periods was driven by higher management fees from new capital raised and by higher incentive fees from KFN.

Moving to Capital Markets, fee-related earnings this quarter were $18 million, compared to $9 million last year and $21 million last quarter. The period-over-period changes are a function of the level of capital market transaction activity that closed in the quarter. The team is also involved in several of the transactions we've announced, but not closed as of June 30th.

ENI in this segment was $166 million in the second quarter versus $266 million in the same quarter last year and $450 million last quarter. The declines were due to less significant appreciation in our balance sheet assets than in either of those prior quarters.

At the end of June our book value was $9.22 per unit. This includes $680 million of net unrealized carry, a 10% increase from last quarter and an 88% increase from the same time last year.

Finally, we declared a distribution of $0.11 per unit for the second quarter, up from $0.08 last year. Approximately $0.05 of the distribution came from cash carry. This brings our year-to-date cash distribution at $0.32 or twice the distribution from the same period last year.

Before I pass the call over to Scott we'd like to clarify a piece of news that came out this quarter. Among the seven portfolio company realizations Craig mentioned earlier was Hilcorp Resources. This was a partnership we formed in June 2010 with Hilcorp Energy to develop shale, oil and gas properties. We announced on June 1st that we are selling our interest in the company to Marathon Oil Corporation, the transaction value to our original $400 million stake at over $1.1 billion, or 2.7 times our cost.

There are two things worth noting about the way we structured Hilcorp. First, because of the type of income it generates it had to be structured in a separate 2006 fund vehicle and placed under our corporate blocker. So we'll be paying corporate taxes on the carry and the investment income that it generates. This is the reason that the tax provision for this quarter may be higher than many of you expected relative to the overall level of income as a significant portion of the carry accrued this quarter was from Hilcorp being written up.

Second, because Hilcorp's separate vehicle doesn't net with the rest of the 2006 fund we are able to distribute the proceeds outside the standard fund netting waterfall. You may remember a similar situation with East Resources last year.

That means that we'll be paying out the Hilcorp carry as a cash distribution when the transactions closes, which we expect to occur in the fourth quarter subject to closing conditions being satisfied. We expect that this will add approximately $0.06 a unit to our fourth quarter distribution.

Now I'll turn it over to Scott.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Thanks, Billy. Two weeks ago we marked the one-year anniversary of KKR's listing on the New York Stock Exchange. And though a lot's changed over the course of the year it's interesting just how little has changed in market sentiment.

On the second quarter call last year we said that the quarter started out well, but uncertainty and spotty economic data have led to a loss of momentum. Well, we've seen this trend reemerge globally in the second quarter of 2011.

The ten basis point increase in the S&P between April 1st and June 30th masked a pretty bumpy three months. With unemployment creeping back up and inflation on the rise consumer confidence has been on the decline.

QE2 formally ended, yet GDP estimates are being revised down. But despite all this macro uncertainty we've continued to execute across all of our businesses.

In Private Equity our funds appreciated 3.8% in the quarter, beating the S&P by almost 400 basis points and demonstrating our Company's ability to perform through market weakness. Across our PE portfolio revenue was up 9%. EBITDA was up 10% and leverage came down by 11% from 5.3 times to 4.8 times.

The transaction environment in private equities remain quite busy since March 31. We invested or committed to invest $3.2 billion of equity in nine companies, including five traditional LBOs and four growth equity opportunities. The enterprise value across these investments was nearly $11 billion.

We've also continued to return capital to our investors. The Private Equity realizations we've announced that are closed since March 31st have resulted in over $2.2 billion in distributions to LPs. This brings our total distribution so far this year from Private Equity alone to $4.3 billion. And since the beginning of last year we've distributed about $8 billion. As our funds have appreciated in value more of them are generating cash carry, meaning that more of the realizations fueling LP distributions are also fueling distributions to our unit holders.

So over to Energy and Infrastructure for minute, well we've continued to gain traction in this business. Given the scale we've reached since we launched we're detailing this initiative separately in the investment vehicle summary on page 19 of our press release.

As you can see, we raised $750 million for oil and gas this quarter, effectively quadrupling third-party capital dedicated to this strategy to over $1 billion. And momentum has continued since quarter end. We recently signed an additional $500 million separate account focused on Energy and Infrastructure.

Across this space we've now raised $3.2 billion, $2.7 billion of which had closed by June 30 and all of which has come in over the past 18 months. Our Energy and Infrastructure strategies tend to be lower risk, lower return and more focused on cash yield and inflation protection than private equity.

Performance across our platform has been very strong with an IRR of almost 14% since we made our first investment last year. We've continued to be active since March 31st, adding to our position in the Barnett Shale and announcing our first two infrastructure fund deals, both in the European renewable energy sector. Our opportunities to scale and energy and infra remain large as the capital needed is sizable and there are a limited number of players with the scale and capabilities to address the needs.

Now moving to Public Markets we've continued to gain momentum here as well. Each of our liquid credit strategies is still outperforming its benchmark index since inception with top quartile and often top decile rankings.

Our biggest focus today is on maintaining best-in-class performance while raising more capital. We're also seeing great progress in alternative credit, with our mezzanine and special situations funds. In mezz we're benefitting from banks reducing their focus on the middle market. And in special sits we're particularly active in Europe as banks have begun to divest nonperforming and stressed assets.

We deployed $110 million in special sits this quarter and since the strategy launched we've generated an IRR of over 20%. From a fundraising perspective we've raised $2.5 billion for our mezzanine and special situation strategies from a standing start two years ago. This has led to a meaningful change in the economics coming out of Public Markets. The growth in alternative credit has drive our effective management fee from about 85 basis points to nearly 100 basis points in the last 12 months.

Now moving to Capital Markets, well we've built out our European team which is starting to contribute meaningfully to the bottom line. And we've also made real progress in Asia and are continuing to build our third party effort. The good news is that the result of all this work is starting to show up in the numbers as Q2 fee-related earnings doubled in this segment.

Our balance sheet continues to grow and we've been pleased by a depreciation of 10% so far this year and 25% since last June. We view our balance sheet as a truly strategic asset that's helped us launch seven new businesses over the last two years.

And while we're happy with the progress we've made in our new businesses it's important to remember that they're still relatively young. That means our fee-related earnings are bearing the expenses for all seven new efforts we've created in addition to our investment in our distribution team.

In our business capital expenditures associated with hiring talent flow directly through our income statement. As such, our earnings are burdened by substantial expense before the associated revenue is generated. Despite this we've grown year-over-year fee-related earnings by 32% in the first half.

At the same time we're focused on generating investment performance in carry. Our Private Equity funds are up 28% over the last year and 80% over the last two years as a whole. And with no hurdles in any of these funds we are seeing monetizations and in turn cash carry starting to be realized.

In the first six months of this year we've generated $106 million of cash carry, up over six times from the first six months of last year. This combination of scaling our existing and new businesses and generating cash carry from our funds makes us optimistic about our future earnings and distribution trajectory.

Given the uncertainty of the economic environment in the markets I just want to spend a moment explaining how we think about our business in an environment like this. One of the great things about our business is that we can turn lemons into lemonade. If you step back and think about it we're in a very fortunate position.

We have long-dated capital the vast majority of which is not subject to any redemption rights and is locked up for ten years or more. In times like this companies need capital. Many of the traditional providers of this capital are gone or impaired.

We're one of the few players that can take advantage of the resulting supply/demand imbalance and the uncertainty in scale. Our teams in energy and infra, special situations and mezzanine are extraordinarily busy. The capital need is large in these areas and traditional providers of capital to these spaces have pulled back or are out of the market entirely. We are stepping in to fill that void.

In our public businesses the volatility is creating great entry points as we continue to scale on liquid credit and start to build our hedge fund platform. And in Private Equity we continue to be very active on a global basis. Valuations are relatively attractive and the financing markets are open for our companies.

With a multiyear horizon we think creating a portfolio in this environment and existing in an improved economic environment will serve us well. So we're excited about the investment opportunities afforded by this environment and we're putting capital to work.

At the same time our portfolio is performing we continue to have top quartile performance in credit and grow profits and reduce debt in our private equity portfolio. While there will always be some volatility quarter-to-quarter in private equity we're focused on long-term value creation and feel we have a lot of potential in our PE portfolio.

In short, we feel good about how we're performing in this environment both in capital deployment and portfolio management. It takes a lot of hard work by a lot of people in our firm and companies, but we're pleased with the progress.

Thanks for taking the time to join our call today and we're happy to take any questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And we'll go first to Robert Lee with KBW Securities.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thank you. Good morning, everyone.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Hi, Robert.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

First question with the significant amount of capital you've committed and as you mentioned a lot of it hasn't closed yet. I'm assuming, or should I assume that with the since a lot of the funding will come from co-investments that those will also be, you'll also be able to earn some incremental fees and carry on the co-investment capital?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Hey, Robert. It's Scott. I think it depends on the transaction. As a general matter we will get deals on our transaction fees and ongoing monitoring fees from the co-invest capital. In some cases we will also get carry, but it's probably a minority of the cases that we'll get carry and virtually all the cases we'll get transaction and monitoring fees.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. All right, great. And then, and I apologize, Craig. I think up front you had made a comment about a realization or two in the quarter that I think you expect, I don't know if it was Q2 or Q3 that you expect to come through. Could you just repeat those comments because I jumped on the call a tad late?

Craig Larson - *KKR & Co. L.P. - Head - IR*

Sure. I was just saying since March 31st we've announced or closed realizations in seven, and that includes Hilcorp which Bill ran through, but in total we expect that to be around or actually a little over $2 billion or 2.4 times cost.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

All right, great.

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

So Rob, Rob, to your point most of those realizations have occurred in the second quarter, but the biggest one that has yet to close is Hilcorp, which I mentioned earlier. And that's going to produce about $0.06 of cash carry in the fourth quarter.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

All right, great. Thank you. And then can you maybe just update us on, I know you're still building out the hedge fund platform, but maybe so update us on what the status of that is, if you think you'll have something to go out and market with by end of the year or is it really kind of a 2012 event that we should be thinking?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

I think in terms of impacting the financials, Rob, it's probably more 2012. The update that the team got here at the beginning of the year it's been integrating really well. We're very pleased with how well they've integrated into the firm, and kind of the idea sharing is working nicely across the firm, so that all feels good.

We spent the first six months really getting systems set up and getting ready to start the business. Over the course of this quarter we are starting to invest capital largely with firm balance sheet money, and we'll have an update for you next quarter as to how we're doing because we're starting to accept third-party capital this month, so we'll have a better update for you next quarter. But I think in terms of impacting the financials it's really a next year item.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

All right, great, and one last question. Just I guess I know someone will ask this so I might as well. The new North American fund, any color on how you feel about its progress to date and looking ahead any idea of when you think it may actually get to a first closing?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Yes. As you know, Rob, we're severely limited in terms of what we can say under the private placements rules. I will tell you that the pipeline continues to build nicely. We're having a number of very productive dialogues, again, have a better update for you next quarter. And we'll keep you apprised along the way, but with each passing month, with each passing quarter as you can hear from the results in the Private Equity portfolio the fundraising environment continues to improve for private equity.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

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

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Thank you.

Operator

And we'll go next to Michael Kim with Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hey, guys. Good morning. First, I think you're still in the process of raising money for your mezz and infrastructure funds, just any update on that front, and then more broadly how do you think the recent step up in market volatility has impacted kind of your fundraising prospects as you maybe look across your different strategies or businesses, whether it's private equity, credit or hedge funds? Net-net is it more of a negative or do you think the market environment can actually help you raise more assets over time?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Sure. Hey, Michael, this is Scott, on mezz and infra unfortunately have the same restrictions in terms of what we're able to say. You'll see we closed on a bit more capital for the mezz fund in the second quarter. We continue to talk to investors about both of those products.

We'll have more updates along the way and you'll continue to see that show up in our fund tables, but the bottom line is similar to what I just said on private equity. What we're finding is that investors have really come out of their bunker and are looking to allocate more capital to all things alternative, and this is on a global basis.

So we're actually seeing increased interest in a number of things that we do, including mezz and infra, which has really accelerated over the course of the last few quarters. So we feel good about the overall environment, feel it continues to come our way.

And in terms of the second part of your question in terms of the more recent market volatility, look, the dynamic of what's going on is that there's a number of chief investment officers of institutional pools of capital that have looked back over the last decade and have realized that their returns from long only public equities have been low single digits at best. And their returns from high-grade fixed income has been low single digits at best.

And their liabilities in some cases are growing at 7%, 8%, 9%. And so they know that they need to change their asset allocation model. The great news for us is when they look back at how their alternative portfolios performed it's actually been their best performer.

And so we're finding that there is an increased interest in increasing the allocation to alternatives broadly. And frankly we think this market volatility will only accelerate that because what happens is their exposure on the public side is getting impacted. And when they have losses on the public side it frankly accelerates the view that they need to diversity their holdings and move more into alternatives. And that's across a number of the things we do. And as you know we're in virtually all of the alternatives areas at this point.

So we're actually pretty optimistic about it and the bad news is good news for us is that this market volatility we think will just accelerate that trend we were already seeing.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. That's helpful, and then maybe just a couple questions for Bill. First, can you talk a little about the step up in management fee refunds that hit this quarter, assume it had to do with kind of maybe European fund II maybe coming into carry position? If you could just talk about the dynamic there and how we should be thinking about management fee refunds going forward. I know a lot is going to depend on kind of quarter-to-quarter performance, but just any color there would be helpful.

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

You're absolutely right. And as you may recall, what happened in our fund is first we had to return or get up to cost. And anything above cost 20% of the management fees paid by our LPs to that fund need to be returned to our LPs. And that's the management fee refund.

So as we have a couple of funds that are at cost or a little bit above, like E II or E III, as we continue to show an increase in value in those funds there is going to be an impact on the management fee refund. And that's why you can see the thirty odd million dollar number this year, which is higher than what you would do back the envelope just taking 20% of the management fees that were received this year.

I also want to note that we also provided a footnote on our press release, and right now based upon all the management fees that we have received, and assuming all of our funds are in a carry accruing mode, there's about $48 million of management fee refunds that we're going to have to catch up on before the management fee refund number will be a normalized number.

Michael Kim - *Sandler O'Neill - Analyst*

Got it. That's helpful. And then just finally it seems like you're focused on continuing to build out your capabilities really across the board. That's driving sort of this up front step up in expenses, so just wondering where do you think you are in that process and how should we be thinking about maybe comp and other expenses going forward?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

It's a great question, Michael. I'd say it's a bit of a mix. One thing that we're watching as we reference is despite these up front investments we're still growing our fee-related earnings 20% in the quarter year-over-year and 32% in the first half year-over-year.

So we're, while they're to depress in the fee-related earnings we're still seeing net growth, which I think is an important point, but the answer is it really varies depending on which business you're talking about.

So as an example, we've been ramping up our team in China given the scale of the investment opportunity there. With the closing of the China Growth Fund, frankly we have now in effect funded that incremental investment. So that effort in particular is pretty well funded at this point and I think the expenses are pretty well borne and showing up in the numbers.

And on the other end of the spectrum you'll have something like real estate where we've started to build the team, but we don't have actually dedicated real estate capital yet. So it really kind of runs the gamut. I think what you can see though is if you think about China, infrastructure, mezzanine, special situations and oil and gas, which are the kind of the five of the seven, those investments are largely made or were certainly have plus the way through building out the teams.

And capital is starting to show up to fund those investments. And you can see that showing up on the fund table.

The two newer endeavors are real estate, which I referenced, which is more start up expense at this point, and our hedge fund, the KKR Equity Strategies. And as we raise capital for the hedge fund we'll start to be able to fund some of those expenses through that capital that's being raised.

The last thing that I would mention is our distribution team where we've actually grown that significantly, as we've talked about on prior calls. We will continue to invest there, but I'd say in Asia we're largely built out. In North America there's a bit more to do and we've got some more investing to do in Europe and the Middle East.

So it kind of is a bit of a mix, but overall what we're watching is when we launch these are we actually able to raise capital to fund the endeavors, and although there's a lag we've actually been quite pleased that that's working out quite nicely and then that number continues to grow.

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

And just one other thing I want to add is that although our comp is variable it's not as variable as one would think because if you take a look at where our revenue was in the first quarter our comp ratio was 26%. That means that obviously to the extent that we have significant pick up in income in a particular quarter our comp ratio is going to be pretty good.

In the second quarter because we didn't have any real transaction fees closing in Private Markets our comp ratio was actually 32% so it looked a little heavy. You can't really look at this on a quarter-on-quarter basis. The point I'm really trying to make is that is the comp number isn't going to be as variable as you think.

Michael Kim - *Sandler O'Neill - Analyst*

Great. That's helpful. Thanks for taking my questions.

Operator

And we'll go next to Michael Carrier with Deutsche Bank.

Michael Carrier - *Deutsche Bank - Analyst*

Thanks, guys. Hey, you guys mentioned just given the tougher macro economic backdrop obviously it's just a bit more challenging, but the quarter very active on the deployment side in the distribution side.

When you look across the business when you do get into an environment like this, you mentioned you had the lock so that helps and you can kind of keep that long-term vision, but in terms of where you do see incremental pressure, like it doesn't sound like it's on the capital raising side because the need for those higher returns are forcing the institutional investors into alts, but I guess on either deploying capital, financing have you seen much change there throughout the quarter?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Hey, Michael, it's Scott. The answer is we really have not seen much of a change. The financing markets really until the last week or so have actually held in there pretty well. And if you look at kind of where we've priced the Capsugel deal, where we priced Academy you're talking about LIBOR plus four to 450 and with a 1.5% LIBOR floor.

So for most of the capital structure you're actually funding the deal at 5.5% to 6% pre-tax. And so if you look at the leverage loan in the high-yield markets they've continued to perform pretty nicely until very recently. And so we're finding that we're able to attract financing for the transactions in private equity that we're doing that require it.

From capital deployment standpoint you can see from the numbers we've been really busy. I actually think an environment like this is great for us, and it's a bit counterintuitive, but when everybody's scared we get pretty excited. And you can see what we've been doing across our different businesses and it's particularly the case in private equity and also places like mezzanine where we've been quite active, in an infra, and in, sorry, in special sits where a lot of what's going on in particular in Europe with banks needing to sell assets is just resulting in dramatically increased activity.

So it's not just a private equity phenomenon. We're actually seeing it across the board and this environment is creating some pretty interesting supply/demand imbalances. And we're kind of we're stepping into that imbalance and making some pretty interesting investments. So the answer is thus far no real negative impact and we actually kind of view it as a positive environment for us.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. And then just on Public Market side, I think in the past couple quarters you've had some redemptions, partially just given the performance and looking for new opportunities on the client side. It looks like there might have been some this quarter, but just wanted to get an update on you mentioned like alternative credit. There's demand there, but when you look at the demand for the new products versus maybe for the redemption just because of the performance where you kind of see that over the next six to 12 months.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

I think what we'll continue to see over the six to 12 months is scaling alternative credit. And as you know not all AUM is created equal, right?

Michael Carrier - *Deutsche Bank - Analyst*

Yes.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

So if we kind of have a mezz fund at 1.5 and 20 versus a high-yield separate account at 50 basis points via and no carry, we think about kind of the power of the AUM as the most relevant thing in terms of what it can drive in economics, but I think we'll continue to scale across all the different elements on the Public Market side. So obviously the hedge fund is new.

We'll continue to try to raise capital in mezzanine and special situations and I think, as you've seen in the numbers, we're getting some traction there. And then on the high yield and loan side that will be driven a bit by investor sentiment around the opportunities in those markets, but given the track record that I articulated and the build out of our distribution we're actually pretty optimistic about our ability to raise capital there as well. That will be driven a bit more by sentiment in terms of how people feel about the liquid credit markets than the alternatives, which we're much more optimistic about how people are thinking about them today.

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

And to your point specifically in the second quarter, as it relates to fee paying AUM in the Public Market segment we raised capital which is the more traditional long-dated capital. And the distribution that occurred in the second quarter was separately managed account money which had a much lower fee paying amount on the management fee Scott mentioned.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. Thanks, guys.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Sure.

Operator

And we'll go next to Patrick Davitt with Bank of America/Merrill Lynch.

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

Hey, good morning, guys. With the understanding that's it's early days could you provide any color as to how your thinking about the impact of the recent fiscal and budget reform on some of your larger portfolio positions? One in particular seems to be getting beat up in the Public Markets.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Sure. Hey, Patrick, it's Scott. Look, obviously there's quite a bit of change going on and quite a bit of noise out of Washington and we're trying to think through all the different implications for our businesses. It has impacted the trading values for some of our portfolio companies.

The way that we look at it is there's going to be noise like this from time to time. There's heightened noise today, frankly. And it is going to be the sort of thing that we'll watch very closely.

As we look at the impact though on our companies we're actually feeling pretty good about our ability to continue to create value from here. This seems to be a market where there's potentially an overreaction both ways in terms of when people hear things, and so stocks can tend to trade down pretty materially without a lot of information. And so we think there's some of that going on, but in terms of the overall fiscal and budget impact on us it's something that we are keeping an eye on, but keep in mind we have 65 investments in private equity alone.

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

Right.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

And we have a highly diversified portfolio. It's global. It's public companies. It's private companies. It's control stakes. It's minority stakes. And so while there will be noise from time to time related to specific investments from an overall portfolio management matter we think that that kind of noise is manageable within a portfolio context.

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

Okay. Thank you. In Private Markets it looks like that the fee realization rate actually came down in the quarter, but I would think with the nat resources money coming in and the lower fee money being distributed it should go up. Can you kind of talk about the dynamics there?

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

Hey, Patrick. This is Bill. That's a good question. The natural resources money came in literally the last day of the quarter and so the impact to the fee income this quarter was nonexistent. The reason why you saw a slight decrease in management fees is that, as you know, some of the funds that are in a post-investment period as we sell those investments the fee that we get on the capital invested goes away.

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

Right.

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

And so there was a slight decrease this quarter.

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

So that will flow in in the third quarter, the nat, the $1 billion.

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

Right.

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

Okay. And that $750 million is not a final close, right? You're still fund raising for that?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

It's not a final close.

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

Not a final close.

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

Yes, yes. Okay. And finally in the past you've kind of given numbers as you kind of target the expansion of your LP basis. Can you kind of give an update on that progress?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Yes. I'd say we continue to make progress. If you look at kind of the dollars we've been raising, Patrick, we continue to increase the number of LPs. I think we shared in the past we have about 350.

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

Okay.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

And we've kind of set out a goal for ourselves to get to 1,000 over the course of the next several years. And that 350 number continues to march up. It's not going to move dramatically quarter-to-quarter. It will probably be more when we have kind of bigger closes to talk to you about, but we're continuing to see good progress. And when we look at the pipeline we've got a lot of dialogues going on with folks that have never invested with us before, which is a very good sign.

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

Okay. Thanks a lot, guys.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Sure.

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

Sure.

Operator

And we'll go next to Howard Chen with Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Hi. Good morning. Thanks for taking my questions.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Good morning.

Howard Chen - *Credit Suisse - Analyst*

Just on deployment thanks for the commentary around the 12 new investments and appreciating the time differences between announcement and completion, but just with all that said at the current pace of deployment it still looks like you'll have a good bit of dry powder relative to your commitment. Is that fair in your mind and how do you think about that in the context of close of 2006 fund and maybe the raising for 2012?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Sure. Hey, Howard, it's Scott. I would tell you that if you look over all of the funds, got about $14 billion or so of dry powder, about $12 billion or so of that in private equity, but you really need to look within that $12 billion to see where it is.

So we're pretty well funded in Europe right now with our Europe III fund. And we have a reasonable amount of capital left in Asia, but we're putting that to work relatively quickly, but if you look at North America which is kind of what the focus of the question is I assume around the North American XI fund raise we've got on the table about $14 billion left to invest. That number will decline when these transactions we've referenced close.

And so the timing I think I think is going to work out just fine because we've got capital and remaining to be invested pro forma for a few more transactions in North American Private Equity. And we think that's probably going to take us to a period of time that will coincide nicely with us getting to a first close for the North American fund.

So that's how we think about it is there's $4 billion. That will go down. We'll have that amount left to invest over the course of the next two to three quarters and then the new fund will come online.

Howard Chen - *Credit Suisse - Analyst*

Very helpful. Thanks, Scott. And then just switching gears to realizations, given the cash carries are right now mostly dependent on private equity and the public equity markets are a bit choppy, how are you thinking about opportunities to potentially monetize investments outside of IPOs or secondaries?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Sure. I'd tell you that as you saw we had actually some strategic activity that is starting to pick up. In addition to Hilcorp we sold a company in Australia called Seven to a strategic. And so we've started to see strategic activity overall increase, and I think that's the obvious other place probably we're going to actually see some potential exit activity for us in Private Equity.

We frankly would have thought there would have been more of that activity historically, but I think corporates pulled back a little bit with the uncertainty. I think it's starting to pick up again and so it's very difficult to predict. And it's going to be more of a kind of a one-off type conversation, but relative to what we saw from an activity level a year ago it's certainly increased. So we think that that will actually start to be more of the activity than it's been the last couple years, and what we'll do is then supplement the IPO and secondary activity with the strategic sales.

And frankly in some instances we'll take a company public. We may do a secondary or two and then the strategic buyer shows up. And so some of the exits actually will have all three different forms.

Howard Chen - *Credit Suisse - Analyst*

Interesting. Thanks. And, Scott, finally you just touched on some of this in the prior question, but at the Investor Day earlier this year you all outlined some of the longer-term goals around client distribution, expanding the LT base, increasing wallet share, understanding we're still early with 2012, but just hoping for a bit more anecdotal progress on what you all are seeing. Thanks.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Yes. I would tell you that we continue to be really upbeat about this. What we're seeing is that institutional investors have come out of the crisis. And I mentioned that they want to put more into alternatives, but what we're also seeing is that they realized coming out the last couple years that they had over diversified.

So they -- we have some investors that we're talking to that are literally in hundreds of GP funds and we actually look through to the underlying, several hundred actually underlying funds. And when you look at the number or portfolio companies you're into the thousands.

And what's happened is they basically end up creating an index, or something worse than the index by virtue of just over diversifying and really having their capital compete with itself. And so what's going on is the reaction to that has been that they want to consolidate the number of relationships that they have. And they want to do that more with brand names, frankly, and folks with longer term track records, which bodes well for us.

In addition, they want to have in a lot of instances a multiproduct relationship, which is great from our standpoint in terms of cross selling the different things that we're doing across the firm. And as you know we're really set up with one firm, as one firm. And then we've got everybody working together. So we're actually approaching the market in two ways.

One is kind of the traditional fund format where people can decide they want to come into one product if that's what they're interested in, but also talking to them about broad based relationships where they can have kind of a relationship across KKR where they can do multiple things with us. And we've actually done this in several instances now and it continues to accelerate.

And we're going to have more of these kind of customized or tailored solutions, some of which will be within a particular strategy, so energy is a space as an example where we're talking to investors about doing things in oil and gas, and infrastructure and energy private equity co-invest all under one heading, but we're also having the conversations in credit. And we're also having conversations across all of our products.

So I don't know it that's helpful, but in terms of what we're seeing in the market all of those dynamics are making us pretty optimistic that the market is coming our way. And the conversations we're having are much more broad based than they were a year ago.

Howard Chen - *Credit Suisse - Analyst*

That's really helpful, Scott, actually a follow-up to that. Just as a baseline and what, I don't know if you even look at it this way, but what percentage of your AUM would you say looks or feels like a customized or strategic managed account today?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

I'd say today it is a small single-digit percentage, but I think that the pace of growth on that is quite high. So we're really starting really from zero a year or two ago. We're now kind of getting into the multiple billions, but relative to the $62 billion we have it's still a small percentage.

THOMSON REUTERS

Howard Chen - *Credit Suisse - Analyst*

Great. Thanks for taking the questions.

Operator

And we'll go next to Bill Katz with Citi.

Unidentified Participant

Hi. Good morning. This is actually Neal filling in for Bill. The first question is on the topic of investments can you just talk about the pricing or valuation dynamics that you're seeing and if there's any significant change, let's say year-over-year?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Hey, Neal, it's Scott. We really haven't seen a dramatic change year-over-year. And it's very hard to generalize because these are very specific companies and situations, but as a general matter in the US valuations have been more or less consistent over the course of the last several quarters.

There's a lot of situations where frankly the price gets away from us, or the strategic shows up and we walk away, but the deals that we've been able to get done have largely been at similar multiple from a purchase price standpoint as we've seen. And the leverage has been pretty consistent over the course of the last several quarters, the deals in China, India, kind of the more minority equity investments we're making kind of even more situation specific, but not a dramatic change that I'd point you to.

Unidentified Participant

Okay. Thank you. And then, lastly, in terms of the LP, GP economics are you seeing any pushback there in terms of other management fees or just sharing?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

No real update on that front. The biggest discussion is usually around the private equity fund. As we've said in prior quarters the management fee is kind of consistent with where we've been, the 20% carry pretty consistent, no change there. And the fee sharing is also consistent.

Remember, we've had kind of 80% sharing with the LPs in our funds for quite awhile now. And so the market is really an 80/20 market and no big change on that front either.

Unidentified Participant

Okay. Thank you.

Operator

We'll go next to Marc Irizarry from Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Oh, great. Thanks. Scott, maybe you could just hit on this in terms of strategic mix or the mix of strategic deals in the environment, but if you look at the sort of the state of affairs today and on the economic backdrop, and financing markets and what they're allowing you to do in terms of exiting out of via IPO or via secondaries, can you just give some perspective on what the, where you think we are in the cycle of harvesting for you guys versus the cycle of investing?

I know it's a little bit of a philosophical question, but do you think that we're now at a point in time where maybe we're entering a period of slower harvesting activity and maybe more investment for you guys?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

I think it's going to depend on the quarter, Mark, but if we look back really since the beginning of last year, just to pick a time frame, we've distributed $8 plus billion back and we've invested somewhere between $6 billion and $7 billion, just in private equity. So I think if you kind of think about what's going to happen with us over time we're going to be giving back more capital than we're investing in most environments. And that's certainly been the case if you look at our long-term cash flows over the last 35 years.

I think in terms of where we are in the cycle in private equity, as we mentioned we got 40% or so of our private equity funds are now in public stocks, so companies that we have either invested in that were public, but the larger percentage of those that we've taken public. And so we're now in a position where we can start to monetize those positions to a greater extent.

So I think you will continue to see distributions increase over time, but at the same time, as I mentioned, we're really excited about the investment environment. And so it kind of depends on the hit rate on new investments, but in private equity I'd say we're expecting to see continued deployment and continued distributions. And that's certainly how we're talking to our investors about what they should expect.

In the newer businesses obviously we're much more in the deployment phase, so infra, mezz, special sits, oil and gas we are much more kind of putting capital to work than giving a lot back.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. That's helpful. And then just in terms of the separate accounts, I think you mentioned the $500 million win on this from a institutional investor, a separate account, could you just talk a little bit about the fees associated with them? And is this sort of this movement towards separate accounts is something when you look at the fundraising maybe for the North American, for the new PE fund? Do you expect to see more growth here and then any update on fees related to it?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Yes. I would tell you that each separate account tends to be a bit different, Mark. The energy separate account kind of falls somewhere between infrastructure, which is a one and ten, and private equity which is a 1.5 and 20. So it's kind of somewhere in there.

Some of the separate accounts will pay fees on committed capital. Some will only pay fees on invested capital. So each one is customized and a bit different. I'd tell you that we're kind of looking at this as adjacent to and not a replacement for our fund business.

The fund business I think is going to continue to be the vast preponderance of our activity. And in some instances we'll actually build a separate account relationship where one of the activities of the separate account will actually be to invest in an underlying fund. And then there will be some co-investments and some other specific one-off investments that we're pursuing together. So it really depends on the SMA that we're talking about, but it really runs the gamut, but the good news is we can be customized about it and really craft it to the individual investors' needs and wants.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then just, Bill, a quick question for you and maybe I missed this earlier, but just can you give us a sense of the magnitude of the transaction fees that are sort of out there that have not yet closed, but maybe you can just put some parameters around the size of the transaction fees that are coming down the pike here.

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

No. Hey, Marc, this is Bill. Although I'd love to, until those transactions actually close we're not going to actually report what those transaction fees are, but Scott mentioned earlier there's a significant amount of deals that are in the pipeline that will close and the total equity that we'll be deploying is well north of $2 billion. And so when you think about the equity that we'll be investing, and assuming a total enterprise value of a number much higher than that, obviously the transaction fees will be substantial.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

I think the only color I'd add, Marc, is that our transaction fees tend to be higher in the more traditional private equity transactions, as opposed to the growth equity investments. And so in terms of what's pending, Academy Sports is pending. Capsugel actually closed a couple of days.

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

Capsugel closed.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Right? Versatel closed a couple of days ago. And Academy Sport is closing. Ipreo is closing. GoDaddy is coming. All those transactions tend to be more in the traditional vein than the growth equity. And so it's going to have a bigger transaction fee impact as a result of the structure of those transactions than if they were all growth equity.

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

And one other point, Marc is that obviously that we're writing big equity checks. A good amount is going to co-investment vehicles. And because it is going to co-investment vehicles the transaction fees applicable to those invested dollars and are to KKR and there's no fee sharing with our LPs on the equity that's placed in those accounts.

Marc Irizarry - *Goldman Sachs - Analyst*

Understood, and then, Bill, how about on the tax rate going forward? I know this was a bit of a sort of abnormal tax rate given Hilcorp Energy, but what's -- how should we think about the tax rate from here on?

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

No. I'm surprised that anyone could have even come close to the number that showed up in the second quarter. And remember the concept is still the same. So if you take fee-related earnings minus management fee refunds and ascribe a 40% tax rate that's what'd you do as it relates to fee-related earnings.

Our second stream of income is carry, and generally speaking none of the carry goes through the corporate blocker, but however on occasion to the extent that we have effectively connected income that needs to be blocked because we're a PTP, we will have some tax leakage on carry. And then, lastly, if you take a look at the balance sheet because of the, your original structure, approximately 30% of the balance sheet ends up going through the corporate blocker and you'd have to ascribe a 40% tax rate on 30% of those earnings.

So if you actually took a look at the second quarter numbers and took into account what the increase in value was as it relates to carry from Hilcorp, the number is going to be pretty close to obviously the provision that we're reporting today.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. Thanks.

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

You bet, Marc.

Operator

(Operator Instructions). We'll go next to Chris Kotowski with Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Hi, just a follow-up on the $4 billion remaining in dry powder in the '06 fund, North America. Do you need to leave any of that back for follow-on investments? Or is that basically all deployable for the next nine, 12 months in new investments?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Hey, Chris. It's Scott Nuttall. It's, look, it's a very good question. Most private equity funds have actually a preset reserve provision. Our historical funds have not had a preset reserve provision. It think there is some chance that we are going to suggest to our partners that we do reserve some of that capital, but the size of that has yet to be determined and frankly we haven't even talked to our limited partners about that as of yet.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And then I know that obviously when you have private equity investments holdings that you mark them to model with EBITDA models and all that, but given that you've got some big, chunky investments, particularly HCA and NXI which have been under pressure this quarter, to gauge the impact for people to gauge the impact of the market pressure on those stocks in the third quarter in terms of ENI, I assume we just take the depreciation in the market, multiply it by what you're carrying it at and then add a little bit for the reversal of carry income for the positions held in the fund?

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Yes. I think you've got it generally right. And, Craig, why don't you walk Chris through the basics because I think it's an important question, Chris, because we have had some volatility since quarter end.

Craig Larson - *KKR & Co. L.P. - Head - IR*

It's a very good question. Chris, is first is you correctly say we value our publicly-traded portfolio companies at their closing prices at the end of the quarter. So this mark-to-market impacts our financials in two ways, through carried interest as well as through balance sheet investment income.

Now, as you know, this is an accrual and not a cash concept so none of this impacts our fee-related earnings or our cash distribution, but actually why don't we walk through an example. So if you look at HCA, which is one of the companies you mentioned, since June 30th HCA's stock is off about 25% through yesterday.

So if you take this through our financials the balance sheet of this is actually pretty easy. So page 17 of the press release shows that we held $615 million of HCA as of June 30. A 25% decline in the stock literally results in a 25% decrease in the value on page 17, or $156 million. And so this decline would flow through the other investment income line in our P&L. So that's the first piece.

Now in terms of carry you have to look at what the fund is actually holding in HCA. So looking in our Form 4 we hold 69 million shares of HCA in or Millennium and in our 2006 funds. These funds are accruing carry, so the decline in the stock price also does impact P&L.

So HCA is down a little over $8 bucks from June 30th through yesterday's close. So you look at that change in value in the 89 shares that we own. That's a 500, say $5 million reduction in value. So 20% of that flows through the carried interest line once the fund is accruing carry, so, again, gross carry would decline by about $115 million.

And then the thing, two things to also remember is, one, 40% of that carry goes to the comp pool, so the net carry figure is only down by 60% of that $115 million number, or about $69 million. So, again, and I know I threw a lot of numbers out there, but the total impact on the P&L would be the balance sheet piece of $156 million plus the $69 million in net carry.

And one other thing I would highlight is as you go through and look at this, but taking our share ownership data can be misleading if you do it other from, other than from the filings that we file. So and this is probably actually best highlighted if you think through Dollar General frankly, but other sources will often include shares owned by third parties that we don't earn economics on.

So if you look at Dollar General, again, for the Form 4 filing we own 89 million shares in the 2006 fund and 19 million as a co-investment on our balance sheet, so that's 108 million shares. Now if you were to look on your Bloomberg terminal and hit the number of shares in Euronext to KKR it would show 242 million shares, not the 108 million shares. And that's because that figure actually lumps together a lot of third-party shares that don't impact our financials.

So, again, I know I walked through things pretty quickly there, but in terms of the impact hopefully that gives you a pretty clear sense of how changes on a non-cash basis run through the financials.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Great. That's very helpful. Thank you.

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

The only thing I would add, Chris, is that obviously a lot of that is kind of quarter-to-quarter stuff. And even if you kind of pro forma the decline in HCA we're still well over -- we're over three times our cost Dollar General. We're still close 3.5 times our cost despite kind of a bit of a decline since quarter end.

So in terms of ability to generate quite a bit of carry there's still a lot of value there, but we are going to have kind of intra quarter volatility, as you know, in our business. And I think the reason to walk you through all the detail is we are getting a lot of questions and it's important that investors understand the math because we think some are frankly maybe getting bad numbers and coming up with math that's more extreme than the actual.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Great.

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

It's really important to remember that it's must mark-to-market. Remember, we manage long-dated capital and we actually time our exits.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Yes. Obviously I think that stock price actually in HCA kind of would, all things being equal, push an exit out a little bit, right?

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

Absolutely.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Yes. All right, thank you..

Scott Nuttall - *KKR & Co. L.P. - Member - Global Capital & Asset Management*

Thank you.

Craig Larson - *KKR & Co. L.P. - Head - IR*

Take care, Chris.

Operator

And with no further questions in the queue I'd like to turn the call back over to Craig Larson for any additional or closing remarks.

Craig Larson - *KKR & Co. L.P. - Head - IR*

Just thank you, everybody for your interest and we look forward to speaking with you next quarter.

Operator

Again that does conclude today's presentation. We thank you for your participation.

Editor

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