FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's Fourth Quarter 2010 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference will be open for questions. This conference call is being recorded.

I would now like to turn the conference over to Mr. Jon Levin, Treasurer and Head of Investor Relations for KKR. Jon, please go ahead.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Thank you, Cynthia. Welcome to our fourth quarter 2010 earnings call. We are excited to be reporting full year results for the first time. As usual, I'm joined on today's call by Scott Nuttall and Bill Janetschek.

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

To start today's call, I am going to briefly highlight our results, cover one new aspect of our disclosure, and then wrap with an update on the fundraising process for our next North American Private Equity Fund. Then, I'll turn it over to Bill, who will discuss the financials in more detail and Scott will finish with an update on the environment in the business.

This morning we reported economic net income of $715 million for the quarter, which compares to ENI of $515 million for the fourth quarter of 2009. We also reported full year ENI of $2.1 billion, which compares to $2 billion in 2009. The 2009 ENI figure is presented pro forma for the business combination with KPE.

The quarter and full year increases were driven by fee-related earnings growth, as well as a higher level of carried interest. As Scott and Bill will go into more in the call, the fourth quarter and full-year periods were reflective of continued strong momentum across all of our businesses.

On the disclosure front we introduced a new metric this quarter, after tax economic net income. After tax ENI for the quarter was $1.02 per unit, which compares to $0.61 per unit in 2009. For the full year 2010, after tax ENI was $2.83 per unit.

To prepare this metric we make an assumption that all the units held by insiders through KKR Holdings are exchanged into public company units. This allows us to calculate the implied tax provision as if all of our earnings flowed through the same structure. Remember that each of our earnings streams has a different tax treatment, so our effective tax rate in any given period will depend on the mix of earnings. We think this metric will allow analysts and investors to have a common benchmark as they evaluate our earnings period-to-period.

As far as the North America Private Equity fundraise, because some of our fund investors hold their decision-making processes in public forums and because we believe this is a significant event that our unit holders are focused on, we plan to provide periodic updates on the fundraising process. However, because of private placement rules we will be very limited in what we can say when providing these updates.

As stated on our last few calls, we expect the fundraising process -- we expected the fundraising process to start in the early part of 2011. That process has now begun, though we believe it will take a year or more to complete. We don't set specific targets for our funds, but as we have said before we expect this fund to be smaller than the predecessor fund size of $17.6 billion. That being said, we are continuing to see more positive signs in the fundraising environment, which Scott will talk about more later in the call.

As for terms, we do expect the fund to have a hurdle, or a preferred return, but there are two important things to remember as it relates to this. First, assuming the fund returns an amount in excess of its hurdle rate, there is a full catch up such that we still get 20% of all the gains on the fund. Second, having a hurdle in this new fund will not affect the more than $40 billion of existing Private Equity capital that we manage, which does not have a hurdle.

In this fund investors will also be able to elect to share a greater percentage of monitoring and transaction fees in exchange for paying a higher management fee. This option will provide investors with greater flexibility in choosing the fee structure that best suits them and their needs.

Lastly, we would like to formally announce that we are holding our first investor day here in New York on March 15th. This is going to be a full-day event. We will have 15 members of the management team discussing each of our businesses in depth. We will put out a press release in the first week of March providing further details, including information on the live webcast so anyone interested can participate.

With that, I will turn it over to Bill.

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

Thanks, Jon. Our assets under management as of December 31st were $61 billion, up $8.8 billion from the same time last year and up $5.5 billion from last quarter. The increases were driven by the strong appreciation in our investments, as well as by new capital raised. In the quarter we closed on nearly $3.5 billion of capital commitments across several of our newer strategies.

Our fee-paying AUM was up 8% for both the quarter and the full year and now stands at $46 billion. The increase in both periods results from the new capital we raised.

We had a strong quarter for fee-related earnings, which were $95 million, up 9% from last year. Fee-related earnings were up 29% with $318 million for the full year. The strength in fee-related earnings resulted from a pick up in market activity, which drove higher capital market fees, Private Market deal fees and Public Market incentive fees. Partially offsetting the increased fees was higher compensation expense, which increased as a result of both improved performance and the expansion of our business.

As Jon discussed, we also had an exceptional year from an ENI perspective. Fourth quarter ENI was up 39% from last year to $715 million, and full-year ENI was up 10% to $2.1 billion. For both periods the increase was driven primarily by higher net carried interest. Even though our fund appreciation of 33% was similar to last year at 34%, we recorded significantly higher net carried interest. This was because certain funds that were marked below cost and were not accruing carry during 2009 appreciated above cost and began accruing carry in 2010.

Looking at our segments, our Private Markets segment generated fee-related earnings of $41 million in the quarter and $182 million for the full year. Both periods were down from the prior quarter due to two main factors. First, we received two monitoring agreement termination payments in 2009. Second, we had higher compensation and other operating expenses in 2010 due to the expansion of our business and generally increased transaction activity. These factors were partially offset by higher transaction fees because more transactions closed in 2010 than in 2009. We deployed $2.4 billion of equity in the fourth quarter, bringing the total capital invested through our Private Markets business during 2010 to over $4.5 billion. This compares to just $2.1 billion invested in 2009.

Our Private Market ENI was $262 million in the quarter and $785 million for the full year. The significant increase over the prior year period was driven by higher net carry interest coming from funds that began earning carry in 2010. In addition, for the quarter we had a higher level of appreciation across our funds than in the fourth quarter of 2009.

Just a quick reminder about the difference between accruing and paying carry, funds valued at or above cost accrue carry in our P&L. We are accruing carry in every fund except Europe II, which is still marked slightly below cost. Once a fund is marked above cost and any individual deal markdowns have been offset by positive realizations, the fund begins to pay cash carry. Our 2006 Fund is above cost and accruing carry, but not yet paying cash carry. However, over the last few quarters our Europe I and Asia Fund have been in cash-carry paying position. This quarter we also moved into a cash-carry paying position in the Millennium Fund. Europe III remains very close to paying cash carry.

Now, shifting to our Public Market segment, we generated $16 million of fee-related earnings for the quarter and $57 million for the full year, with both periods reflecting a material increase over 2009 levels. The increase in both periods was driven primarily by higher incentive fees earned from KFN.

We also continue to drive management fees through our capital raising efforts. We finished the year with $7.8 billion of fee-paying AUM in this segment, up 24% from $6.3 billion at the beginning of the year.

In addition, there was some incremental benefit from net carried interest in the Public Market segment. Some of newer strategies, such as mezzanine and special situations, include carried interest terms and some of this capital began to accrue carry during the year as certain accounts crossed their hurdles. As we continue to invest the dry powder that we have raised for these new strategies we expect that carry interest will become a more significant contributor to our Public Market earnings.

Finally, moving to our Capital Markets and Principal Activities segment, generated $38 million of fee-related earnings for the quarter and $79 million for the full year. The substantial growth in both periods over 2009 is reflective not only of the generally improved environment, but also an increased level of participation in market activity. This quarter alone our Capital Markets business completed 16 transactions, generating $47 million of fees.

Our ENI in this segment was $435 million for the quarter and $1.3 billion for the year, up 18% versus the prior year quarter and 1% for the year. The increase over the prior year quarter was mostly driven by higher investment income, while the growth for the full year was primarily a result of the increase in fee-related earnings I mentioned earlier.

Our book value at the end of the year was $8.38 per unit, up from $7.63 last quarter and $6.08 at the end of last year. The 38% increase for the full year reflects strong appreciation in our principal investments, as well as a significant increase in the amount of unrealized carry accrued on our balance sheet. As of December 31st, this accrued unrealized carry was $526 million, up from $380 million last quarter. What this means is that if we sold all our investments tomorrow at their current mark our unit holders would receive $526 million, which is already net of the 40% compensation load.

In terms of liquidity, at yearend we had approximately $750 million in cash and the only debt we had outstanding was the $500 million of senior notes that we issued in September last year.

Finally, we declared a distribution of $0.29 per unit for the fourth quarter. Along with the $0.31 we paid during the first nine months, this brings full-year distributions to $0.60.

On page 21 of the press release we detail our normal distribution calculation, which breaks the components down between fee-related earnings and realized cash carry net of taxes. This normal part of the distribution amounted to $0.16.

This quarter also included a $0.13 additional distribution. As part of our distribution policy we have told you that we will pay out fees and carry as realized and also make necessary tax distributions. Even though it is our policy to retain any gains on our balance sheet assets, these gains may generate flow through taxable income to our unit holders. We intend to make additional distributions as necessary to meet our unit holders' estimated tax obligations associated with this flow through income. We expect these distributions to be the largest in the fourth quarter and we have better sense of the full-year tax liability.

I will now pass it over to Scott.

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

Thanks, Bill. The positive momentum in the market that we discussed on our third quarter call continued through the end of the year. Despite an uncertain economic backdrop, improved corporate earnings drove favorable investor sentiment and a rally in equity and credit markets.

This capital market strength has continued in 2011 with several large IPOs already completed this year. One of these was Nielsen, an investment we made through our Millennium Fund. Nielsen went public last month, in an all primary offering above our Q4 mark of 1.5 times cost, and is now trading at about 1.8 times our cost.

The credit markets have also remained strong. Secondary markets traded higher with leveraged loans and high-yield bonds each up about 3% in the fourth quarter and both up further since yearend. The new issue market has shown strength as well. 2010 global high-yield bond issuance of over $350 billion set a record, while loan issuance of nearly $300 billion tripled 2009's volume. Demand continues to outstrip supply in the leveraged credit market, driving significant refinancing and new deal activity.

Against this backdrop of accelerating market activity, we have been busy across our businesses. In Private Markets we invested nearly $2.4 billion in the quarter, raising our full-year 2010 equity deployment in this segment to over $4.5 billion, or more than double the $2.1 billion we invested in 2009.

We also committed an incremental $800 million of equity during the quarter to transactions which had not closed as of December 31st. Interestingly, approximately 70% of the equity that we invested in 2010 was in European and Asian companies.

We have also been busy on the exit front. In 2010 we distributed $3.6 billion to the limited partners in our Private Markets businesses. This was significantly higher than the $770 million we distributed in 2009. Reflecting the improvement in both equity and debt markets during the year, our realizations were through initial public offerings, secondary offerings in already public companies and dividend recaps. There was also one strategic sale, East Resources, which accounted for approximately 25% of our distributions for the year.

Our Private Markets performance has continued to exceed public benchmarks. Our Private Equity fund's 2010 return of 33% was more than double the 15% return for the S&P 500. This outperformance was largely the result of the operating strength of our underlying portfolio, which grew its aggregate revenue and EBITDA by 9% and 15%, respectively, in 2010. We are optimistic that we will be able to continue to drive meaningful operating improvements across our portfolio.

We also had a strong quarter and year in our Public Markets segment, having seen progress across our liquid and alternative credit platforms. Within our liquid strategies, for the full year we returned 12% in secured credit, 14% in bank loans plus high yield, 18% in high yield and 23% in opportunistic credit. Both for the full year and the fourth quarter, each of these strategies outperformed its respective benchmark and maintained top quartile rankings.

Our alternative credit platforms also had a strong 2010. Across our mezzanine and special situations businesses, our teams invested or committed to invest approximately $1.2 billion. We are especially pleased by this result given that 2010 was the first full year for both of these strategies.

In mezzanine we continue to look for opportunities in two primary areas. The first of these is Europe, where high-yield markets are generally less efficient than those in the US. The other is the US middle market, where Wall Street coverage and lending saw deep cuts during the recession. In the fourth quarter we committed to or closed mezzanine investments in RBS WorldPay, IMCD, which is a leading European chemicals distribution business and J. Jill, the women's retailer. Each of these businesses is owned by a third-party sponsor.

In special situations we have been focused on companies that have not been able to access traditional funding sources despite the recent strength in the credit markets. We are also finding interesting distressed secondary market opportunities, particularly in Europe and Australia, as some financial institutions are looking to sell assets or portfolios of distressed assets. In a number of these situations we have acquired positions which have since been equitized through restructurings, and we now have significant influence on the companies' operations.

Our Public Markets business also now includes our public long-short equities team, which has officially joined the firm and is operating under the name, KKR Equity Strategies. We expect to begin ramping up this platform in the latter half of 2011.

In Capital Markets the fourth quarter and the full year have begun to demonstrate the potential of this business. The team has been involved with financing or syndication events at many of our private equity portfolio companies during 2010 and has also participated in mezzanine transactions.

In 2010 our Capital Markets business was involved in three IPOs, eight secondary equity offerings and one dividend recap. It was also a critical partner in extending over $30 billion of maturities across our portfolio company capital structures.

Finally, we continued our fundraising efforts across all of our segments with nearly $3.5 billion of capital raised in the fourth quarter and approximately $5 billion raised for the year. These results suggest that the trends we have been hearing about anecdotally on the fundraising trail are proving true. For many LPs, alternatives have been their best performing asset class over the last ten years. And they are increasing their allocations as a result. They have also suggested they will be consolidating relationships among managers to reduce the diversification that proved burdensome in both monitoring and maintaining GP relationships. We believe we are well positioned to benefit from both of these trends.

Approximately $2.5 billion of the $3.5 billion of capital raised in the fourth quarter was for Private Market strategies. This included approximately $950 million raised through yearend for the China Growth Fund, which has since held a final close at its hard cap of $1 billion. The remaining $1 billion raised in the fourth quarter included capital dedicated to each of our Public Market strategies.

Proving out the importance of our distribution team, which we call the Client and Partner Group, nearly 70% of the capital we raised in 2010 was for products new to our platform. Even more pleasing, nearly 40% of that new capital came from investors who made a first commitment to KKR in 2010. This means that we were able to raise significant capital for first-time KKR funds from investors new to our firm. We are excited that the CPG team has demonstrated this level of success ahead of our planned 2011 initiatives.

Overall, we are quite proud of the strength of our 2010 performance across all of our businesses and look forward to capitalizing on our current momentum.

We appreciate you joining the call and we are happy to take any questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And we'll take our first question from Michael Kim with Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hey guys, good morning. First, maybe just to follow up on fundraising, I know you can't comment on specifics, but as you are out there now talking to potential investors, do you get the sense that maybe factors like your scale, performance track records and brand are maybe more important this time around, and so even though fundraising may be down across the industry you have got an opportunity here to pick up share from other smaller firms that maybe have had some performance issues over the last cycle?

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

Hey, Michael, it's Scott. Thanks for the question. Look, we certainly hope that that's the case and we are positioning ourselves to try to pick up some share.

What we have done, as you know, is we have invested meaningfully in our distribution team over the course of the last couple years and we are out, not only developing a deeper dialogue with our existing investors, but also I am getting to know a lot of investors that have not invested with us before. And I mentioned in the prepared comments we are really pleased.

If we look back at last year, most of that $5 billion we raised were new strategies to the firm and 40% of that new capital came from first-time investors to KKR, so that is an early proof point from our standpoint that we are having some success, and that is obviously without a flagship private equity fund in the market. So we are encouraged, and we will keep investing in those relationships and keep you updated, but we believe that there is an opportunity for us.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then in terms of kind of exit opportunities, can you maybe just give us some additional color on how you're thinking about the IPO markets and maybe what your expectations for realizations looking out over the next 12 to 18 months?

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

Sure. With respect to the IPO market, look, it's been a bit of an open and shut market. Right now it happens to be open. We have been very focused on making sure that our IPOs perform.

We have completed about six IPOs in the last 18 months. On average they've traded up over 40%. I think the number is 43% from the IPO pricing to the current levels, so we have been pleased by that and we will continue to access the market as appropriate, but right now it feels quite good and we are fortunate enough to have a number of companies that have increased their profitability and are well positioned to take advantage of the market that now appears to be open, at least for the time being, so we'll try to take advantage of that.

With respect to the second part of your question, that is really hard to answer in terms of giving any expectations to in terms of how the exits will look over time, but suffice it to say we have found that if we increase EBITDA and drive operating improvements in our companies we manage to find attractive ways to create exits for our investors.

Michael Kim - *Sandler O'Neill - Analyst*

Okay, and then just maybe a quick question for Bill. Can you just talk about the increase in other operating expenses for the fourth quarter? Is there some seasonality there, or is this kind of a good run rate going forward just given the ongoing expansion of the business?

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

Michael, this is Bill. Yes, you are right. There is some seasonality as it relates to operating expenses in Private Markets for the fourth quarter.

We actually had a significant amount of dead deal transactions that we reflected in the fourth quarter. Instead of looking at the fourth quarter why don't you really look at the operating expenses for the full year for the Private Markets because overall that number is only up 5% for the entire year.

Michael Kim - *Sandler O'Neill - Analyst*

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

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

Thank you.

Operator

And moving on to Patrick Davitt with Bank of American Merrill Lynch.

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

Good morning, guys. Digging in a little bit on the fundraising question, you have mentioned in the past that the sovereign wealth funds were an LP source that you really hadn't tapped, was curious what kind of traction you are getting there and to what extent you are seeing them increasing their allocations to private equity?

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

Sure. Thanks, Patrick, it's Scott. We are spending a lot more time with sovereign wealth funds around the world and happily are getting some real traction. We do see them increasing their allocations to alternatives, both in Asia and the Middle East, and actually some parts of Europe. So we have been pleased by that and we have got good early traction, again, largely across new products to KKR.

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

Okay, thanks. And then on the investment income line, with the understanding that it's hard for us to forecast that from quarter-to-quarter, could you give us an idea of what drives the differences between the growth in that line and the gross carried interest in Private Markets?

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

You want to take it?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Sure. You are going to see -- primarily you are going to see that other investment income show up in the Capital Markets and Principal Activity segment, as you know, and will see the carried interest primarily on the Private Market side. There is a reasonable amount of correlation over a several quarter period because you are looking at two line items that are really driven by the strength in our portfolio.

So Scott mentioned the portfolio is up about 33% for the year. The balance sheet was up about 38%. You might see some movement or difference from quarter-to-quarter just given that the mix is a little bit different, given some of the co-investments we have on the balance sheet and what might drive those in a particular period, but over a longer stretch you will see a reasonable amount of correlation between that carry and the investment income.

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

Okay. That's helpful. And also within that line could you give us an idea of how much of that was actually realized cash that will be reinvested, and then maybe what the distribution would have been if you did distribute that cash?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Sure. There was about, call it $600 million or so of realizations on our balance sheet across the total amount, across the full year, so we made tax distributions for some of the income that went through, but that was roughly the cash flow figure on the balance sheet.

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

Okay. All right, thanks a lot.

Operator

And moving on to Michael Carrier with Deutsche Bank.

Michael Carrier - *Deutsche Bank - Analyst*

Thanks guys. And two questions on the performance side, it looks like the, on an annual basis and 33% versus the 15% for the public markets, that is obviously a good return. Any I guess granularity on when you guys see behind the scenes like what's driving that, meaning is it from efficiencies on the EBITDA growth? Is it from a capital structure, improving that, I guess just any color because the more consistently the returns come in the more confidence that you usually have that you can maintain that spread with the markets.

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

Sure. Hey, Michael, it's Scott. I'd tell you we see most of that return coming from improvement in EBITDA in the underlying companies, and we are pleased because not only did we see that improvement last year, but in most of our companies we see good momentum as we've headed into 2011 and can see momentum in the years ahead.

So for the year last year we were up 9% in the revenue line and 15% on the EBITDA line. And that's really what's driving a lot of that. There will be a portion of it that will be from the recovery of multiples in the public markets, but a significant amount of it is really coming from EBITDA growth.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. And was there anything in particular that drove up the valuations on the European II Fund because you had a decent move this quarter relative to the overall private equity number?

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

John, why don't --?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Sure. There was a couple individual investments in the European II Fund that moved materially. NXP is one which is now a public company and you can see what has happened to that stock price.

Another investment we have in the European II Fund is a company called ProSieben, which is media company in Germany and there is some op-co, or listed shares that you can see what's happened there and there has been a material increase in those shares as well, and also in the investment we have in the hold-co. Those are two of the big drivers of that fund.

Michael Carrier - *Deutsche Bank - Analyst*

Okay, thanks. And then last one, just on the capital raising environment, and I guess this is much more away from kind of the traditional products of private equity and more on some of the new areas that you guys are looking into, whether it's mezzanine, that the infrastructure space, the natural resources, when you look at those opportunities and you look at the size of the market relative to your size today, one is like where are you relative to where you think you can get to?

And then probably more importantly, when you're talking to investors, like what's the edge that KKR has in a relatively new space when you're trying to compete with someone big like entrenched players in those markets? Thanks.

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

Sure. In terms of where we are, Michael, yes we have a lot of running room. I mean these -- it's -- we talked about our new efforts for us. We see a lot of opportunity to grow in these markets and most of these are nascent businesses and have been launched in the last 12 to 18 months.

So as we look at the size of the markets and the size of the opportunity set we are pretty excited about the businesses that we can build across all of the areas that you mentioned, plus special situations. So that would be the answer to the first part of the question.

The second part of the question in terms of the edge, we think there is a significant benefit that we get from the fact that we operate really as one firm. So when you talk about the mezzanine business, we have got relationships with sponsors and middle market corporates that we're utilizing that have been in place for, in some instances, decades that we are now bringing to these clients a new way for us to work with them.

In the natural resources space, oil and gas is an area that we've invested in for the last 25 years. In infrastructure our energy private equity team has sourced a number of infrastructure transactions over the course of the last ten to 15 years, some of which we have invested in through our private equity funds, but a lot of which frankly didn't have the right risk/reward for a PE fund, which led us to create the infrastructure effort.

So when you think about the new areas that we have gone into it has largely been a result of the fact that we saw that we had a way to do it in a unique way by leveraging the relationships we have in the firm, the insights that we have and the deal flow in a lot of instances we were already sourcing. So we are just now creating pools of capital to invest behind the opportunities that we were already creating.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

And, Michael, it's Jon. Just to add to that, it's a great question. You asked about edge and the platforms that we're building, the rationale and what we think we offer, and that's something we are going to spend a lot of time on in the investor day.

And so, for example, just to take infrastructure and natural resources, Marc Lipschultz, who runs that business for us globally, will be giving a presentation on those platforms at the investor day, and going into each of those things and areas in a lot of detail. So we look forward to talking to you more about that then as well.

Michael Carrier - *Deutsche Bank - Analyst*

Okay.

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

The only thing I would add, Michael, is that we have actually been really pleased because these new efforts have also created a very positive feedback loop for our private equity business, so we have got a lot of people sourcing transactions across these different product areas, but they are all KKR executives. And so when we find opportunity or build a relationship a lot of the executives in these other areas are actually sourcing private equity opportunities as well, which has allowed us to really grow the private equity business while also creating these new platforms for the firm.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. Thanks, guys.

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

Thank you.

Operator

And Bill Katz with Citi has our next question.

Bill Katz - *Citigroup - Analyst*

Okay, thank you. Good morning, everybody. Just coming back to your discussion, Jon, about the economics of the business between sort of choosing between a higher proportion of transaction and monitoring fees versus the management fee, when you net it all together, just sort of curious, any fundamental shift in the underlying economics of the business?

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

Hey, Bill, it's Scott. I would say overall we wouldn't expect to see a fundamental shift now. What we are really doing is providing investors with a choice.

Some frankly would like to have more clarity in the overall economics and those investors may choose the higher management fee. Some will be more comfortable with the traditional construct of the 80/20 fee split, but think of it more as providing a choice to our investors than any material change to the economics of the firm.

Bill Katz - *Citigroup - Analyst*

Got you. Okay, second question is last quarter you gave an update as sort of what you put to work into the new quarter. I am sort of curious, of your residual dry powder anything put to work today, or at least until the fourth, to the new quarter, excuse me. And then separate to that, as you look out into, and I guess you can spend some time with this later in March, but as you look out into either the Public Market business or geographically, where do you see in the next six to 12 months the greatest lift in new business opportunity, apart from the private equity raise?

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

Sure. Bill, I think as I mentioned in the comments, we have committed about $800 million as of the end of the fourth quarter, to new transactions in the Private Markets business, so hopefully those transactions will close over the course of the quarter.

In terms of where we are seeing opportunity away from private equity, frankly it is quite broad based. As I mentioned, in mezzanine and special situations we are seeing opportunities on a global basis. We are also seeing a lot of opportunities in oil and gas and in infrastructure, so I wouldn't point to any specific areas. I am obviously in this kind of a business, especially across those businesses I mentioned, it's hard to predict what will happen in a given quarter, but we are actually seeing quite a good amount of deal flow and a healthy pipeline across all of our businesses.

Bill Katz - *Citigroup - Analyst*

Okay. That's helpful. And then just one last one and, Bill, I apologize, you were going through this so quickly I was writing as quick as I could. Could you just sort of walk through again the funds that are now tipping toward cash carry? I apologize.

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

That's quite all right, Bill. Right now we have got the European Fund and the Asian Fund, which are in a cash-carry position, and have been over the past couple of quarters. During the fourth quarter of 2010 in the Millennium Fund we had a transaction where we did pay out cash carry.

As it relates to Europe III, we are very close to paying cash carry and I would think that the next realization in that fund would produce cash carry. The '06 Fund has, again, the value is significantly higher than cost, but there are a couple of investments that are below cost, and so as we exit some of the investments in the '06 Fund it will be several quarters before we start paying out cash carry. And then, as I mentioned, the only fund that is actually below cost is Europe II, and so that will take a little ways to go before we actually start paying out cash carry.

Bill Katz - *Citigroup - Analyst*

Okay. That's helpful. Thank you. I apologize. Thank you very much for taking my questions.

Operator

Moving on to Marc Irizarry with Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Oh, great. Thanks. Scott, can you talk about the '06 Fund's getting close to the end of its investment period and still almost $4 billion to put to work. What's -- where do you see the best opportunities to put that capital out and are you also seeing an uptick in the size of transactions potentially? So maybe you could just comment on the need to sort of put that capital out before the expiration of the investment period?

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

Thanks, Marc. I would say the best opportunities question, we are actually pretty excited about the current investing environment. And I know there has been a lot written about it, but although the economic environment's a bit uncertain if you really step back and think about it you have got an S&P 500 trading at roughly 16 times current year earnings, 13, 14 times next year.

You have got a credit market that is open, but not irresponsible. And when we think about the conversations we are having with companies, frankly we think the earnings number closer to trough than peak. And so we actually think it's a pretty interesting environment in which to put capital to work.

In terms of where we are seeing the best opportunities, nothing that I would point you to that is overly specific, except to say last year we had a lot of activity obviously in the energy space in private equity in the US. We also with Del Monte have a large investment that we were able to source in the consumer space, but the opportunities are fairly broad based and we are finding that a number of the companies that we have been following for a long period of time are in much more of mood to transact, and so we have got a good pipeline and we are excited about our prospects.

So we are not overly stressed about our ability to put the capital out. We are just focused on finding the best opportunities we can and we think we will be able to put that capital to work responsibly.

In terms of the size of the transactions, look, I think that credit markets have obviously opened up and we have, as a result, the ability to do larger transactions than would have been the case 12 or 24 months ago. So we are pleased by that, but we don't focus so much on the size of the deal as opposed to the company. We have got a long list of companies that we would ideally like to own, and frankly the credit market has just made more of them available to us, to the extent that management and the Board want to engage.

Marc Irizarry - *Goldman Sachs - Analyst*

And then just as the investment period does run out, what are the options for your LPs for that capital? Or what do you intend to do? Would you hold -- would you set up separate accounts for some clients who wanted to continue to invest with that fund, or how would you approach the need to raise up the next fund with the expiration of that fund's investment period?

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

The 2006 Fund, just so you have it, doesn't actually expire in terms of the investment period until September of 2012. So we have got all of this year and a good portion of next year to put that capital to work before the investment period expires.

So we actually feel very comfortable we will be able to get the capital to work and do good transactions over that period of time, and therefore don't really feel a need to figure out what to do otherwise.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay.

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

We feel confident we will get it to work.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. And then in terms of your AUM that's not yet earning management fees or performance fees, I don't know, Bill, if you can put some color around how much of your AUM is not yet earning fees?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

You are getting to a concept there, Marc, of committed capital that just hasn't rolled on yet --

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Marc Irizarry - *Goldman Sachs - Analyst*

Yes.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

-- in terms of the, yes. There is not --

Marc Irizarry - *Goldman Sachs - Analyst*

Committed, but not fee earning.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

We mentioned on the last call there is infrastructure and the way that fund was structured, the $500 million, roughly, the first close we had there that that starts earning fees as it gets invested. There is some amount of capital that we have in our Public Markets segment for our special situations strategy that is structured similarly, but it is not an overly material number for us. I would tell you that, as I said in the prepared remarks, we do plan given the materiality to give periodic updates as it relates to the next private equity fund, and as that number hopefully builds that could be a concept that becomes more relevant going forward.

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

And again, just a clarifying point, to the extent that other than infrastructure and some money with the capital solutions, all the committed capital that we have is paying fees.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. And then just in terms of the unrealized carry, the $500 million or so at the end of the year, what is sort of the -- how should we think about the outlook for realizations that potentially going to generate cash carry distributable to unit holders?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Hey, Marc, it's Jon. I wouldn't think about the answer to that any differently than how Scott talked about the realization picture. So just the fact that it sits on our balance sheet is just a function of the accrual of carry in the mark-to-market, and the fact that our funds for the most part are all above cost.

So in terms of the realization picture, in terms of Scott's outlook for the environment generally being better, that's really the best indicator and the best commentary on that. 30% of our portfolio today is already in public companies, so to the extent that we can get secondaries done in companies that is obviously a good leading indicator, but the fact that it sits on our balance sheet is a function of the accounting, as you know.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. Thanks.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Thank you, Marc.

Operator

And our final question today will come from Robert Lee with KBW.

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

Thanks. Good morning, everyone.

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

Hey, Robert.

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

Hi, a couple quick questions on the, actually on the tax rate. I know since you started -- are now going to report after tax ENI, and understanding that that rate is going to move around a lot depending on the characterization of ENI in any given quarter, and it was kind of -- I think it was 2.4% in the quarter. Is there, just for kind of modeling purposes, is there any kind of range you would guide us towards as you look ahead? That would seem to be unusually low to some extent.

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

And you're right. And what happened in the fourth quarter is just due to certain provisioning. In the fourth quarter the accrued tax number just seems to be quite low, but the way to think about it is we actually earn income from three spaces, fee-related earnings, carry and earnings off our balance sheet.

And generally speaking, fee-related earnings are going to be subject to corporate tax and you should ascribe a corporate tax rate to the fee-related earnings. As it relates to carry, for the most part all of the carry is going to flow through to our public unit holders and will not be subject to any corporate tax. However, on occasion there might be some instances where we actually have carry that ends up going through the management company, which is what happened during 2010 with regard to the East transaction, but normally speaking from a modeling perspective you should assume that carry is not going to be subject to tax.

Then as it relates to the balance sheet, due to structuring reasons when we closed the KPE transaction approximately 30% of our balance sheet ends up flowing through to corporate blocker. And so what you should do is when you are trying to model out what tax rate to use you should assume that just 30% of the balance sheet earnings are going to be subject to tax. Does that make sense?

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

Yes, it does. Thank you. Also, to the just curious in the Capital Markets business, were all the deals kind of KKR-driven from portfolio companies, or are you seeing any -- was there any kind of noticeable deal flow from kind of non-KKR related businesses?

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

Sure. Hey, Robert, it's Scott. The vast majority of the revenues for Capital Markets in the fourth quarter and last year came from KKR companies and activities, so both our Private Markets businesses and also in some instances our Public Markets businesses. The Capital Markets business worked with the mezzanine business in particular. There have been some activities on the third party side, but it wasn't a meaningful portion of the revenues last year.

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

Okay, great, and if you will indulge me, maybe one last question. As we look ahead obviously you gave some color about where you generally see flows in North American, the new North American fund, but last quarter you gave a lot of color about I guess you had some imminent closings that took, obviously took place in the fourth quarter, but if we look at kind of a near-term pipeline, and maybe I missed this in earlier comments, but is there any kind of one, but unfunded pipeline we should be thinking about for the Public Markets business?

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

I would say last quarter, Robert, was really more of an exception just given there was so much activity that happened around the end of the quarter and really fell kind of in early October last quarter, but there is nothing significant that we would point you to this quarter that would be out of the ordinary.

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

All right, great. Thanks for taking my questions.

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

Thank you.

Operator

And the next question will come from Chris Kotowski with Oppenheimer & Company.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Good morning. I am just wondering about the transaction fees that you booked in the Capital Markets segment versus the ones that book in the Private Markets segment. It seems like those would be related to sale of positions on the balance sheet, but on the other hand in this quarter we didn't really, just looking at the cost basis of all the major investments it looks like you didn't really sell any of the positions on the balance sheet.

So I am just curious, well, when do you book the fees and -- or what determines which section you book the fees in? And wouldn't a big level of transaction fees in the Capital Markets segment have implied a bigger portion of realized gains?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Hey, Chris, it's Jon. Just to take it in pieces, so the transaction fees you see in our Private Markets segment generally relate to fees that are taken when we acquire a portfolio company.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

And those are the fees that are associated generally with the fund equity, and for which 80% go back to our limited partners.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Right.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

The transaction fees you see in our Capital Markets and Principal Activities segment related to our Capital Markets, our broker/dealer kind of investment banking business, so that can have range from our participation as a book runner in an IPO, a secondary equity offering, but also things we might do on the refinancing side or on the acquisition financing side as a broker/dealer activity. So those are kind of two separate fee streams that get booked in those segments depending on what the underlying activity is.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And then when, presumably, at some point you exit some of these big public investments that you have discussed, does that generate additional transaction fees in the Capital Markets segment? Is that where one would see it?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Only to the extent that we have a role in that on that underwriting, so I will give you an example. We were a book runner on the Dollar General IPO and also on some of the subsequent equity off -- secondary equity offerings -- there. We had a role as a book runner there, so we had fees in our Capital Markets business, but there are situations where we will see exit where we don't have an underwriting position, and therefore you won't see any fees associated with it.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And is it still, in general, the intention to just reinvest all the gains from your own balance sheet when those investments are sold?

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

That is still the intention, yes.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And have you indicated a range of how much for your next major fund, how much of your own capital you hope to deploy in that?

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

We have not indicated a range, but we would expect it to be in the range of 3% to 5% of the capital raised.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. That's it for me. Thank you.

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

Thanks, Chris.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Okay. Take care, Chris.

Operator

And we have no further questions at this time. Mr. Levin, I will turn it back over to you for closing remarks.

Jon Levin - *KKR & Co. L.P. - Treasurer, Head - IR*

Great. Thanks, everyone, for joining our fourth quarter and full year 2010 call, and we look forward to seeing hopefully all of you at the investor day on March 15th.

Operator

And this does conclude our conference call today. We would like to thank you for your participation.

Editor

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