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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth-quarter 2015 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. - Head of IR*

Thank you, Brian. Welcome, everyone, to our fourth-quarter 2015 earnings call. Thank you for joining us.

This morning I'm joined by Bill Janetschek, our CFO, and Scott Nuttall, Global Head of Capital and Asset Management. As always, we would 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.

This call will also 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, and also like previous quarters, we've 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 2015 results. Of note, we reported fourth-quarter and full-year ENI of $145 million and $1.3 billion equating to $0.08 and $1.21 of after-tax ENI per unit. Total cash earnings were $169 million for the quarter and $1.5 billion for the full year.

In terms of our distribution and share repurchase activity, as you will likely remember, on our last earnings call, we announced some key changes to our capital management priorities and moved from a purely variable distribution to a fixed distribution policy, and at the same time, we announced a $500 million share buyback authorization.

In turn, we announced this morning for the fourth quarter, the regular fixed distribution of $0.16 per unit, which implies an annualized yield of 5.5% based on last night's closing price, well above the yield levels seen across most S&P 500 companies.

As it relates to the buyback, as we walk through on the front cover of the press release, since October 27, which was the date when we announced our authorization, we repurchased and canceled 17.5 million units for $270 million. And in addition, 1.7 million equity award units were canceled for $27 million to satisfy tax obligations in connection with their vesting. So in total, 19.2 million units have been retired on a fully diluted basis for $298 million, and I would note that the cancellation of the equity award units is incremental to our $500 million authorization. So as of today, we have $230 million remaining under the current plan.

And with that, I would now like to turn over to Bill to discuss our performance in more detail.

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

Thanks, Craig. As I mentioned on last quarter's call, we've adjusted the presentation of our results to include a fourth segment: principal activities. Our Q4 results and press release also reflect the impact of the allocation of a portion of expenses of principal activities based on revenue and shift these expenses away from private, public and capital markets based on headcount. This impacts fee-related earnings as these reallocated expenses have historically been included in the calculation.

Before I walk you through the impact of these changes, let me walk you through our results.

Turning to page 2 of the supplement, you can see that the underlying performance across our carry paying funds was quite strong. In the middle of the slide, you will see that NAXI, Asia II, and Europe III had solid years marked up 22%, 32% and 9% respectively. Our Special Sits and Mezzanine funds also performed well against a backdrop of a tough leverage credit market environment, outpacing the US high yield and HFRX Special Sits indices for the year.

Focusing on total segment financials, the 38% quarter-over-quarter increase in fees is mainly attributed to two things. First, management fees were up 7% in the quarter, largely related to Marshall Wace, the final close of our Europe IV fund, and management fees that turned on as capital is deployed in public markets.

Second, it was a step up in both monitoring and transaction fees, including KCM fees. The bump up in these fees was partially a result of an increase in equity invested in private markets, primarily in European and Asia investments, as well as activity in First Data, including its IPO together with three refinancings executed in October and November.

Moving to performance income, our private equity portfolio was up 4.8% and 14.2% for the quarter and year ended December 31. This was the main contributor to a quarter over quarter increase of $500 million in total reportable performance income.

On a realized basis, our final sale of Smucker's and realized carry received from the distribution of Walgreens stock from a coinvestment entity created at the time of the 2007 Boots transaction, coupled with smaller partial exits at Lake Region Medical and SunGard, drove gross cash carry to over $200 million.

Shifting to investment income, let me first talk about overall investment performance at a high level. Page 3 of the supplement highlights balance sheet investment performance, and as you can see, our investments were marked down 1.3% in the fourth quarter. And for the year, we are up 3.3%. The quarterly result was driven by unrealized marks taken in some of our direct energy and credit investments, which were not immune to the meaningful reductions in commodity prices and the stress felt across leveraged credit markets in the quarter.

Our CLO portfolio specifically was marked down $90 million on a net basis in Q4. Overall though, despite the volatile environment within energy and credit and the broad market volatility experienced in the second half of the year, full-year performance outpaced the MSCI world by over 350 basis points.

Turning to a few details, for the quarter we reported an investment loss of $176 million. It's worth pointing out that $81 million net realized loss was driven by the crystallization of a write-off of our investment in EFH, which for segment reporting purposes was $100 million. While we've had this investment marked zero for some time, the conclusion of our investment in EFH led us to realize the loss this quarter. This realization, and the reversal of the unrealized loss previously recorded has, on a net basis, no impact at all to ENI.

Slide 4 lays out some key activity within the balance sheet in 2015. It was a healthy level of monetization activity for the year, driven by realizations in our private equity portfolio, in addition to $800 million of realizations from our credit and CLO investments.

Our balance sheet was also active, deploying roughly $2.7 billion of capital. Some of the more noteworthy activity during the year included our strategic partnership with Marshall Wace, seeding a new real estate vertical, buying back our shares, investing opportunistically in WMI Holdings, and continuing to anchor many of our investment vehicles with GP Capital.

Shifting to expenses, occupancy and other operating expenses remain largely flat year over year, while compensation and benefits grew modestly. In light of the Q3 and Q4 mark-to-market activity, our pretax ENI margin for the year was approximately 45%, below our goal of 50% to 60%.

Let me now touch on AUM and fee paying AUM. It's got us going to circle back and talk about our progress here in a couple of minutes. We've been discussing the impact of our pro rata portion of strategic partnerships and shadow AUM in some time now, and beginning this quarter, our reported total is reflecting inclusion of both of these figures.

We believe the inclusion of shadow and AUM provide a better picture of our capital raising efforts and future fee and carry potential. And since the profits from our pro rata strategic partnership interests have always been reflected in our financials, we felt the inclusion of that in AUM and fee paying AUM is an accurate reflection of how we view these partnerships.

In Q4, AUM on an apples to apples basis increased $8 billion to $120 billion. This increase was primarily attributable to activity in public markets, most notable of which was the closing of the Marshall Wace transaction and the pickup of our pro rata portion of their AUM.

We also saw $1 billion of net inflows within our credit business, and Prisma contributed over $300 million of net inflows as well. The bump in fee paying AUM is largely attributable to Marshall Wace.

So far, we are very pleased with our progress at Marshall Wace. We closed on their strategic partnership and our 24% interest in early November, and since announcing the partnership, their AUM has grown nicely with strong underlying performance for their investors. The partnership is off to a very strong start.

Finally, given the reallocation of certain expenses against investment income, we've changed how we calculate fee-related earnings. For the quarter, fee-related earnings of $181 million was higher on a quarter-over-quarter and year-over-year basis, due principally to the First Data transaction activity discussed earlier.

For consistency, we've included on our website recast financial information dating back to 2013, which reflect the impact of this new methodology and all the updates we've covered today.

You can also find fee-related earnings detail on page 16 of our press release.

As for 2016, under our new expense allocation methodology, our trailing revenue calculation results in an allocation of principal activity of 23% of relevant expenses versus the 25% figure used for our 2015 results.

And with that, I'll turn it over to Scott.

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

Thanks, Bill, and thanks, everyone, for joining our call today. We realize there's a lot going on in the markets, but please stop looking at your screens for just a few minutes and focus on what we have to say.

I'm going to hit two main points today: the fundamentals we are seeing in our businesses and why we think this environment is great for us. On the fundamentals, almost everything we're seeing is positive. Our investment returns are strong, our portfolio companies overall are performing well around the world, our deployment pace is high, and in some businesses like credit and infrastructure, at record levels. We've been monetizing a number of investments with activities continued into the first quarter, and finally, our fundraising success continues. If you put all this together, we're pleased with the fundamentals we are seeing across our firm and businesses.

Let me take each of these in turn and give you a bit more detail. I will be referring to slide 5 of the deck.

Let's start with the most important metric for a firm like ours: investment performance. Bill walked you through the numbers. We're generating strong investment performance, and the performance is broad-based. This is due to the fundamentals across our portfolio. Performance in our private equity platform remains strong. Trailing 12-month revenue and EBITDA growth are 8% and over 10% respectively. This compares the negative revenue and EBITDA growth estimates for the S&P 500 for 2015.

This is by design. Our job is to pick industries that will perform better, target companies within those industries that can perform better, and partner with management teams that will make sure those companies do perform better. The result should be a portfolio of companies with top- and bottom-line growth meaningfully ahead of the market itself, and that's exactly what we're seeing.

Let's talk about Asia in particular. Our Asia portfolio companies continue to perform well overall with trailing revenue and EBITDA growth both in the mid to high teens. The reason for this, to the credit of our investment teams, is that our investments are typically in the more value-added part of the service sector in Asia like food safety and healthcare and companies focused on the growth of the middle class. These end markets are still growing, and we've leveraged our global footprint to help portfolio companies like Haier and Panasonic Healthcare grow through cross-border M&A.

As a result of this strong portfolio company performance, our Asia II private equity fund is off to an excellent start with a gross IRR since inception of over 35%. It is a top decile performing fund for its vintage and compares to negative IRRs since inception for the MSCI Asia indices.

So let's turn to deployment. As you can see on slide 6, we deployed $11 billion in 2015 across our businesses, and the activity levels picked up in Q4 across the firm. In private markets, our investment activity increased over 50% from Q3, including the highest deployment quarter to date for our infrastructure business. And in public markets, gross dollars invested also increased about 50% from Q3 to $1.7 billion, the highest deployment quarter we've had.

This deployment activity should not be a surprise. When things get cheaper and companies need help, we tend to deploy more capital, especially in areas like credit and infrastructure.

On to monetizations, realizations were down in the quarter as you would expect, but two things to note here. First, we saw a meaningfully increase in the percentage of our PE portfolio that is publicly traded through three IPOs and our taking back stock in two strategic sales. So the overall percentage of our PE portfolio and Level I securities increased from 32% as of September 30 to 42%, setting ourselves up nicely for future monetizations. And second, despite the choppy environment, we've actually seen a number of monetizations in 2016 through two sales in our Asian private equity portfolio, a recap at US Foods and the sale of one of the first investments in our flagship real estate fund.

Now on to fundraising and business building. In Q4, our Special Sits II fund closed on an additional $980 million of commitments. We also held closes on the successor to our first Mezzanine fund and our first European direct lending and European real estate funds.

The best way to look at our progress here is to look across the year. Take a look at slide 7. In total, we raised $20 billion of assets organically in 2015. Over $16 billion of this came from outside of private equity. As a reminder, these 2015 numbers do not include our latest Americas Private Equity fund.

As a result of this fundraising activity, for the first time, our fee paying AUM in public markets exceeds that in private markets. And looking further under the numbers, PE now represents about 38% of our total fee paying AUM and 43% of our AUM, significantly less than five years ago.

I know this all may seem a bit counterintuitive given the market backdrop, but it's important to understand.

Now let me shift a bit to why we like this environment of fear and volatility. Look at slide 8. Remember, the vast majority of our capital is locked up for a long period of time. Over 80% of our management fees come from funds or relationships with over eight-year contractual lives from inception. When you are an investment firm with locked up capital, it is great news when things get cheaper. We generate most of our excess returns by making smart investments in markets like this one.

Also, it's important to understand that we've built our business model specifically for markets like these. Our capital markets business and our balance sheet are weapons that are especially powerful in this type of market.

Our capital markets business allows us to access equity and debt capital directly to get deals done when others can't, and our $13 billion balance sheet allows us to step up for larger checks and syndicate down later. The combination of these two is very powerful as we can move quickly and in size when traditional financing is not available.

Combine these factors with our locked up LP capital and we have a powerful model that can invest in dislocated markets and move in when others are scared. And then we can monetize those investments later when the markets swing back from fear to greed.

In effect, we view markets like this one as giving us a great opportunity to create options that we can monetize in a more optimistic environment. And our model positions us to create more of those options when fear reigns.

So we're actually quite bullish on what we are seeing and our ability to monetize this environment. And with a record $29 billion of dry powder across our balance sheet, we have ample capacity to express our views. You can see the details on slide 8.

But let me run through a couple of examples of how this works in practice. I'm going to begin with a private equity investment that we announced in January to be funded out of NAXI, Mills Fleet Farm, which is a family-owned Midwestern value-based retailer.

As we completed our diligence towards the end of 2015, we continued to be enthusiastic about the investment opportunity, which has a similar thesis to successful investments for us like Dollar General, Academy Sports and National Vision.

While we were finishing our diligence, we could not get a reasonable financing proposal for what amounted to an $815 million debt financing. But instead of signing up for an uneconomic debt commitment or walking away from the opportunity altogether, our capital markets team got to work. Through the direct relationships we've developed over the course of the 10 years we've had this business, we marketed the debt component of the capital structure directly to end buyers and arranged the first and second lien debt together with a revolver as sole arranger on meaningfully superior terms relative to what was being offered to us by traditional financing sources.

Basically, we just did it ourselves.

Since the deal was announced, we've received multiple inbound calls from other sponsors, finding themselves in similar situations and asking for our thoughts and help, further driving our third-party capital markets business. And one of these in particular looks like it's coming together, and I expect we will be working as a 50-50 partner on syndicating a similar sized debt package for another private equity firm, providing a new investment opportunity for our credit business and a fee opportunity for our capital markets business.

Our capital markets platform gives us a competitive advantage. And this becomes particularly evident when markets are dislocated and capital sources dry up.

Markets like this also allow us to monetize complexity and creativity to an even greater extent. An example is the joint venture we formed with the two largest Italian banks, Intesa and UniCredit. We jointly launched a platform to provide long-term capital and operational expertise to Italian companies in stressed or distressed situations. Basically under the JV, Intesa and UniCredit contributed a loan portfolio to a KKR controlled vehicle, and we will contribute capital out of our credit funds at our discretion together with expertise to work out these nonperforming loans.

Through this arrangement, the banks are able to address the NPLs on their balance sheet, while maintaining exposure to upside as situations are worked through. While we are able to earn an attractive priority return on our invested capital. It's an exciting and creative JV.

As you can imagine, this took an extensive amount of work with both banks, in addition to multiple regulatory and governmental bodies within Italy and the ECB. And it's been exciting to make the first series of investments out of our funds in Q4.

More broadly, we view this partnership as the first step in helping to find creative solutions to the EUR2 trillion European NPL opportunity and, as you would expect, are leveraging the technology and experience acquired through this transaction in thinking through future opportunities. We will keep you posted as we move forward on other initiatives like this.

Hopefully, these brief examples serve as a reminder that our business is different. We have built our business to monetize environments like this. We make sure our entire firm is working together to creatively provide capital to companies in need, and we have the long-term funds facilitating capital markets business and permanent balance sheet capital to ensure that all of us as shareholders benefit from the great opportunities dislocated markets afford those with the conviction, capital and critically long-term perspective to lean in when others won't.

This is what we do, and this is the type of environment when we distinguish ourselves. With that, we're happy to take any questions.

QUESTIONS AND ANSWERS

Operator

Thank you. I would now like to hand the call back over to Craig Larson, Head of Investor Relations for KKR, for further comments. Please proceed.

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

Thanks, Brian. I was just going to note just looking at the queue, it looks like we actually have quite a few people in the queue. So if everyone wouldn't mind limiting your questions to one question, and a follow-up, and then get back in the queue, we would appreciate it. So if that's -- why don't we go ahead, Brian. Thank you.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Real quick on that case study you just gave, Scott. When you syndicate an $850 million package like that, what kind of fee would we expect to come through the capital markets business?

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

Well, it's really going to depend, Patrick. First, it was $815 million, and to be clear, the way some of these will work -- so it's impossible to give you a precise answer that will apply in every situation. In some instances, we will originate something like that. We may hold some of it in our credit funds or we may syndicate all of it. Sometimes we hold all of it, and sometimes we syndicate all of it.

So the short answer is typically on what we are underwriting to syndicate. We will get a fee of 2% to 3% on a syndicated portion. So that will vary from market to market, but in this market, that's typically about right. In an environment like this one, we may be able to do a bit better than that.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay. That's really helpful. And then my follow-up is on the fund-raising. You noted the seeding of real estate credit. Could you give us an idea of the pace to raising an actual third-party fund there? And also do you have any more visibility on a target size for the real estate Europe fund?

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

The real estate credit, don't have an update for you yet. Probably have one next quarter. We're in the process of working through how we're going to fund that strategy, whether it's going to be a fund or a different type of more permanent capital vehicle, but those conversations are ongoing.

In terms of our real estate Europe, we are in the market. I would tell you our first-time funds tend to be in the range of $500 million to $1 billion, give or take.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay. Thanks a lot.

Operator

Luke Montgomery, Bernstein Research.

Luke Montgomery - *Bernstein Research - Analyst*

A big picture question. I think clearly investors are worried about an implosion of credit in China and the potential need for China to recapitalize its banking system, devalue the currency, and the implications of that for global risk asset prices. I think it's a view you shared or would agree based on Mr. McVey's commentary on your website. I think, of course, most of that is still to come, but you also cited record deployment in the credit business in Q4. So I'm just wondering how you are thinking about managing risk and navigating the global macro pitfalls as you ramp up deployment in credit.

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

Sure. I think first, Luke, on China in particular, it's important to understand we have not done much in credit in China to-date. We actually just announced the joint venture which will hopefully set us up to be able to take advantage of what is happening in China from a direct lending standpoint and otherwise. But our exposure in China today is on the private equity front and in some real estate but relatively small. Those companies, as I mentioned, are performing well.

I would say more broadly credit in terms of the deployment opportunity, it's quite broad-based. One of the great things about this market environment -- we are seeing significantly enhanced pipelines in direct lending, mezzanine, and special situations on a global basis. Part of that is in Asia, which will be, in effect, a fallout from the slowdown in the Chinese economy on companies and countries outside of China, but the larger percentage of it is the US and Europe.

And so I mentioned that deployment is up significantly, and the capital raising is up. Our dry powder is at the highest levels ever, and we feel really well-positioned to take advantage of that. And that is everything from senior secured direct lending, middle market corporates in the US and Europe, all the way through to rescue capital for companies on a global basis.

Luke Montgomery - *Bernstein Research - Analyst*

Okay. Thanks. And then from a capital management standpoint, I'm wondering what your thoughts are around the CLO book that came in with KFN. I think there's some debate about whether that book provides you with a sufficient return on capital if the capital tied up might be better deployed to accelerate the share repurchase. So was just hoping you would comment on whether you plan to wind down the CLO book, and if you do that, would it be through a gradual maturation or would you actively sell a big chunk of it?

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

Yes, good question. So if you go to page 4 of the deck we prepared, you will see on the bottom left that we actually have been monetizing assets in the CLO portfolio and the credit portfolio. So you can see between the two of them, the better part of $800 million came back last year, and that is -- some of that is natural runoffs, but most of that is a purposeful decision on our part, Luke, to monetize and call some of these older CLOs and redeploy capital into a lot of things we're doing on the right-hand side of that page, including share buybacks. And then you will continue to see us call those older CLOs as market conditions allow us to.

We are at the same time issuing new CLOs, which is bringing in asset management revenues. But in effect, when we did this KFN transaction, we said we would seek to monetize that portfolio and put it into higher returning opportunities, and we are in the process of doing that.

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

And on the newer CLOs, what we're typically doing is just investing in the sub notes and providing just enough capital for risk retention. Obviously we are raising significant CLOs and have been over the past year, and the economics on putting up a small amount of capital and receiving fees on the higher CLO is quite attractive.

Luke Montgomery - *Bernstein Research - Analyst*

Okay. Thank you very much.

Operator

Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Just a couple questions. Just sticking with the capital management, I just want to take that one step further. As you think about where the stock is trading today versus some of the opportunity to put money to work around the world, as I mentioned, the volatility, how do you stack right that right now? And so we made good inroads into the initial $500 million, how are you thinking on the other side of that right now as well? as well, in terms of incremental repurchase potential?

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

Sure, bill. It's Scott. So, as we mentioned, we did the $500 million authorization last quarter, so we spent $270 million of that $500 million away from the other $30 million that Craig took you through. So we have about $230 million left. We think that this stock represents extraordinary compelling value at these prices. So we will be actively buying stock as soon as we are able to after these earnings are out. And then we will address the question as to reloading the buyback authorization in due course.

Our message at the time we announced it was that we wanted to control our share count dilution. That is still very much something that we are committed to, but we are glad we have the buyback in place, and we will be actively using it, and then we will come back and let you know when we are ready to reload.

Bill Katz - *Citigroup - Analyst*

Okay. Same question is on margins, and Craig had mentioned that you came in a little bit -- or maybe it was Bill -- came in a little bit shy of your -- so your margin goal for the year. How much of that might have been just some sticky spending given all the growth in the business versus maybe just dealing with the market dynamics and how you think about that just looking at 2016?

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

Bill, this is Bill. Some of that was capital that we've spent to jumpstart some of these businesses, but that isn't a big number. Obviously what's happened is with the markdown of our balance sheet in the third and fourth quarter, when you're looking at a total revenue to total profitability to the extent that you have on a mark-to-market basis some write-downs in a particular quarter, your margins are going to shrink.

But, again, based upon performance and we've been now a public company for the past six years, we feel pretty comfortable that we're going to target on average a margin of anywhere in between that 50% to 60%.

Bill Katz - *Citigroup - Analyst*

Okay. Thank you.

Operator

Mike Carrier, Bank of America Merill Lynch.

Mike Needham - *BofA Merrill Lynch - Analyst*

Hi, good morning. This is Mike Needham in for Mike Carrier. So first, just on -- you gave the trailing 12-month revenue growth for your portfolio companies somewhere in the high single digits and then EBITDA growth in the low double digits for last year. Did that trend hold up throughout the year? Was there some decline?

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

Mike, it's Scott. I would say the overall trend has held up quite well. The places where there's been a little bit given back would be the places that you would expect. So think of the US industrials portfolio to some extent has slowed a bit, but those numbers have been in the range of 8% or 9% top-line growth and 10% to 12% EBITDA growth for the last several quarters. So nothing that I would call out in terms of meaningful move.

Mike Needham - *BofA Merrill Lynch - Analyst*

Okay. Great. Thanks. And now on expenses for 4Q, appreciate the disclosure on the reconciliation details for the new FRE number. But then just on overall expenses, can you give us an idea of what drove the pickup on a sequential basis in 4Q on the core expenses so cash comp in G&A, and the full year isn't up as much. So it could be some true-up in 4Q, but should we expect that to moderate in the first quarter? Is the new base going to be a bit higher? Thanks.

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

And Mike, would you should look at and you hit the nail on the head is really year over year. And so when you see the increase in operating expenses, it was up a little less than 2%. What happened in the fourth quarter, there was just some expenses that tend to come in in the fourth quarter. So if you are comparing fourth to third, it always looks like there's little bit of a jump. But on a normalized basis, when you go year over year, we've done a pretty good job of managing expenses.

As far as cash comp is concerned, it was up in this particular quarter only for the fact that a lot of the cash comp is driven by fee income. So fee income was quite robust in the fourth quarter of 2015 compared to the third quarter of 2015, and that's why you saw that increase.

Mike Needham - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Operator

Chris Harris, Wells Fargo.

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

Can you guys tell us what percent of your energy investments right now are income positive with commodity prices where they are, excluding hedges?

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

I don't know if we can answer that question specifically for you, but maybe we can give you a little bit of context, though, that might help you frame your thinking about energy exposure and then we can follow-up off-line.

But just to frame it, direct energy for us is a very, very large -- a small percentage of our overall exposure. So to put numbers around it, if you look at our credit AUM, it's less than 3.5% energy. If you look at our private equity portfolio, it's about 2% energy, and if you look at our balance sheet from its exposure to direct energy, it's about 6%, 6.5%, give or take. So it's a very small percentage of our overall third-party AUM and our overall balance sheet.

And in terms of the actual investments that we still have, in terms of the vast majority of those are cash flowing, keep in mind what we're left with in terms of our energy income and growth fund are largely unlevered positions in natural gas assets or oil assets we are in the royalty or drilling space, but to date they are performing reasonably well given the commodity environment. We have hedges in place for most of those, and what I would point you to in terms of focus as we think about marks on that 2% to 6% of our assets, depending on how you look at it, is really what matters -- is what happens to the forward curve three to five years out. It's basically a DCF-based valuation, but that's going to have the biggest impact.

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

Okay. A follow-up question then on the CLO portfolio. Right now it is valued at 69% of cost, and I'm not sure how that compares to the broader levered loan index. I think it might be below perhaps where the levered loan index is. Maybe you guys can correct me if that's wrong, but wondering what's in there where the value is so below cost. I know there's been a drastic blowout in high yield and so on, but it seems like there might be a fairly high degree of risk in this particular portfolio of investments. Maybe you guys can shed a little bit of light on that.

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

Yes, happy to. So some of this is structural, Chris. So you have to understand how these CLOs are structured. So on average, our CLOs are levered at about 5 times.

And so just to give you a sense for how to think about it, the LSTA -- so the loan index in Q4 was down 2.1% in the quarter. So all else equal, you would have expected our equity underneath 5 times leveraged CLOs to be down 10% to 11%. We were actually down 8% in the quarter because the underlying portfolio outperformed the LSTA index.

So really when you look at the face of the press release, what you are seeing there is the mark on the equity underneath the CLO structures. So you should not compare that market as a percentage of costs to where the index is trading. You would almost want to take the index, multiply that by 5 or 6 to get a feel for the relative comparison in terms of that math.

But really what's happening even further -- and I won't get too much into detail here because it gets complex quickly -- is we have some older CLOs from KFN that we've called and are running off, and some of those positions, we are in the process of monetizing, and some of those traded down in Q3 and Q4. And then we have a number of newer CLOs that we've done on the basis of risk retention only in terms of our hold and the equity underlying those CLOs, and those are performing quite well.

So there's a lot going on underneath the waves, but the punchline is we are monetizing the old stuff and the new stuff is coming on. And if you look through the portfolio at a 100% basis, the overall performance of the portfolio has been quite good relative to the index.

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

Okay. Helpful. Thank you.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

First, you highlighted WMIH in this release, and I'm wondering -- as a balance sheet investment -- and I'm wondering is that conceived of as a vehicle for investing or co-investing in an ordinary private equity type investment, or is that a strategic tool for a strategic parent company investments, or how -- what should we expect to see there?

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

Sure, Chris. It's a great question. So WMIH is actually a NASDAQ traded entity and think of it this way. It is the old holding company of Washington Mutual, which has a meaningful NOL. And so -- and there's lots of public disclosure that that entity puts out, so there's lots that you could find out about it. But the punchline from a KKR standpoint is we view it as a very interesting tax-advantaged vehicle for us to make some kind of strategic acquisition for KKR in the financial space or otherwise through that vehicle where we would have an ownership position in it.

So in effect, we've got a tax-advantaged vehicle through which we have the option of going and doing something interesting with balance sheet capital. So I would think that almost as a tax-advantaged SPAC that we can use to go do some interesting things. It's not a client account, to be clear. It's actually a public company.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And then sort of as a follow-up to that, as I remember, KFN debt extended out 20 or 23 years. It was a long, long time debt. And if you are running down and selling the CLOs in that, does that mean you can take the capacity -- the debt capacity, that long-term nonrecourse debt capacity in the old KFN and deploy it wherever you want?

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

The short answer is yes. This is Bill. The one thing we've got is we've got flexibility in that. We've got KFN, which is 100% owned by KKR, and it's got its own debt, and that debt is recourse of those assets. And then we've got KKR proper with its own leverage.

And so to the extent that we can use that debt to our advantage, we have the ability to fund investments in either the KKR proper balance sheet or through KFN.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. Great. Thank you.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Appreciate the perspective around the capital markets business and how that can dis-intermediate the traditional financing streams. And so the question is really how does that impact the timing of deals? Are you capacity constrained? Meaning that if you have to rely even less on the traditional financing markets moving forward, does that reduce the volume of transactions you can move forward on at the same time? Just trying to get a sense of how that's going to impact the pace of deal flow.

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

Yes, it's a great question. So I would answer it in a couple different ways. One, in the first instance I would think more holistically about the firm. So when the traditional lending markets get more difficult as we discussed before, we love that volatility because what that does is provide an opportunity for us in our credit business from a deployment standpoint. And so a lot of companies -- a lot of sponsors can't get financing. That creates a lot of deployment opportunity for us in credit in the first instance. And so you've seen those deployment numbers continue to kick up, and you've seen that business continue to grow.

On private equity, it's a little bifurcated right now. So the US market really pulled back pretty dramatically in the fourth quarter, and Europe was more open for new deals. So in the US, there's no question right now it's a risk off environment. Markets are starting to open up a little bit. Some of the deals that were originated in Q4 are starting to come back to market, but the stories need to be really simple, and it needs to be a well-known sponsor. But if there's any complexity, it's very difficult.

But the base case here is that new deals in the US are going to be done under the Mills Fleet format or directly syndicated. We think that there is quite a bit of private capital out there. We know because we work with a number of those counterparties in a lot of different instances to be able to finance these deals, but there is clearly some capacity constraint associated with that market. And so you can get a $1 billion or a $2 billion deal done. It's not clear you can do dramatically more than that in this environment until the regular way market opens up for buyouts.

So KCM is a huge weapon because we can actually get those deals done, or I think it's more difficult for others to do that. It's great for credit, but it may capacity constrain us a little bit on the US PE side until the markets open up in a more traditional manner.

Europe is a bit different, frankly. It's more constructive as a market. It is more stable. Deals are actually getting done. And so EUR1 billion plus transactions are doable. Still need the right credit and the right sponsor, and the secondary market in Europe is starting to pull back a bit. But the European market is not as dislocated as the US. So hopefully that color is helpful.

Devin Ryan - *JMP Securities - Analyst*

Yes, that's very helpful, and maybe just a follow-up to those comments. As you're trying to think about some of the differences between what you are seeing in valuation spreads from the publicly traded markets to the private markets right now and how that's influencing the capital deployment thought process and where you are seeing better opportunities.

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

Look, bottom line this is great. What tends to happen in environments like this, valuations come down, and the deals that we do in these types of environments tend to be our best deals. And so there may not be as much volume in PE that's done, but the deals that we do get done are done at a lower valuation, lower leverage then the financing markets opened back up, and you are able, frankly, to put a different and longer-term capital structure in place in some instances. But the biggest driver of return in a lot of these transactions is getting an entry valuation that is very attractive, then creating operational improvement at the Company, and then exiting at a time, as I said, when we've swung back from fear to greed.

And if you look back to what happened in the 2008/2009 period, we had a number of excellent transactions done during that period of time because we were willing to lean in when everybody else was running in the other direction. And that's why I say we love volatility. Because it provides those types of opportunities. And so you will continue to see us be judicious and patient, but when we find something we really like and there is an opportunity to move forward, we will be able to do it because we have the capital and the teams are ready.

Devin Ryan - *JMP Securities - Analyst*

Great. Thanks very much.

Operator

Michael Kim, Sandler O'Neill.

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

First, now that you are retaining more capital, just wondering if your thinking has changed at all as it relates to M&A either from a strategic standpoint or as it relates to financial criteria. And then how do you see the dynamic of lower valuations, broadly speaking, playing out versus maybe a bit more competition from buyers?

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

Sure. So Michael, on the first one, just to clarify one thing. In terms of being one quarter into our new distribution program, we've actually retained less capital. Because we spent more on the combination of the dividend and buybacks than we would have on our old distribution policy.

So thus, we are right in the long-term. We have the potential to retain more capital, but we've actually chosen to change the mix of how we're using our capital to buy back and the fixed distribution obviously.

And so the short answer -- it hasn't really changed the way we're thinking about M&A in this environment. We've mentioned that most of the businesses that we are in today, we would expect to grow organically as opposed to through acquisition. We've got some opportunities like WMI that we talked about that could be interesting to do some things from the non-inorganic standpoint, but no change in thought process there.

And in terms of lower valuations, what we find is in the M&A market, when valuations go down, there sometimes a bit of a lag. So it will take some time for a seller to be comfortable selling at a lower valuation, and the private and public markets tend to sink up in relatively short order. But we haven't seen any real change in competitive behavior as of yet. It's odd, but as happens oftentimes, as valuations go down, strategic buyers may pull back a little bit, so we may actually see a bit less strategic competition, but you really need to have courage to wade into these types of markets. Strategics sometimes pull back, and that can create opportunities for us because there's a bit less competition at lower valuations.

The real question is what's the catalyst to do something in an environment like this, and we need that catalyst, which is why it's helpful to have distressed plus private equity and be able to operate in both types of situations.

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

Got it. That's helpful. And then as it relates to Marshall Wace, can you just kind of walk through plans to leverage synergies from a distribution perspective as you look across the respective LP bases? And then I know it's still early days, but any initial thoughts on how you might partner with them from a product extension standpoint?

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

Sure. Not a lot to report out yet. I would say on the distribution front we've got our teams talking to each other and working together. Not a lot of overlap in our client base, and so we do see some opportunities to help them, and we see opportunities for them to help us. And that is off to a great start. And on the joint product side, we are working through a number of different ideas together. A bit early to give you any specific update, but we will keep you updated along the way.

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

Okay. Fair enough. Thanks for taking my questions.

Operator

Robert Lee, KBW.

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

I was just maybe going to page 5 and just thinking about fund raising. Just trying to get maybe enough an update on -- as you talked about going well, I guess had some first closings and Special Sits has done well. But can you update us on your various -- what you are thinking about as we look to the year ahead in terms of fundraising, capacity on existing strategies, kind of what you think is doable? And then also I guess as part of that, where things are with the new North American fund?

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

Sure. Happy to take that. So I think in terms of -- as you think about what's happening in the year ahead and some of the things I would point you to. One is we will be finishing up our Special Sits II fund raise here in the first quarter. So I would expect by the time we speak again, we will have an update on our final close there.

The big dollar amount for this year in terms of main event is our Americas 12 private equity fund raise. So that's a flagship American -- Americas PE fund. We are in the market with that fund right now, and to-date is going quite well.

Then you got a series of other funds that we'll be in the market with. REPA II, which is the successor to our opportunistic real estate fund, we'll be in the market with that. European direct lending and European real estate, as I mentioned, we are still fundraising there. I expect those will finish up this year. We are in the market with the successor to our Mezz fund. So Mezz II or what we call Private Credit Opportunities II, we are in the market there, and we are in the market with growth equity on the tech front.

So those are the more episodic vehicles that we have in the market right now or over the course of the next several months. And then on top of that, as you know, we've got our hedge funds, Prisma, plus a number of direct products that the Prisma platform is launching. Marshall Wace, Nephila, etc.

And then in credit: high-yield, leverage loans, separate accounts, CLOs, other SMAs on a continuous front.

So a lot of activity across the board. I'm not going to give you a number in terms of an expectation for the year, but each of the last couple of years -- the last few years we've been in kind of the $15 billion to $20 billion range a year, and that was without having an American 12 in the market. And so we think that that will be a big component of what we raise this year.

The fundraising environment continues to be quite good. Investors have a good amount of cash. We have not seen the market volatility impact investors behavior as of yet. So right now we've got a lot of good things coming to market at a time where people seem excited to put money to work.

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

Thanks. That's actually probably a segue into my follow-up. If it was possible to -- I was interested in getting some update on -- it's been on your success in expanding your LP base. It's been a goal for -- I guess since you went public more or less before that. And maybe update us on where that stands in terms of with your new funds in terms of how much of that is -- are investors new to KKR or existing clients re-upping or taking on multiple strategies?

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

Yes, happy to give you color on that. So, as you will recall back in 2008, we had about 275 investors in everything that we did, and we had set a target of getting to 1000. As of year-end, we're at 895 -- just about at 900. That's up about 100 year over year, so we went, in effect, from 800 to 900 in the course of last year, Robert. And so we are seeing nice progress. And that 100 new per year has been pretty consistent in the last two or three years.

In terms of cross-sell, that continues to be our biggest opportunity. Right now we're about 1.7 products per client. But to give you a sense, our top 40 average number between three and four products. And we think this is a big opportunity, especially when you look at the fact that about a third of our clients are in more than one product. So there's a big opportunity for us to continue to build our client franchise and earn their trust, but then do more - and earn the right to do more for the clients that are working with us already.

In terms of the re-up statistics or what new clients mean, just to give you a sense -- across Special Sits II, Infrastructure II, and Asia II, somewhere between 40% and 50% of the clients in those funds are new clients to KKR. They will tend to be a smaller percentage of the dollars because new clients tend to start a little smaller, but it's a very meaningful percentage of the clients and somewhere between typically 25% and 50% of dollars for new funds -- successor funds tend to come from new clients for the firm.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Just to get back to the deployment backdrop, maybe, Scott, if you could talk a little bit more about also trying to understand the pace of that given the dislocation in the markets, and which areas do you think there are more attractive opportunities near-term and then going back to the comments that you mentioned on the ability to syndicate financing in the capital markets, how do you think about that from a capacity perspective on your balance sheet?

And in your funds, if the environment is, indeed, something that you want to accelerate the deployment, what's the capacity to do that? I guess just with more of a broader view as well of how long you think the dislocation will last.

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

Got it and you snuck a few in there.

Brian Bedell - *Deutsche Bank - Analyst*

Sorry.

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

Let me try to take them in term. In the slide deck, we actually have a chart that's probably worth taking a look at. We reference it quickly on our dry powder.

So if you go to page 8, you can see at the top half of that slide that our dry powder is now somewhere between $29 billion and $30 billion. You can see it's up 40% year over year. If you go to the right-hand part of that slide, you can see how it breaks down between asset classes.

So, as I said, we feel great because we are heading into this market of dislocation and volatility at the same time that we have a lot of capital with which to work, and those are all record numbers for us. So we feel really well-positioned.

In terms of where we see the opportunities, it's quite broad-based. I mentioned several times that we see opportunities in credit. I would say probably last year the opportunity set was more in the private credit side. Now we are seeing enhanced opportunities in private credit and also increasingly in what we call leveraged credit. The high-yield and leverage loan markets are starting to dislocate. There is opportunistic credit opportunities. We see those opportunities clearly in the US today, but increasingly, we are starting to think that Europe is coming our way, and there will be more to do in credit in Europe as well, not just in the private side where the opportunity has been in place, but also in the more liquid markets as well.

I would also point you to areas like infrastructure, which we talked about in the prepared remarks where we are seeing more opportunities to work with municipalities and governments in terms of buying their assets or working with strategics that need capital for development opportunities and otherwise. So infrastructure, US and Europe would be another opportunity set I would point you to.

Private credit -- private equity, excuse me, continues to be a really interesting opportunity. Volatility definitely creates opportunity in that business. We're finding some nontraditional opportunities like Mills Fleet, but we are, we think, well-positioned to be able to take advantage of lower valuations.

Europe-PE, the opportunity is coming our way. There's a lot of pain in the financial sector, but there is activity picking up in new deals.

And then Asia, while we are a bit cautious given the volatility, we are seeing opportunity come out of the volatility. I would point you to places like Japan where we have done some corporate carveouts and think there's more to do there with some cross-border deals. Chinese services is a theme we like a lot. So private equity also continues to be interesting.

Real estate credit -- and I'm sorry to keep going -- but it is really broad-based right now. Real estate credit, it is a very interesting opportunity as the traditional lending markets in real estate are impacted by the dislocation of the volatility. A lot to do there. And then opportunistic real estate is also an area where we see, especially at the smaller and midsize part of the market, there's just less capital there than there used to be, and we are creating pools of capital and investing our Fund I right into that supply/demand imbalance.

So it's quite broad-based. I'll stop there. I could keep going. Obviously there's a lot of capital needs in energy. There's a lot of capital needs in a lot of markets around the world, but we are seeing deployment opportunities globally across asset classes at the same time we have a lot of dry powder.

In terms of the balance sheet and your question there, I would say the balance sheet is committed to all of the strategies that I just articulated. And so we will continue to draw down those balance sheet commitments as those underlying funds get invested, but there's nothing that I would point you to there in particular. We're trying to make sure we have enough liquidity to take advantage of what we think are going to be some really interesting opportunities coming out of this dislocation, and so we want to be able to be liquid and opportunistic. And that's -- one of the best things about having our permanent capital base is we should be able to do that.

And in terms of how long the dislocation will be here, I'm going to avoid trying to make any guess for you as to how long we're here. It does feel to us like we've got a bit of time for this to play out, and we are suffering now from a handful of negatives. It was a concern about China in oil, and now more recently there is much more anxiety about European banks. And I think there's an overall concern about a lack of liquidity in the market. Those are the big four. We don't see concern abating on those four fronts anytime soon, which is what makes us so optimistic that this is going to be a really interesting deployment environment for us for at least the near term and potentially the medium-term.

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

And Brian, this is Bill. Just to give you a little color just on the private market side. Right now we've got approximately $2.5 billion of deals signed up, which will probably close in the first quarter and second quarter, and we run down in some of the numbers. We've got about $700 million signed up in the US, about $1 billion in Europe, and a few hundred million in Asia. We have a couple hundred million signed up for energy and real estate, real estate credit and approximately $400 million in infrastructure. So across all the platforms, based upon what we see today, the deployment pace, at least over the foreseeable future, is going to be quite robust.

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

Yes. And just as a follow-on, just imagine for all of our shareholders who are listening, that all of your capital was locked up and could not be taken away for five, 10 plus years. That's kind of why you hear the optimism from us that this is a great time for us. Because if you had the locked up capital, you would be pretty excited about making investments in this environment where assets are down in some cases 30%, 50% in two or three months where we don't think the fundamentals have really changed. And that's why we're so upbeat.

Brian Bedell - *Deutsche Bank - Analyst*

Yes. It's certainly a learning. And then on -- especially with the balance sheet capacity in that as a strategic tool for you guys, I guess considering all those opportunities and also that your stocks are very cheap, maybe just a quick comment on how you view that versus upping the buyback from the $500 million?

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

Well, we don't really have to answer that question as of yet because we still have the capacity under the initial $500 million. So -- but obviously we are looking at the trade-off in terms of investing in our own stock versus investing into this market environment, and we just look at our stock as like any other investment opportunity.

So we will continue to do that trade-off. We think our stock has really extraordinarily compelling value at these levels. But we also are seeing other investment opportunities come our way and become much more compelling, it seems, day by day.

So we will continue to do that relative trade-off. As I said, we will be active buyers in the market of our stock next week, and we will continue to do that trade-off and tell you what we're seeing on a relative basis and how we think about it. But right now we see opportunities in both.

Brian Bedell - *Deutsche Bank - Analyst*

Okay. Fair enough. Thank you very much.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

My follow-up was asked. Thanks.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

You mentioned that the realized losses were from crystallizing EFH, and I wonder is there more to go on that and Samson, and then what's the process of realizing those losses that you've got already fully written down, and what impact will it have on PE and ENI and all that?

THOMSON REUTERS

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

Chris, this is Bill. With regard to EFH, the investment is now written off completely. So as it relates to our funds, as it relates to our balance sheet, everything is done as we look at EFH.

As it relates to Samson, we've written that investment down to zero. However, we haven't written it off. So from a cash earnings point of view, when that company emerges from bankruptcy, and we may not receive any equity at that time, we will have a realization. And then -- from a cash earnings point of view. But I don't want to overemphasize this but I want to: the impact when Samson comes out of bankruptcy and we write that investment to zero, if, in fact, that's where we end up, has no impact to ENI because all of the pain on the write-down of that investment from inception until today has already been taken through the P&L. So again, no impact to ENI when we have a crystallization event for Samson.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

But it would show up in the DE calculation?

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

It certainly would. That number, as you probably know because we reported this as a separate asset probably five, six quarters ago, is roughly about $250 million on the balance sheet.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And that would be a tax benefit that flows through to the unit holders, though?

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

Very good point. Yes, it would.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

And then you used to give us -- you mentioned that there were a couple of realizations already in the quarter, and I realize you no longer have the -- you no longer do a distribution each quarter based on that. But if you were under the old method, roughly how much of distributable earnings with what you have already monetized year-to-date would that kick?

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

It would only be a few cents. Scott had mentioned that we had two monetizations in Asia so far and one dividend recap in the US. But back of the envelope and I did this yesterday, we're talking about $0.03 to $0.04.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. Great. Thank you.

Operator

Thank you. This concludes our question-and-answer session. I will now hand the call over to Craig Larson, Head of Investor Relations for KKR for closing comments. Craig, please go ahead.

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

Thanks, Brian. Thank you, everybody, for joining our call. Please feel free to give us a buzz obviously with any follow-ups, and we will speak to you next quarter. Thanks so much.

Operator

Ladies and gentlemen, this does conclude today's program, and you may all disconnect. Everybody have a wonderful day.

Editor

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