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KKR - Q4 2016 KKR & Co LP Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth-quarter 2016 earnings conference call. (Operator Instructions) I will now hand the call over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson *- KKR & Co. L.P. - Managing Director, IR*

Thank you, Vince. Welcome to our fourth-quarter 2016 earnings call. Thanks for joining us. As usual, I am joined by Bill Janetschek, our CFO, and Scott Nuttall, Global Head of Capital and Asset Management.

We would first like to remind everyone that we will refer to non-GAAP measures on the call which are reconciled to GAAP figures in our press release, which is available on the Investor Center section of our website.

This call will also contain forward-looking statements which do not guarantee future events or performance, and please refer to our SEC filings for cautionary factors related to these statements.

Finally, like previous quarters, we have also posted a supplementary presentation on our website that we will be referring to over the course of the call.

This morning we reported fourth-quarter and full-year 2016 results. Of note, we reported fourth-quarter and full-year after-tax economic net income of $339 million and $576 million, which equates to $0.40 and $0.68 of after-tax ENI per unit.

We had a healthy level of monetization activity in Q4 and for the full year. Realized carry in Q4 is the second-highest quarter we've had as a public company, and realized carry in 2016 was a record for us, contributing to total after-tax distributable earnings of $390 million for the fourth quarter and over $1.5 billion for the full year.

Turning to fundraising, we continue to have success with record organic capital raised over the year and fee paying AUM at the highest it's ever been, resulting in direct line of sight to future management fee and FRE growth.

We have, again, announced our regular $0.16 per unit distribution for the fourth quarter and are pleased to announce an increase in our plan's quarterly distribution to $0.17 per unit beginning with the first quarter of 2017. And, in addition, we have also announced an incremental $250 million to our buyback authorization.

And, with that, I will turn it over to Bill to discuss our results in more detail.

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

Thanks, Craig. This quarter let me first touch on AUM and fee paying AUM. Page 2 of the supplement highlights the growth in assets in the last 12 months. AUM and fee paying AUM were up 8% and 11% respectively, driven by record organic capital raised. All told, we now have $38 billion of dry powder as of December 31, a 28% increase year over year.

And looking more broadly, as you can see on the bottom of page 2, since the end of 2010, we have seen AUM and fee paying AUM double with the meaningful part of that coming from diversification across the firm. Growth in public markets from 2010 through 2016 shows the extent of this diversification with fee paying AUM increasing by 6 times over that period.

We ended the fourth quarter with record fee paying AUM of $101 billion. This includes $11.9 billion of third-party capital committed to Americas XII, which was activated at the very end of the quarter. Please turn to page 3.

On the left side of the chart, you can see that the increase in fee paying AUM has in turn resulted in management fee growth and diversification with fees growing at a 10% CAGR since 2010. And now that Americas XII is turned on, we are entitled to management fees on that third-party portion of that capital.

At the same time now that NAXI has switched to the post-investment period, we receive management fees based upon remaining cost.

Simply said, Americas XII will add about $90 million to our 2017 management fee on a run rate basis.

Turning to our total segment financials, management, monitoring, and transaction fees were $256 million in total in Q4. Management fees were up year over year, and now that Americas XII is turned on, we will begin to see the impact of management fees starting in Q1.

Total management, monitoring and transaction fees were down on a year-over-year basis as Q4 of last year benefited from approximately $115 million of monitoring and transaction fees relating to the First Data IPO, which was a one-time event.

Turning to total performance income, we reported $241 million, which was anchored by a robust level of realization activity with over $500 million of realized carried interest in the quarter.

Page 4 highlights this activity. In total, realization events at several portfolio companies drove the doubling of cash carry compared to last year, and this quarter's exits were broad-based. On a blended basis, the PE exits were done at 2.9 times our cost.

The exits include our final sale of Walgreens, which was an excellent investment for us. In 2007, we invested $2.1 billion out of the '06 and Europe II funds. Inclusive of the recent Galenica sale, we have now returned over $7 billion of realized cash proceeds to our fund investors, representing a 3.3 times realized multiple of money.

Shifting to investment income, our final exit in Walgreens in particular drove a sizable realized gain given our co-investment and fund exposure in that Company. This, though, was offset by a loss from our investment in Samson. As a result of prior downward marks, this loss has no impact at all on ENI, and that's important to note. Absent our Samson loss, the after-tax distributable earnings would have been $0.79 per unit. Total investment income of $167 million was helped by the positive marks seen across all of our strategies, including private equity, energy, real estate, and alternative credit, driving $141 million of unrealized gains.

Bringing it all together, on a total reportable segment basis, fee-related earnings came in at $116 million. Our after-tax distributable earnings were $390 million with after-tax ENI of $339 million.

Moving to deployment, we invested $2.5 billion of capital this quarter. Public markets deployment was $1.6 billion, up meaningfully relative to pace of deployment over the last several quarters. This deployment came from investments made across our alternative credit vehicles, primarily within special sits and direct lending.

And, as you will recall, we are entitled to economics on our alternative credit vehicles on an invested as opposed to committed basis. Given this dynamic, deployment in these strategies contributed to the increase in public markets fee paying AUM this quarter.

On the private markets side, we invested about $900 million. The largest contributors were a private equity investment in a Hispanic food retail out of NAXI and an investment in India's second-largest private life insurance company out of Asia II.

Looking forward, we have an excellent pipeline of activity which Scott will discuss in more detail.

And finally, as you have likely seen in the press release, we are pleased to announce that our board has authorized an additional $250 million to our share buyback plan.

In addition, reflecting the continued growth of the firm and our strong fundamentals, we plan to increase our next fixed distribution by 6%, and our planned quarterly distribution will increase from $0.16 to $0.17 per quarter, beginning with the first quarter of 2017.

And, with that, I will turn it over to Scott.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Thanks, Bill, and thanks, everybody, for joining our call today. We find that the fourth-quarter calls are a really good opportunity for us to reflect on our progress as a firm over the past 12 months. And looking back, despite a lot of market and geopolitical volatility, we are pleased with our progress in 2016 and with the fundamentals we are seeing across our firm and businesses. As we've said before, there are five things that we need to do well. I am going to briefly update you on our progress on each of these.

The first thing we need to do well is generate investment performance. Performance in the quarter and full year was strong and broad based. In private equity, our portfolio appreciated 3.4% in the quarter and 11.9% in the full-year 2016. Within real assets, our more mature real estate, energy and infrastructure flagship funds were up 4%, 23% and 21% respectively in the last 12 months.

And in credit, we continue to see strong performance in our opportunistic credit and direct lending platforms in particular.

The second thing we need to do well is raise capital. We had a very active fundraising year last year, raising a record $29 billion. Private markets accounted for $16 billion of the capital raise driven by Americas XII, our new growth strategies, and our real estate platform.

And public markets accounted for the other $13 billion driven by CLOs, liquid credit mandates, and our strategic partnerships. And importantly, the quality of the capital that we've been raising is quite high. On a blended basis, of the $29 billion of new capital raised, roughly 80% is carrying or incentive fee eligible and locked up for at least eight years from inception.

Given the success we've had in our fundraising, we now have record fee paying AUM, and we believe 2017 is going to be another active fundraising year as we scale our newer businesses and also focus on Asia private equity, providing direct line of sight to future fee growth.

The third thing we need to do well is find new compelling investment opportunities. We deployed $2.5 billion in the fourth quarter and $11 billion in 2016. If you turn to page 5 of the deck, you can see we've also announced several pending transactions expected to close in the first half of 2017, including Airbus out of European Fund IV, Calsonic and Hitachi Koki out of Asia II, and Calvin Capital out of Infrastructure II. When you put it all together, in aggregate, we have already announced over $10 billion of transactions that are expected to close in 2017, requiring about $3 billion of equity from our funds.

The fourth thing we need to do is monetize our existing investments. As Bill mentioned, this was a strong monetization quarter and year for us. Looking at the full year, we returned $13.5 billion of cash to our private markets investors, helping to drive $1.5 billion of after-tax distributable earnings.

And the last thing we need to do well is use our model of AUM, capital markets, and balance sheet to capture greater economics for our investors and the firm from all of our activities.

It's important to remember that capital markets and the balance sheet do not show up in our AUM, but they are powerful economic contributors for the firm.

Our capital markets capabilities, alongside the balance sheet, allow us to source large transactions and move quickly in the market. This allows us to scale all of our businesses more rapidly while generating fee economics for the firm.

Our activity level here has continued to increase. In 2016 in capital markets, as an example, we executed 117 transactions involving $65 billion of total financings in equity and debt. Looking forward, KCM has begun 2017 with a high level of activity and an excellent pipeline.

The balance sheet facilitates our model and had good performance in Q4, up 2.8%. We made good progress evolving our balance sheet asset allocation last year. We reduced our overall CLO exposure and increased our commitment to our own funds, including Americas XII.

We've also continued to use the balance sheet to seek new strategies and accelerate growth. For example, similar to how we started our real estate platform, we seated our new growth strategies off the balance sheet and used that track record to attract third-party capital. As a result, in December, the Next Generation Technology Fund held its final close and will now be a fee and future carry contributor. As we always say, the balance sheet is a real strategic asset for us, allowing us to accelerate AUM growth and increase firm profitability.

I'm going to spend a minute on one additional topic. We announced on Monday that KKR Prisma and PAAMCO are combining to create a new firm, which will be one of the largest in the liquid alternatives industry with over $30 billion of AUM. The Prisma team will be part of a new combined firm, and KKR will retain a 39.9% ownership stake as a strategic partner.

By way of background, KKR Prisma has grown significantly from $7.5 billion or so to $10 billion since the formation of our partnership in 2012.

Similarly, PAAMCO has experienced strong growth due to its performance and its value proposition for clients. The two businesses are complementary and once combined will become one of the largest in the liquid alternatives industry, a space where scale and providing a full suite of client solutions really matters.

The transaction provides us with more capabilities, increased operating flexibility, and is accretive to our AUM and our growth profile. Pro forma for this transaction and using December 31 numbers, our hedge fund business, which now includes five strategic partnerships, will have $74 billion of assets under management of which our pro rata share will be $24 billion.

To bring it all together, our core fundamentals are summarized on page 6 of the deck. 2016 was a good year, but even more importantly, the work done last year laid the foundation for significant growth and progress in 2017 and beyond.

And with that, we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Craig Larson - *KKR & Co. L.P. - Managing Director, IR*

And, Vince, actually before we get going, if we could ask everyone to limit themselves to one question and one follow-up, that would be helpful, just so we can make sure we can work our way through the queue.

Operator

Glenn Schorr, Evercore.

Glenn Schorr - *Evercore - Analyst*

A question on balance sheet and just philosophy from a strategic view. If you feel anything is shifting -- in other words, you have had some big wins over time but they were lumpy, and it causes some volatility from time to time. So a lot of cash. You talked about seeking higher return opportunities in some of the co-invests, but maybe from a top-down, do you approach it from a top-down perspective, and do you have thoughts about trying to create a little more balance over time?

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Hey, Glenn. It's Scott. I will take that. We do definitely approach it as a top-down matter. In the first instance, we have an asset allocation approach that we use in terms of how we want to get the balance sheet positioned in time, and we are working our way toward that asset allocation model and outcome that we have targeted. What you'll be seeing is we've got -- though, to your point, we've got a couple of legacy positions.

For example, the Walgreens position that we talked about today, it actually has been on the balance sheet since before the merger with KPE. So we've got some legacy positions that have been rolling off, and you are right, some of those are lumpy. But what we've been doing with the proceeds is committing that capital largely to our funds, which we think over time will create a less lumpy stream of outcomes. Because there will be less -- larger investments like Walgreens as an example on the balance sheet in due course. And we've also been using the balance sheet to make investments strategically for the firm.

So, for example, we have used balance sheet to create fee and carry opportunities, whether you think about that in terms of our hedge funds, strategic partnerships, or other acquisitions that we've made, which is really in our mind using balance sheet to create more stable and higher multiple fee profits for KKR over the long term.

So the balance sheet has been in transition. We have had the original KPE portfolio, which was largely private equity. We had the KFN merger which was largely credit, and we spent the last couple of years really repositioning ourselves toward this asset allocation model that I referenced, and we're getting there. We're not quite there yet, but we've made good progress.

Glenn Schorr - *Evercore - Analyst*

Great. I appreciate that. Maybe just a quickie follow-up on -- you gave good detail on slide four with the robust realization activity. You announced the $10 billion in proceeds. Is there a DE number that corresponds with that? Sometimes on the quarter, you will help us along with that math.

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

Sure. So, Glenn, if you're talking about 2017, based upon the assets that are shown on this slide and assume all the monetizations take place, that is going to translate into roughly about $300 million of cash earnings.

Glenn Schorr - *Evercore - Analyst*

All right. Awesome. Thank you very much.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Thank you very much. I really appreciate the concise update as well. Very helpful on a day like today.

So you mentioned a couple different things in terms of capital raising, and I appreciate that Americas XII just got turned on. Can you highlight in your prepared remarks, Asia, maybe scaling of some next gen funds, and then strategics? Do you have any sort of sense of sizing as you think through the opportunity set looking into this year?

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Sure, Bill. Happy to take that. It's Scott. I would say -- if you think about what we have in the market probably is a good way to start. You are right. Americas XII, we are about done. We expect to hit the $12.5 billion hard cap, which has been upsized slightly, and then our commitment will be on top of that.

Asia III is in early stages. We're still in the market with our second real estate fund, our second private credit opportunistic fund, healthcare growth, Direct Lending III, and different vehicles in our real estate credit business. And then on top of that, we've got high-yield leveraged loans, CLOs, separate accounts, our BDC, and then our hedge fund strategic partnerships are obviously also accessing capital.

So, if you look at the list as a whole, it's a very active year for us in terms of what is on the docket for fundraising, and it's an excellent fundraising environment right now. And so we're finding a lot of opportunity, and a lot of clients want to engage with us across all these different topics.

In terms of how to think about it, it's hard to give you precise sizing for the year. I will point out that 2016 was a big year just by virtue of the fact that we had the Americas XII closings, and that -- $12.5 billion is a large fund for us. But I do think that if you aggregate these others, we are also going to hopefully have a very nice outcome for this year as well. Not entirely clear sitting here it will be as big as last year, just by virtue of how big the Americas XII fund raise was, but I'm optimistic.

The other thing that we are seeing is a continuation just from a color standpoint of the trends we have talked about in the past. LPs wanting to do more with fewer -- consolidating their relationships and working with us across multiple asset classes. So we are encouraged by those trends continuing.

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

Hey, Bill. Just one quick modeling point. Scott mentioned Americas XII, and earlier I mentioned that we had turned on Americas XII as of January 1. Just keep in mind that we increased the hard cap to $12.5 billion, and that would mean that if we actually do get to that $12.5 billion, which we anticipate happening, you'll see actually another $600 million of AUM and fee paying AUM come online when that capital is raised. So I just want to make that modeling point.

Bill Katz - *Citigroup - Analyst*

Okay. Thank you. And maybe, Bill, just to stay with you for a second, maybe it's just due to the big capital raise, but the other expense line within the FRE calc, looked like it popped a little bit more than maybe anticipated. What was the driver to that and how you still think about going forward level?

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

You did see a slight increase this quarter, and what ended up happening is is typical in the fourth quarter. For whatever reason, that deal expense has just come in slightly higher in the fourth quarter. But more importantly, if you look for the full-year 2015 to 2016, those other operating expenses were flat year over year. And so I would say, from a modeling perspective, you should assume to model that number or maybe up 1% to 2%.

Bill Katz - *Citigroup - Analyst*

Okay. Thank you. I'll get back in the queue.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

I guess I always believe in looking more at what people would do than what they say, but I want you to comment on it. And it's just -- we look at the buildup in your cash year on year from $1.3 billion to $3.4 billion, your investments are down by $2 billion, and if I pair that with what I would characterize as a kind of chintzy increase in the dividend and the buyback, it kind of telegraphed that you are really husbanding cash, building dry powder, and kind of adopting a posture of extreme conservatism. And especially when I look at again, the commitments to the funds are flat quarter on quarter, and I realize you have raised a lot of cash. But it looks like you are just building cash at every moment -- at every opportunity. So comment on that.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Thanks, Chris, and good morning. Maybe just give you a couple of things to look at as you think about the cash level because I would characterize it as a moment in time consideration. So you're right. The cash went up through the course of the year. We did have a lot of realizations as we talked about. A couple things we look at is, if you look at page 17 of the press release and just putting the $3.4 billion cash number in context, what shows up on a table is about $2.6 billion of uncalled commitments that we have to our funds, and as we've said and telegraphed, we're making more commitments to our funds. We also plan to be making some co-investments in individual transactions across the firm's different strategies.

The page 17 detail does not yet include our Asia III fund, and so we would expect to also make a meaningful commitment to that fund as well as we seek to increase our exposure to Asia across our balance sheet asset allocation approach.

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So that would in the first instance point you to that and say we have been making these commitments and expect to make more.

Secondly, with respect to the commentary, obviously we did reload the buyback program to some extent. We did increase the dividend by 6%, and I do think you are right. We believe that we have been committing capital smartly and will like where we are a few years out as a result of the commitments we are making now. But we also on the margin are being thoughtful about retaining capital to be able to be opportunistic. Whether that is to fund new growth strategies for the firm, like our real estate business or some of the things we're doing in the growth areas, or, frankly, just to wait for periods of dislocation where we find interesting investment opportunities.

So we are working to get the balance right, but I wouldn't overreact to what is the moment in time year-end cash balance because a lot of that has been committed to future strategies.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. I'll get back in queue. Thank you.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous - Analyst*

Obviously, it is changing a lot around proposed tax legislation, but your approach having the big balance sheet is fairly unique. I'm wondering is there anything in the broad package that is floating out there that would make that policy more or less attractive to you? Because I don't think it's exposed to carry tax, so other things.

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

This is Bill. Suffice to say, what is going on down in Washington has been quite dynamic. There's a lot of snippets coming out as to what proposed legislation might get passed. But to be quite honest, it is early days. It's something that we're going to monitor, and as we get more clarity around what's going on, we would probably be best able to comment then.

Patrick Davitt - *Autonomous - Analyst*

Okay. Fair enough. And then just quickly, on the $90 million increase in management fees, should we expect any incremental expense on that?

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

Not really. There's always going to be some compensation element to anything that we do, but certainly on the G&A side, the answer is no.

Patrick Davitt - *Autonomous - Analyst*

Great. Thank you.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Maybe starting here within private equity and just thinking about the pace of investments for Americas XII. And when you look at interest rates as an input into deals, assuming the forward curve right now is correct where interest rates will be moving higher, is there a sense of urgency at all to get some deals done, to take advantage of lower interest rates, or do you actually maybe on the other hand sit back and wait longer than you otherwise would just because there could be some dislocations if we're going into that backdrop? I'm just curious how you guys are thinking about that input.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Yes, sure. Thanks for the question, Devin. It's Scott. The short answer is no. It is not changing how we're thinking about deployment. If you really run out a buyout model as an example and you move LIBOR by 25, 50, even 100 basis points, over time it really does not have a dramatic impact on returns.

What is far more important, frankly, is the availability of the capital and the valuations you are paying for the asset upfront. So -- and critically, what you do with asset while you own it in terms of growth. So all of those are -- dwarf the impact of any nominal move in interest rates.

Devin Ryan - *JMP Securities - Analyst*

Okay. Terrific. And then maybe coming back to tax reform, I understand you can't commit to anything today because, as you guys mentioned, it is dynamic, but I'm sure you are following closely.

So just as you're thinking about some of the puts and takes of what you are reading about coming out of Washington DC, is there anything that you're looking for that would make you feel differently about the corporate structure or even certain levels of where tax rates could go or deductions that could stay or go away that would make you feel like this is the level where we should consider a change in the corporate structure?

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

Hey, Devin. This is Bill. Getting back to taxes again, it all depends on what happens with carried interest. So if carried interest is treated as still investment income and it's taxed at a higher rate, our structure will not have to pay tax. It will still flow through our unitholders.

However, if they decide that carried interest is going to be technical nonqualified income and then it ends up having to run through the corporate blocker, we would be subject to corporate tax on that.

Then the other toggle that you have to think about is what is the corporate rate going to go down to. And so right now, that federal corporate rate is at 35%. If it got down to a rate where all-in you take a look at what the true tax leakage is for us being a corporation, and by then becoming a C corp, the universe of possible investors we can introduce ourselves to, it's something that, again, as I mentioned earlier, we're certainly focused on monitoring. But it is still way too early to tell where everything is going to settle out.

Devin Ryan - *JMP Securities - Analyst*

Got it. But I mean philosophically, to the extent you had to take maybe a little bit of economic dilution, if you will, with that thought that there could be some valuation benefit that would go into the equation, it doesn't have to be economically neutral.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

You are right, Devin. We will look at it on behalf of all of our shareholders of which we are the largest and try to do the equation and think about what is the incremental tax cost relative to the potential valuation uplift. And once the facts become a little bit more clear, we will continue to do that calculus and keep you updated on our thinking.

Devin Ryan - *JMP Securities - Analyst*

Yes, terrific. Okay. Thank you, guys.

Operator

Robert Lee, KBW.

Robert Lee - *KBW - Analyst*

I just wondered if you could talk a little bit about trends maybe in the various hedge fund businesses and investments. I know Marshall Wace and Prisma. $24 billion is still a significant chunk of your AUM, at least your pro rata share. Could you give us an update maybe on what new business trends are like underneath there and the outlook from your perspective?

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

Yes, very happy to. Let's say -- let's back up and look at the overall platform. What we are doing in hedge funds taken as a whole.

As I've mentioned, we've got now five strategic partnerships, and before the announcement of the PAAMCO/Prisma transaction, we were seeing nice growth across the overall platform.

A lot of that, frankly, has been driven by our partnership with Marshall Wace, which is off to a wonderful start. The AUM of Marshall Wace has grown about 50% since we created the partnership. Great partner, relationships, strong, deep. We're doing a lot of different things together, and we are very optimistic as to our ability to do a lot more together in the future.

And Marshall Wace has been growing, Nephila has been growing, and as I mentioned, Prisma has been growing. So, taken as a whole, we have seen nice growth across the platform.

If you look at the strategic partners, taking Prisma out of it for a minute, we saw a very attractive growth last year, 10% plus in AUM.

And so what we've been trying to do is think about how this space is evolving. Our overall perspective is that rumors of the demise of the hedge fund industry are vastly overstated.

And we do believe that this feels a little bit like private equity felt in 2008 and 2009 that it is still a very large space. There's a little bit of negativity out there, but the scale players with competitive advantages will do well.

And so the way that we've really thought about it, Robert, is that we need to have either scale or be a strong niche player to be able to be successful. And so with Prisma/PAAMCO, we will have a scale player, top three in the solutions space that is doing a lot more than just fund the funds with direct investing, LDI, and a variety of other things. We think we can grow even faster together with PAAMCO than we could on our own.

With Marshall Wace, we've got systematic and long short on a global basis with a lot of scale. And then with Nephila and BlackGold, we have got niche. And so we have been able to grow the platform, and we are more optimistic post this strategic move that we can grow more from here.

And the only other thing I would add is that we are learning from our partners in terms of how they run their businesses. It's helping us in terms of how we run ours, and Marshall Wace, in particular, we're spending a lot of time with in terms of comparing notes and what they are doing and what we are doing.

Robert Lee - *KBW - Analyst*

Maybe the follow-up to that, has their plugging into your distribution helped accelerate their growth, particularly at Marshall Wace?

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

I think we have been able to make introductions to each other, frankly. They have also been introducing us to some of their clients. So the answer is yes. It has not been a big driver of the logic behind the partnership, but where we have got the opportunity to help each other, we absolutely are.

Robert Lee - *KBW - Analyst*

Great. Thanks for taking my questions.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Maybe just a follow-on on the PAAMCO/Prisma. I guess it closes in the second quarter, I believe. Any impact in the way the financials are stated on that? Any impact on the fee paying AUM that you can talk about? And, also, I think one of your other partnerships, Avoca Credit, if you want to also just comment on the status of that as well. And then maybe just linking in with that with the fee growth from NAXI XII turning on the $90 million extra, it sounds like with the fundraising that you have got in the pipeline, even net of the distributions, we should be growing management fees more than the $90 million for 2017. If you can give us some color on that.

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

Hey, Brian. This is Bill. You clearly broke the Craig Larson rule of just one question. (laughing) I will tackle them in order.

As it relates to the Prisma/PAAMCO transaction, we hope that it will close sometime in the second quarter. And when you think about it on the combined business, we are looking at this from an ENI perspective as, upfront, a relatively neutral trade. So don't expect the income to go up or down just on the combination itself.

But to Scott's earlier point, to the extent that the scale platform becomes larger, we see the potential for significant growth opportunities prospectively. But, again, on the initial transaction closing, you can think of it roughly as a push.

As it relates to Avoca, that is a much different transaction. That was really the merger. And what we were was strong in credit in the US, and we really didn't have a presence in Europe. And so that acquisition took place in 2013. The way we look at that Avoca is for the most part gone away.

And now we have just a global credit platform. People that were at Avoca in Dublin and now in San Francisco, people that are in San Francisco are now in Dublin. And so I couldn't even tell you the true performance of Avoca on a standalone entity because we don't run the business that way anymore. It's a combined platform.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Yes, one thing I would just jump in here, Brian -- it's Scott -- it is an important distinction. So Avoca was an acquisition for the firm and a full integration with our credit platform.

So think of it -- that has been now part of the 100% owned credit business that we have, and it gave us the European leveraged credit and CLO capability that we did not have prior to the deal. And it's worked out great. So we're very happy with how that is played out.

Our approach to hedge funds has been markedly different. We have kind of taken the view that we are better to have a handful of strategic partnerships with very strong players where we own a portion of their business and help each other, but we do not integrate it. So we have been trying to take a methodical approach to building these five different strategic partnerships and across the different areas that I mentioned before. And we think that's the best approach for us in the hedge fund space. And as a reminder, we are doing this off our balance sheet. And so it is with our own capital, so it creates meaningful profitability and flow through for all of us as shareholders.

So quite a bit different. Avoca, fully owned and integrated, hedge funds kind of more third-party partial ownership stakes through the balance sheet for strategic reasons.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Great. And just on the management fee outlook?

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

Sure. When you think about where we are going to come out in 2017, we feel pretty comfortable right now. Management fees in 2017 are going to be higher than in 2016. We already talked about the impact with Americas XII going live, but then when you think about the other platforms we have got, Scott had mentioned Asia III. We're out raising capital for that. Once that closes and that will probably be in the back half of 2017, then we have got Asia I, Asia II, and Asia III, all earning fees, and depending on the size of the close on Asia III, that could be another significant needle mover as far as management fees are concerned.

Another thing to keep in mind, remember, on public markets, we have got about $6.5 billion of dry powder that is in AUM that we have already raised. We won't actually receive management fees until it's deployed. And so we talked about the robust activity in 2016 in the fourth quarter. Now that we have that capital in the ground, that will impact to higher management fees in 2017. So we have got that to look forward to in 2017 as well, plus any other mandates that we are raising capital for, and I'm not going to go through them all. Scott already covered them.

But on the negative side, obviously to the extent that -- and this is the way the model works, we have monetizations, you're actually going to see some of the funds that are in the post-investment period like the '06 fund and now NAXI. As we sell those investments, we're going to lose that capital and lose the ability to charge management fees. But pretty optimistic on where we will be in 2017 in terms of from a management fee perspective.

Brian Bedell - *Deutsche Bank - Analyst*

Great. That's great color. Thank you.

Operator

Chris Harris, Wells Fargo.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

As we activate -- as you're activating Fund XII here, I think it would be helpful if maybe you guys can give us an update on what industry valuations look like. And then maybe as you frame that answer, some of these recent deployments -- maybe you could help us with what valuation multiples those deals are coming through at.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Sure. It's Scott. I'm happy to try to take that. So I would say overall, valuations in the Americas and so just putting this in context, Americas Private Equity is about 25%, 30% of our AUM, give or take. And as an overall reminder, we've got half of our investment executives outside the US. So I just want to put it in context. But Americas PE -- valuations were high before the election and have become even higher after the election. And so we're working to be creative, to find value, I guess would be the high-level summary and looking at opportunities where we can leverage our industry expertise, our operational capabilities to really find something that is more idiosyncratic.

And so we are having to be patient to find good opportunities, but as Bill mentioned and as we lay out on slide 5 in the deck, we are finding some interesting things to do.

At the same time, we're selectively monetizing. We did a deal for US Foods. We sold Capsugel. The portfolio is performing well. But on the new deal front, I would say it is selective, idiosyncratic, patience, define value and stay disciplined on not overpaying. And we are able to find things to do in this environment. It just requires a bit more work and a bit more creativity than using the whole model of the firm.

In the answer to your question in terms of some of the recent transactions that we've done, kind of -- if you look in the US in particular, the valuation ranges have gone from as low as 4 times EBITDA to as high as 9 to 10 times for more growth. And one thing I will say about our portfolio as a whole is we have seen quite a bit of growth. We're still growing our revenues and EBITDA to high single digits plus, and we are finding opportunities to invest in companies that are seeing those kind of growth opportunities. It just takes a bit more work to find as I mentioned.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Got you. Thank you. And then a quick follow-up, if I may, on Prisma, would you guys characterize this move as offensive or defensive? And I know there's scale benefits to putting the two firms together, but I'm a little unclear of what other benefits there are. So maybe if you just highlight those, that would be helpful.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Yes, I would characterize it as offensive. I mean I think the way I would look at this and the way we have thought about this internally is we had a business that we invested and partnered with that was growing well. And our -- the industry we are in continued to evolve.

And so what happened is with the fund of funds quote-unquote industry really evolved to one where it wasn't just fund of funds anymore. It was direct investing. It was liability-driven investing, a variety of other ways that we could work with clients and clients were looking for broader solutions. And so what was happening with us is a few things as we grew the business.

One, we started to build new products. And one of the things we found as we were building new products, especially on the direct investing side is there were aspects of being in the KKR regulatory and compliance infrastructure that didn't actually allow us to move as quickly as we liked in some instances. And so we thought about this and said, okay, what's most important in this industry? Scale is more important, transparency, the ability to build new products with flexibility, and what we have figured out is that we could be more offensive if we had more scale and an ability to move more quickly on the new product front. And putting that altogether, we determined that it made sense to be offensive, find a partner that would give us that scale, and we think getting to number three in the space is important.

And we've decided that having a partner that would allow us to do all of those things would position the investment that we've made in Prisma to have even greater growth in the future. And so I would put it very much in the offensive category and reacting to what we saw was happening in the industry and where we think the industry is going.

But the most important thing is you've got to create solutions for clients, and this partnership allows us to create more.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Thank you.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Needham - *BofA Merrill Lynch - Analyst*

This is Mike Needham on for Mike Carrier. First, on book value growth, it looks like our ROE continues to improve. So I am just wondering how confident are you that you will be able to drive book value growth over the next, say, two years, assuming relatively stable markets which I know is a big assumption? I'm just thinking about the other value creation drivers apart from markets and your shift to investing more in your funds.

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

Sure. This is Scott. I'll take that. I would say we feel quite good about it. Your base assumption of steady markets is obviously important, but the model that we have built is one where hopefully we will be able to continue to build value in our balance sheet investments and that will compound. So that will create book value growth. We will generate fee-related earnings and carry-related earnings in excess of our dividend, and that retained capital on the margin after doing the buybacks and other things we've committed to over time I think will allow book value to grow. And so book value in aggregate will grow, and hopefully we are thoughtful in terms of how we use our buyback programs. So book value per share will hopefully grow at an even faster rate.

So we feel quite good about it. We like how the balance sheet is positioned and the investments that we've made. And our focus is, as you say, growing book value per share and at the same time growing our third-party AUM profitability.

Mike Needham - *BofA Merrill Lynch - Analyst*

Okay. Thanks. And then just on the $3 billion of recent deployment announcements that are pending, will any of those drive any outsized transaction fees, or are there other items they could drive higher transaction fees over the next couple of quarters? Thanks.

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

This is Bill. If you look at the supplement on page 5, we list out the investments that we're talking about and nothing abnormal as far as upsized transaction fees. Generally speaking, the transaction fees that we charge are roughly in the neighborhood of 1% of total enterprise value or -- which gets you down based upon debt to equity of about 3% of the equity invested. And so it's probably the same old, same old.

Mike Needham - *BofA Merrill Lynch - Analyst*

Okay. Got it. Thanks.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous - Analyst*

Just a quick one on Prisma/PAAMCO. Do you have any stats on LP overlap, and how many LPs they have that you don't work with and vice versa?

Scott Nuttall - *KKR & Co. L.P. - Head of Global Capital and Asset Management Group*

A good question, Patrick. The businesses are very complementary, almost to a spooky extent. So there's very little client overlap, very little product overlap. We have been developing new products as had they, and those do not overlap at all. They are going to actually fit in quite nicely and complementary to each other. A different approach in terms of generally pricing in the market. So the products themselves I don't think are going to be cannibalizing each other because there's different approaches for different clients. So quite complementary across the board. And we think working together, we will be able to work with even more clients and do a better job for them given all the new product opportunities that we have in addition to those already in place. So really very little overlap is the punchline.

Patrick Davitt - *Autonomous - Analyst*

Great. Thank you.

Operator

Thank you. I see no other questions in queue at this time. I would like to turn it back to Mr. Larson for any closing comments.

Craig Larson - *KKR & Co. L.P. - Managing Director, IR*

Thanks, Vince. Thanks, everyone, for joining us. If you have any follow-ups, please feel free to call us for equity. Otherwise, look forward to chatting next quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your program. You may now disconnect. Everyone have a great day.

Editor

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