

# KKR & Co. L.P.

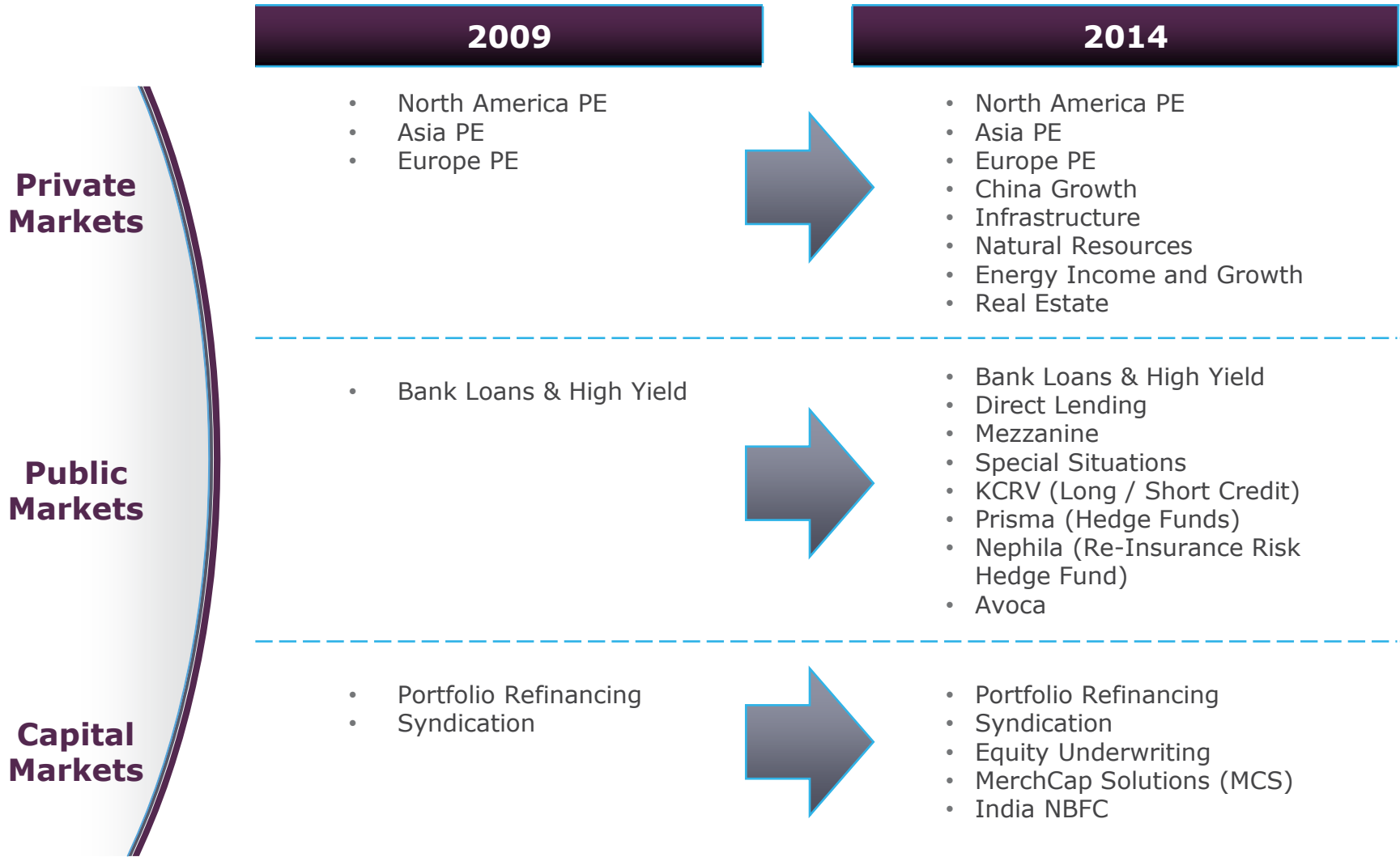
Morgan Stanley Financials Conference  
June 2014

**Under-utilizing investment ideas and relationships**

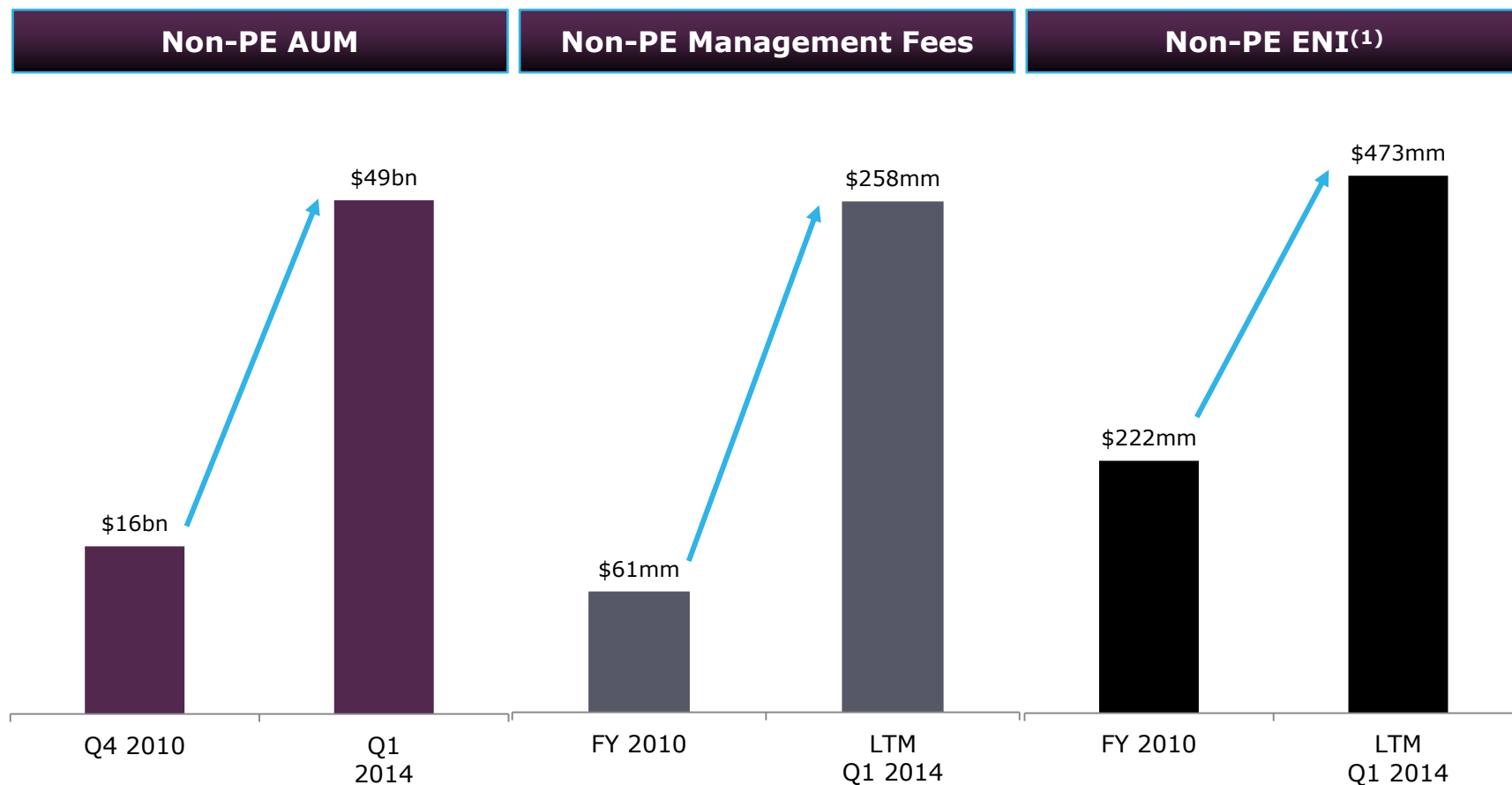


**Build new investing businesses**

# We Have Filled Out Our Product Offerings



# ...Driving Growth in our Non-Private Equity Business



(1) 2010 figure represents as reported ENI figure for KKR's Public Market segment of \$60 mm and comparable FRE and net carried interest figures for the non-private equity portion of the Private Markets segment of \$33 mm and for the non-private equity portion of Capital Markets and Principal Activities segment of \$129 mm. LTM Q1 2014 figure represents as reported ENI figure for KKR's Public Market segment of \$210 mm, comparable FRE and net carried interest figures for the non-private equity portion of the Private Markets segment of \$23 mm and the non-private equity portion of ENI of the Capital Markets and Principal Activities segment of \$239 mm. Please note that values may not add to totals due to rounding. For Private Market segment figures: FRE assumes a 50% expense load; net carried interest is net of the 40% carry pool allocation; there is no adjustment made for management fee refunds, fee credits, other investment income (loss), income (loss) attributable to noncontrolling interests, or non-compensation related expenses (e.g. general and administrative expenses).

**Valuable content we source should be delivered to our own relationships**



**Build global, multi-product capital markets business**

# Significant Development in Capital Markets

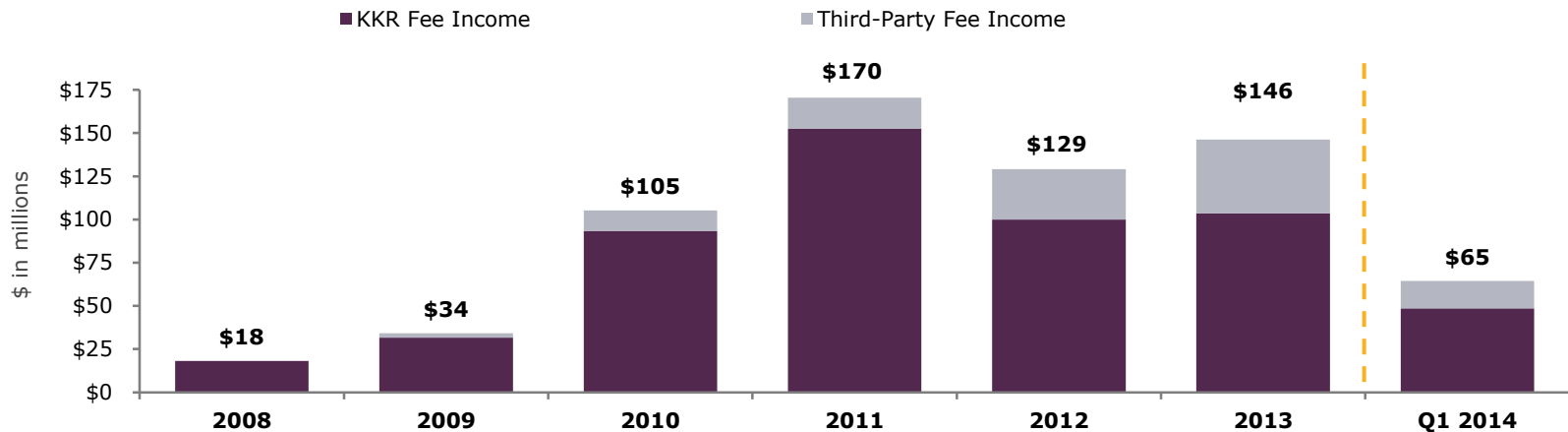
## Then

- North American focused
- Private Equity focused
- KKR only
- 23 Employees<sup>(1)</sup>

## Now

- Global
- All Strategies
- KKR + 3<sup>rd</sup> Party / MerchCap Solutions
- 38 Employees<sup>(1)</sup>

## KKR Capital Markets Fee Revenue



(1) Then figure as of 12/31/10. Now figure as of 6/1/14. Employee figures represent number of executives.

**Too few investor relationships**



**Build broader, global  
relationship / distribution team**

# Significant Development in Client and Partner Group

## Then

- Institutional clients only



## Now

- Diverse client base
  - Institutional
  - High Net Worth/Retail/RIA

- US-centric, PE only
- Funds



- Global across all strategies
- Solutions-oriented

- 21 employees<sup>(1)</sup>
- ~345 fund investors<sup>(1)</sup>



- 78 employees today<sup>(2)</sup>
- ~730 fund investors today<sup>(3)</sup>

LTM organic capital raised ~\$5 bn<sup>(1)</sup>

LTM organic capital raised ~\$20 bn<sup>(3)</sup>

(1) Figures represent number of executives and fund investors as of 12/31/10.  
(2) Employee figure represents number of executives as of 6/1/14.  
(3) Figures as of 3/31/14.



**Permanent capital would help create  
better alignment and help accelerate  
growth**



**Our Balance Sheet—KPE and KFN  
Transactions**

## In Summary

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**Invest more behind ideas and relationships**



**Capture more from content we create**



**Bring ideas and products to more investors**



**Invest our own capital / seed new efforts**



**Multiplier Effect**

# History

	2004	2009	LTM
<b><u>Firm Revenues:</u></b>			
Fees	\$181	\$618	\$1,135
Carry (Gross)	532	580	1,343
Balance Sheet	N/A	353	917
<b>Total Segment Revenues</b>	<b>\$713 mm</b>	<b>\$1,551 mm</b>	<b>\$3,395 mm</b>
<b>FPAUM</b>	<b>\$12 bn</b>	<b>\$43 bn</b>	<b>\$84 bn</b>
<b>Book Value</b>	<b>N/A</b>	<b>\$4.2 bn</b>	<b>\$8 bn → \$10 bn<sup>(1)</sup></b>
<b>Market Cap</b>	<b>N/A</b>	<b>\$5.8 bn</b>	<b>\$17 bn → \$20 bn<sup>(2)</sup></b>

Note: See Appendix for a reconciliation to the comparable GAAP metrics. LTM figures are as of 3/31/14 unless otherwise stated. Revenue figures represent the last twelve months as of 3/31/14.

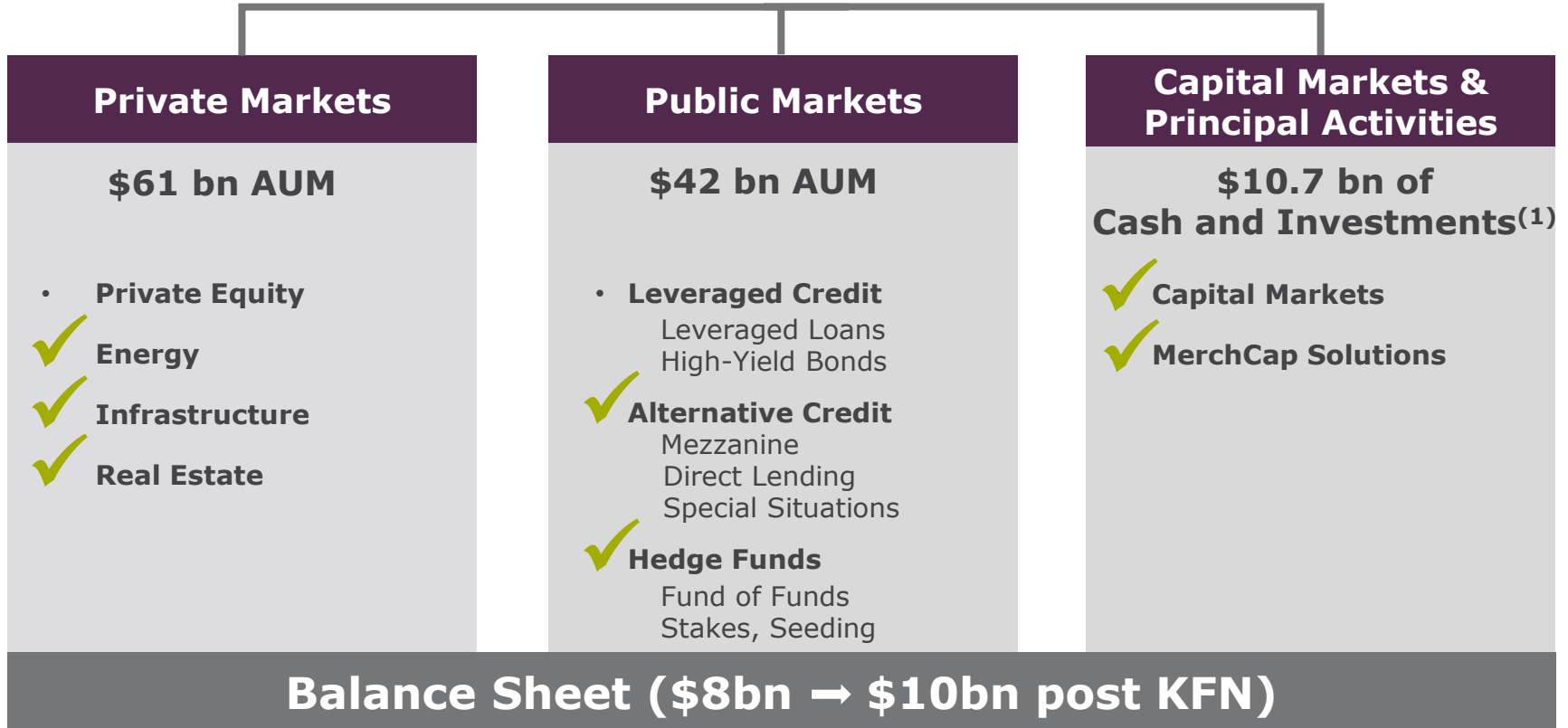
(1) Represents post KFN figure and includes \$2.2 bn of net shareholders equity of KFN.

(2) Market cap as of 6/4/14.

**KKR**

# KKR—Global Leader in Alternative Asset Management

# KKR



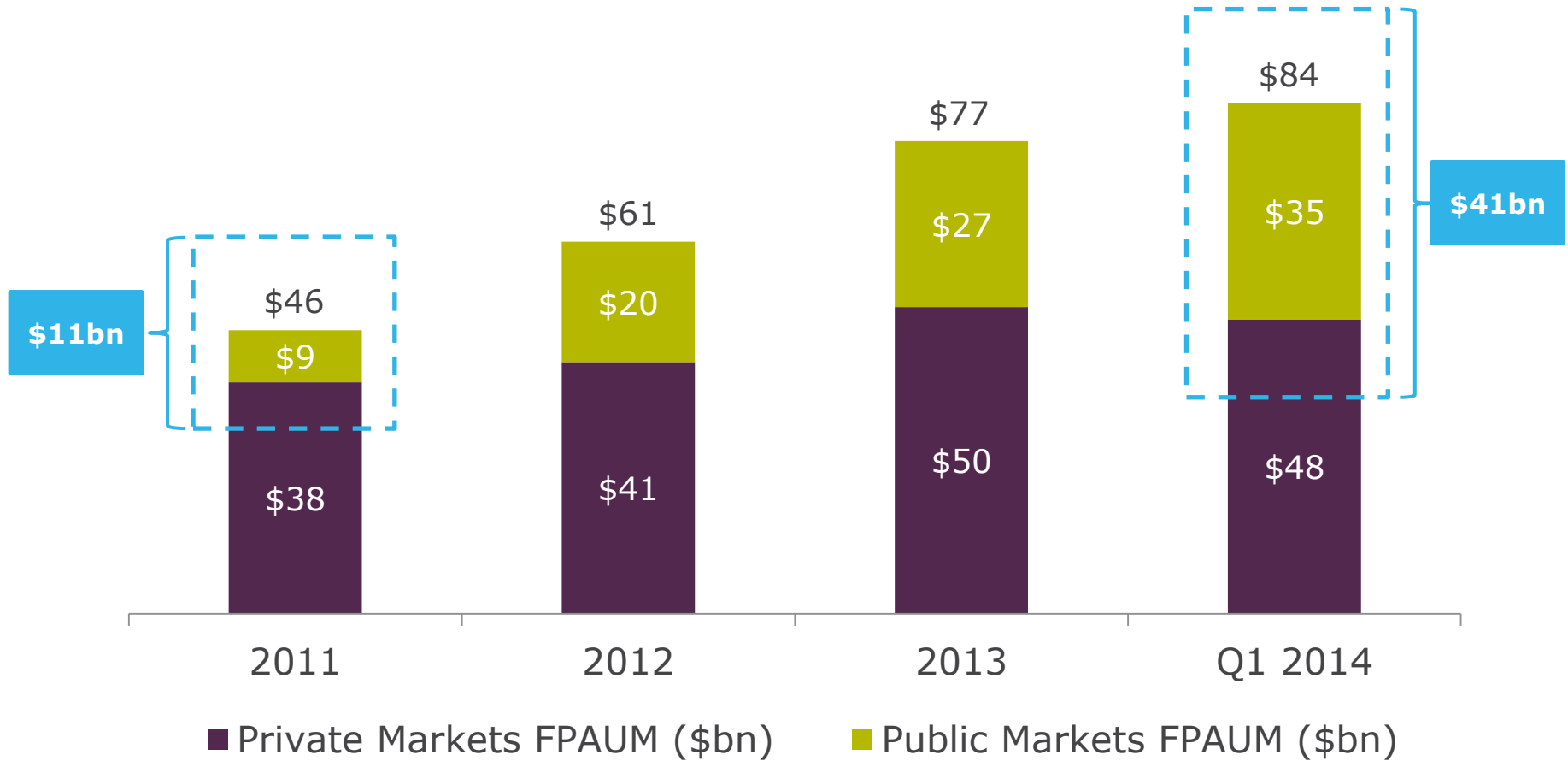
✓ Reflects new business since 2010

Note: Figures as of 3/31/14, unless otherwise stated.

(1) Represents post KFN figure and consists of KKR cash and investments of \$7.5 bn plus KFN unconsolidated balance sheet cash of \$0.2 bn and portfolio holdings of \$3.0 bn.

KKR

# FPAUM Growth



**Non PE FPAUM has grown from \$11 bn to \$41 bn**

## Our Business, Quite Simply

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- We have investment capabilities that can originate investment opportunities for our limited partners' capital and our own capital
- We have unique, illiquid-investment distribution capabilities that allow us to monetize opportunities that we see to the maximum extent
- We have a balance sheet with no net debt that provides us with opportunity to generate recurring earnings and gains
- We have operational capabilities on a global scale to improve the companies that we invest in

**3<sup>rd</sup> Party  
Managed Capital**



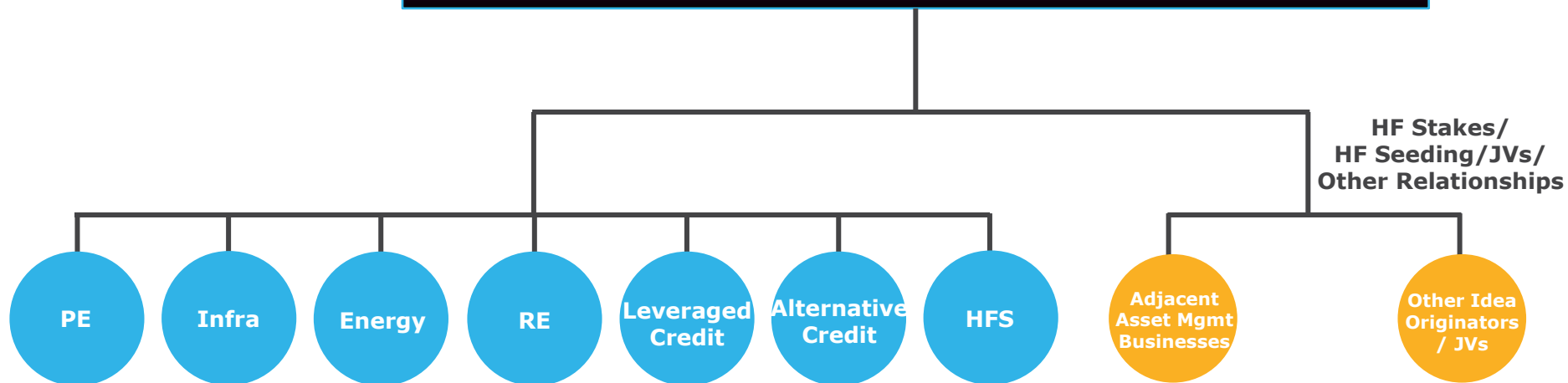
**Balance  
Sheet**



**KCM**

# Our Model

Ways We  
Monetize  
Ideas



- **Scale what we have that is or can be differentiated**
- **Partner with others who are best in class and who we can help and who can help us**

# It's Not Just About AUM

(Illustrative)

## Traditional Model

### \$1 bn Investment

- In a 20% carry Fund
- With a 15% IRR
- With a 1-year hold

Management Fees	\$12.5 mm
FRE Impact (40% Margin)	\$5
After Tax FRE Impact	\$3
Carry, Gross	\$30
Carry, Net	\$18

**Total After Tax ENI** \$21 mm

**Total Distributable Earnings (After Tax)** \$21 mm

**Total Distribution Impact** \$21 mm

**Book Value Impact** \$0



**Need to go raise \$1 bn of new AUM once invested**

## KKR Approach

### \$1 bn Investment

- Fund takes \$500 mm
- Firm syndicates \$250 mm
- Firm Balance Sheet takes \$250 mm

Management Fees	\$6.3 mm
FRE Impact (40% Margin)	\$2.5
After Tax FRE Impact	\$1.5
Carry, Gross	\$15
Carry, Net	\$9

Up-Front Fee—KCM, B/S \$15

FRE Impact (70% Margin) \$11

After Tax FRE Impact \$6

Balance Sheet Gain \$38

Distribution Impact \$15

**Total After Tax ENI** \$54 mm

**Total Distributable Earnings (After Tax)** \$54 mm

**Total Distribution Impact** \$32 mm

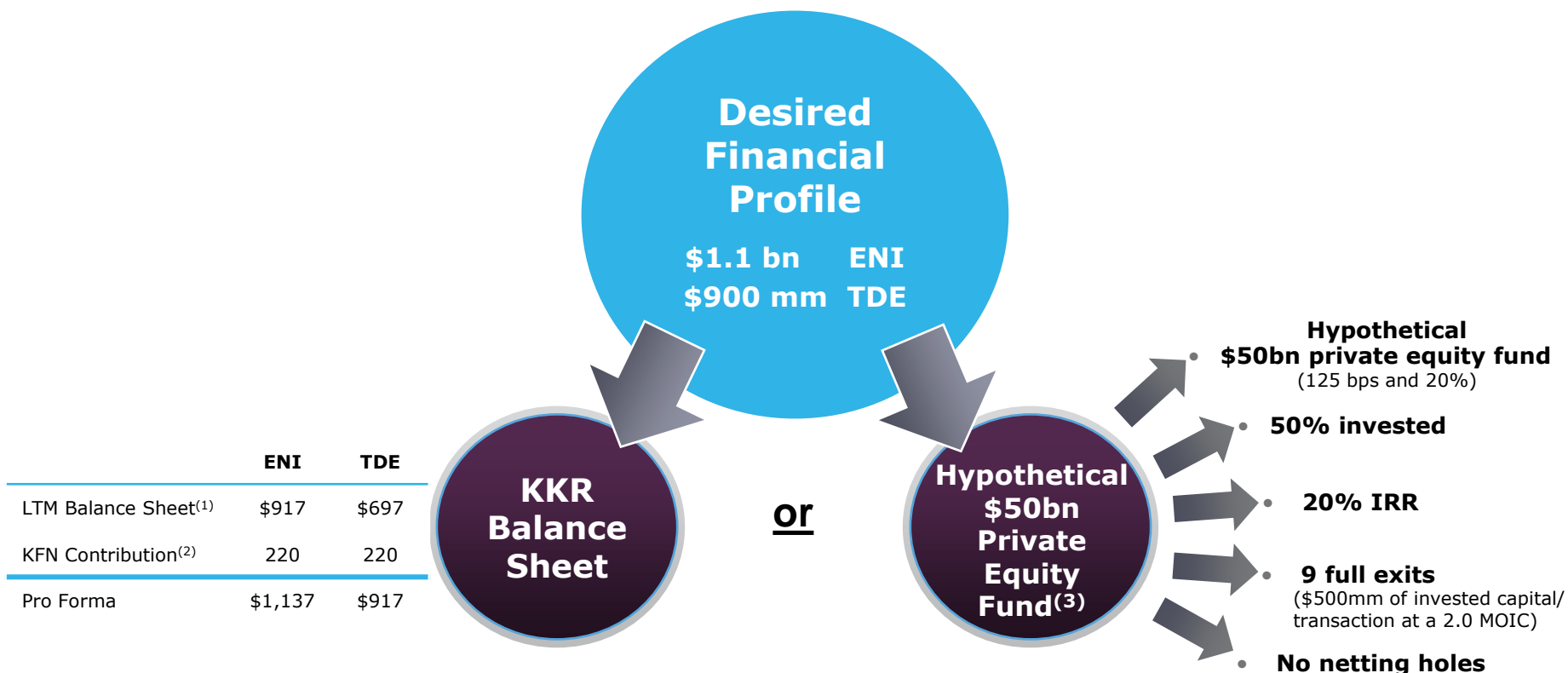
**Book Value Impact** \$23 mm

**KKR approach can hypothetically generate ~2.5x the Total Distributable Earnings impact plus Book Value growth using half of the AUM**

Note: The KKR approach uses the same assumptions with respect to carry, gross IRR and hold period as the traditional model, both of which are being presented as illustrative examples only. The financial results have been prepared on the basis of the specific assumptions set forth above, which assumptions are hypothetical and not representative of any actual or anticipated funds or transactions. Actual results and events may differ materially from the assumptions underlying this example. There can be no assurance that the example financial results will reflect actual financial results or reflect any actual investments, and actual results may be substantially different from those illustrated herein.

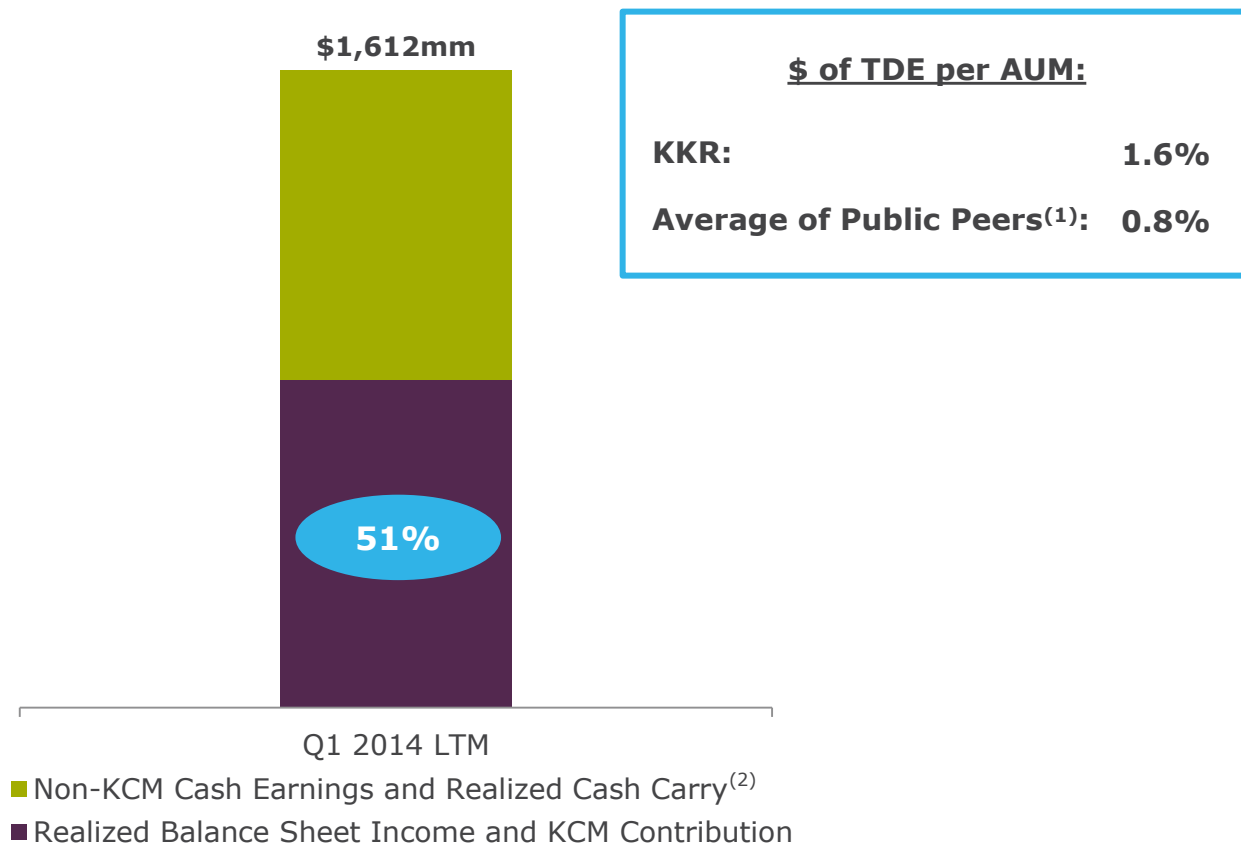


- KKR's investment advisory business with greater balance sheet participation is more profitable than a pure PE Fund model



(1) ENI of \$917mm represents LTM Total Other Investment Income (Loss) as of March 31, 2014. TDE of \$697 mm represents LTM Net Realized Principal Investment Income as of 3/31/14.  
 (2) Assumes a 10% ROE on KFN's 3/31/14 book value of \$2.2 bn.  
 (3) The hypothetical private equity fund above has been prepared on the basis of the specific assumptions set forth above, which assumptions are hypothetical and not representative of any actual or anticipated funds or transactions.

# Our Total Distributable Earnings Profile



**Our Business Model is Unique**

(1) Public peers consist of APO, BX, CG and OAK.

(2) Non-KCM cash earnings figures are net of local income taxes and non-controlling interest.

# What We've Created

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- Our business:
  - 60+% margins<sup>(1)</sup>
  - 20+% ROE (with no net leverage)
  - ~70% payout ratio
  - Global, flexible capital
  - Can invest in anything we like
  - Can maximally monetize what we see through funds, KCM, Balance Sheet

Note: Figures are representative of metric averages since 2010.  
(1) Margin figure represents total ENI divided by total segment revenues.

## KKR vs. The S&P 500—Net Income/Head

	S&P 500 Rank	Company	LTM Net Income	Employees	Net Income Per Head
Technology	17	Apple	\$37,707mm	80,300	\$470k
	41	Facebook	1,912	6,818	280
	48	Google	13,026	49,829	261
	162	Netflix	163	2,022	81
	477	Amazon	299	109,800	3
Finance	46	BlackRock	3,056	11,500	266
	57	Goldman Sachs	7,813	32,600	240
	185	JP Morgan	16,668	246,994	67
	217	Berkshire Hathaway	19,289	330,745/24	58/804,000
	198	Morgan Stanley	3,572	55,883	64
	2	KKR	\$1,973mm	993	\$1,987k

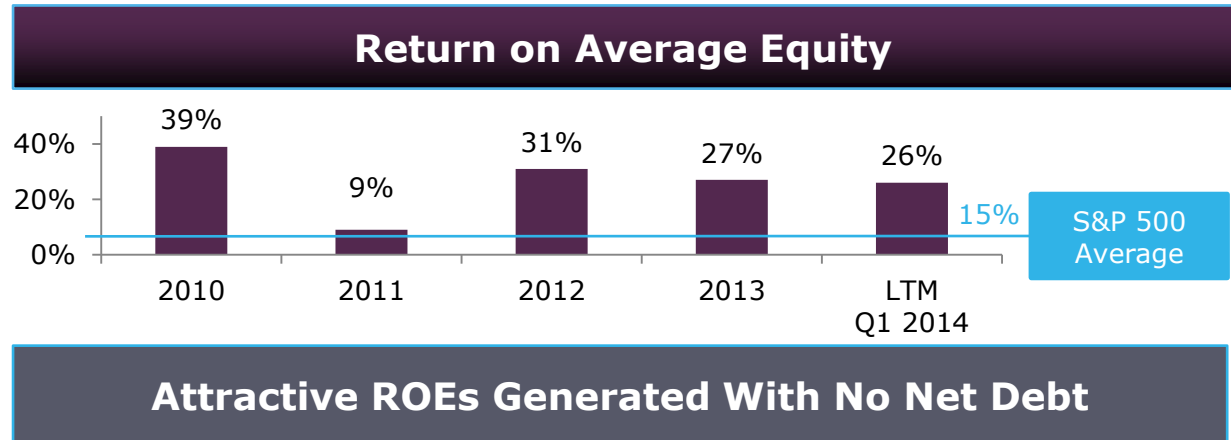
Note: Net Income reflects trailing 12-months net income based on latest quarterly financials available per Bloomberg as of 6/4/14. KKR Net Income reflects After-Tax ENI after equity based charges. Current employee data as reported on Bloomberg as of 6/4/14.

**KKR**

# ROE

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$$\text{Total Firm ROE} = \frac{\text{Fees + Carry} + \text{Balance Sheet Income} - \text{All Expenses}}{\text{Average Equity}}$$



# Goals—Simultaneous Equation

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- Double our cash flow
- Keep culture

- Keep generating 20+% ROE
- Minimal leverage
- Limit equity dilution

**How?**



**Scale our businesses**  
**+**  
**Make more money from what we are already doing**

Note: Our goals above are subject to uncertainty and change and constitute forward looking statements. See Important Information regarding forward looking statements.

**KKR**

# Case Study

- \$4 bn transaction, \$1.2 bn of equity, 3x MOIC

	Traditional	New	
Fund equity	\$500	\$500	
Balance sheet	0	300	
Syndication—0% carry	700	0	
Syndication—10% carry	0	400	
<b>Total</b>	<b>\$1,200</b>	<b>\$1,200</b>	
Capital Markets fees paid over life	\$250	\$250	
KKR capture—%	0%	20%	
KKR capture—\$	0	50	\$50
Upfront fee (3% of equity)	\$36	\$36	
KKR capture—fund	3	3	
KKR capture—B/S, syndication	0	21	
KKR capture—total	3	24	\$21
Profit—Total (3x MOIC)	\$2,400	\$2,400	
KKR capture—fund	200	200	
KKR capture—balance sheet	0	600	
KKR capture—syndication	0	80	
KKR capture—total	\$200	\$880	\$680
<b>KKR capture</b>	<b>\$203</b>	<b>\$954</b>	
<b>Total economics</b>	<b>2,686</b>	<b>2,686</b>	
<b>Participation rate</b>	<b>8%</b>	<b>36%</b>	<b>4.7x</b>

Note: The financial results have been prepared on the basis of the specific assumptions set forth above, which assumptions are hypothetical and not representative of any actual or anticipated funds or transactions. Actual results and events may differ materially from the assumptions underlying this example. There can be no assurance that the example financial results will reflect actual financial results or reflect any actual investments, and actual results may be substantially different from those illustrated herein.

# Case Study—Dollar General

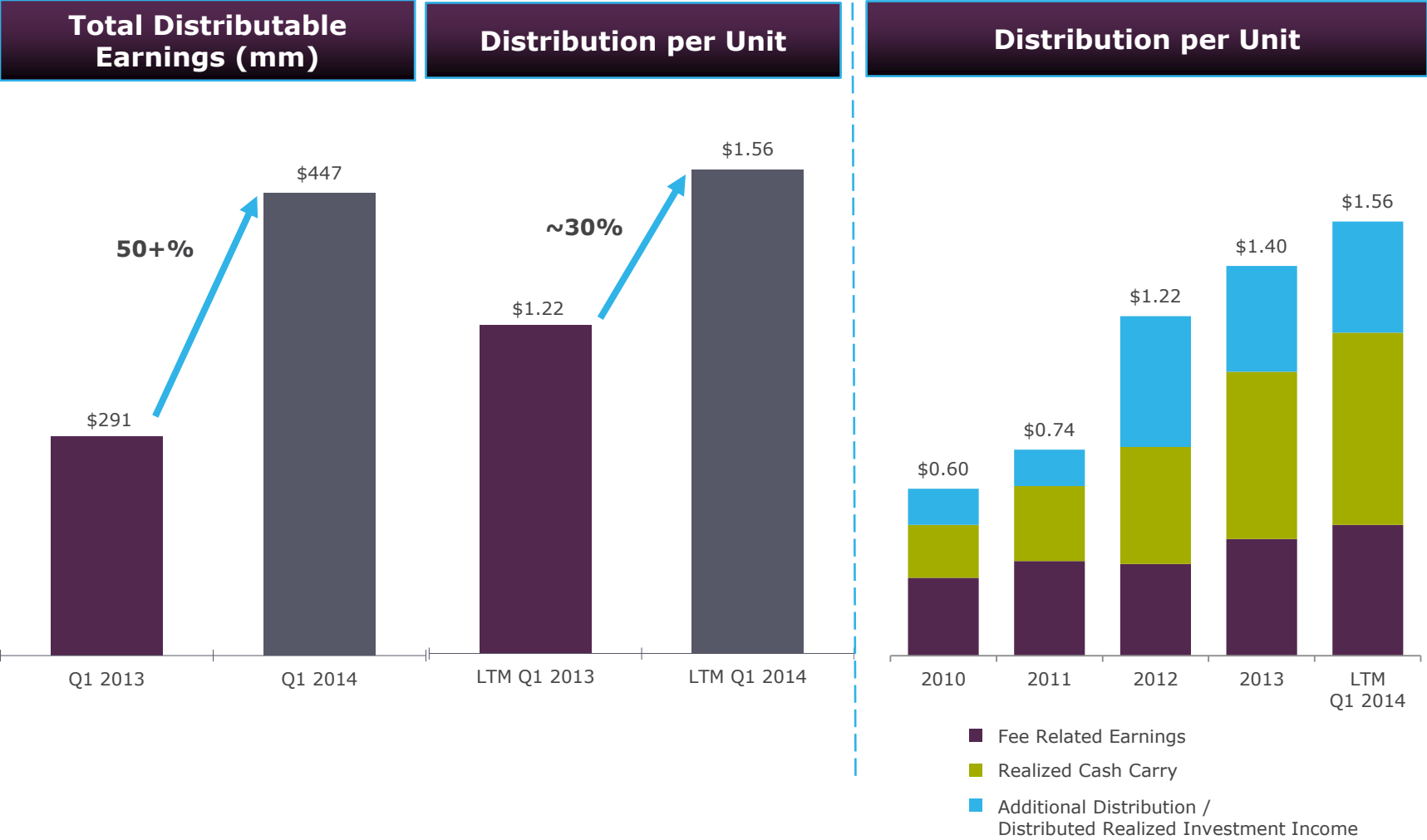
	Traditional PE	Old World	New World <sup>(1)</sup>
<u>Equity Invested:</u>			
Private Equity Fund	\$1,017 mm	\$1,017mm	\$1,017 mm
KCM Syndication with Carry	0	324/10%	500/10%
Balance Sheet Hold	0	0	300
Other	1,758	1,433	958
Total	\$2,775	\$2,775	\$2,775
<u>Simplified Economics (4.75x MOIC)</u>			
Profit on Investment	\$10,406	\$10,406	\$10,406
3% Transaction Fee	83	83	83
Capital Markets Fees Over Life of Investment	309	309	309
Total	10,798	10,798	10,798
<u>Economics Retained by KKR</u>			
Profit on Investment	\$763	\$885	\$2,075
3% Transaction Fee	6	16	30
Capital Markets Fees Over Life of Investment	0	69(22%)	69(22%)
Total	769	969	2,174
Participation Rate	7%	9%	20%

**\$1.2bn More Profit!**

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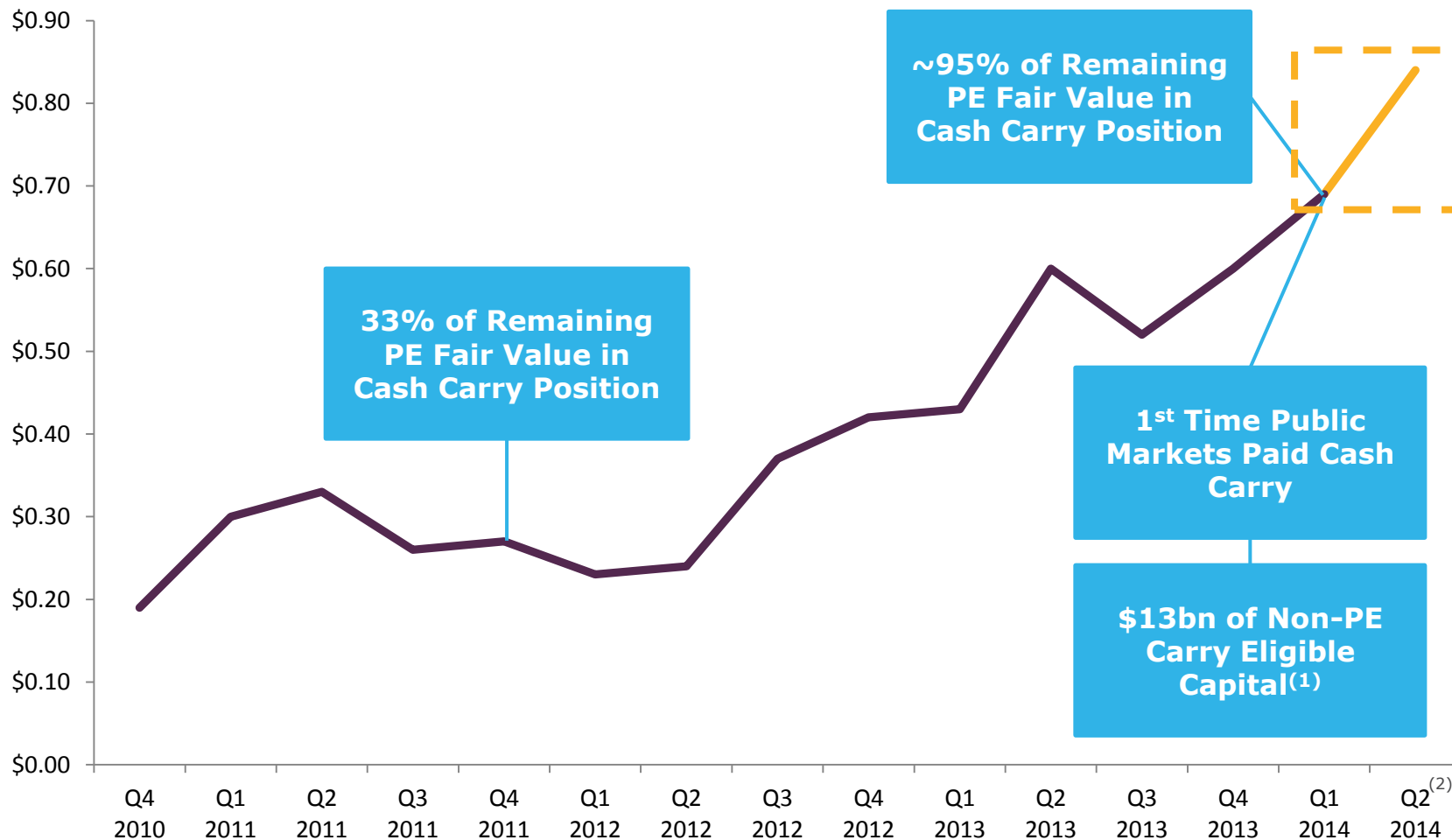


# Last Twelve Months Progress...



# Our Cash Carry Potential Has Grown Significantly

## Trailing 4 Quarters of Cash Carry / Unit



Note: Funds currently in position to pay cash carry may develop netting holes in the future, and existing netting holes may also increase or decrease, which may preclude the distribution of carry. See Important Information regarding forward looking statements.

(1) Figure includes Real Assets and Public Markets remaining fair value plus uncalled commitments per KKR's Q1 earnings release.

(2) Q2 2014 LTM only includes Q2-to-date 2014 as of 6/4/14.

- 1** **Scaling of Fund 1 → Fund 2**

China Growth	Real Estate	Direct Lending
Natural Resources	EIGF	Mezzanine
Infrastructure	Special Sits	

} **\$10 bn<sup>(1)</sup> of Committed Capital**
- 2** **Growth in Cash Carry Potential**
- 3** **Our Business Model / The Multiplier Effect**

(1) Figure represents committed capital for first time funds listed.

# Where to?

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## **Performance**

- Carry generation
- Balance sheet cash flow and growth

## **Scale Newer Efforts**

- Fund 1 → Fund 2
- Global

## **Grow Private Equity**

- Geography and sector-specific

## **Acquisitions / Investments**

- Control-oriented, stakes, seeding

## **Grow Client Base**

- 700+ → a goal 1000+

## **Drive Firm Profits and Cash Flow**

- Fee, carry, and balance sheet
- Focus on cash outcomes, not AUM

Note: Our goals above are subject to uncertainty and change and constitute forward looking statements. See Important Information regarding forward looking statements.

# Appendix

# KKR Supplemental Statement of Operations and Other Selected Financial Information (Sample)—Total Reportable Segments (Unaudited)

(Amount in thousands, except unit and per unit amounts)

	<b>LTM March 31, 2014</b>
<b>Segment Revenues</b>	
Fees	\$ 1,134,839
Gross Carried Interest - net of Management Fee Refunds	1,343,216
Investment Income (Loss)	916,854
<b>Total Segment Revenues</b>	<b>3,394,909</b>
<b>Segment Expenses</b>	
Allocation to Carry Pool	549,555
Compensation and Benefits	377,525
Equity-based Charges	126,644
Occupancy and Related Charges	57,194
Other Operating Expenses	224,054
<b>Total Segment Expenses</b>	<b>1,334,972</b>
Income (Loss) attributable to noncontrolling interests	8,488
<b>Economic Net Income (Loss) After Equity-based Charges</b>	<b>\$ 2,051,449</b>
Provision for Income Taxes	78,065
<b>Economic Net Income (Loss), After Taxes and Equity-based Charges</b>	<b>\$ 1,973,384</b>

# Segment Balance Sheet as of March 31, 2014

(Amount in thousands, except per unit amounts)

	Total Reportable Segments
Cash and short-term investments	\$ 2,139,940
Investments	5,380,306
Unrealized carry	1,276,776
Other assets	695,246
Total assets	\$ 9,492,268
Debt obligations	\$ 1,000,000
Other liabilities	271,668
Total liabilities	1,271,668
Noncontrolling interests	74,838
<b>Book value</b>	<b>\$ 8,145,762</b>
<b>Book value per adjusted unit</b> <sup>(1)</sup>	<b>\$ 11.18</b>

(1) Adjusted units represent the fully diluted unit count using the if-converted method. See the Appendix for a reconciliation of this item to the comparable GAAP measure.

# Reconciliation of Net Income (Loss) Attributable to KKR & Co. L.P. (GAAP Basis) to Economic Net Income (Loss), Fee Related Earnings, Fee Related EBITDA, and Total Distributable Earnings (Unaudited)

(Amount in thousands)

	Quarter Ended					
	March 31, 2014		December 31, 2013			
<b>Net income (loss) attributable to KKR &amp; Co. L.P.</b>	\$	<b>210,041</b>	\$	<b>277,913</b>	\$	<b>193,439</b>
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings L.P.		300,814		393,739		334,112
Plus: Non-cash equity based charges		77,528		60,331		81,650
Plus: Amortization of intangibles and other, net		20,169		45,265		29,185
Plus: Income taxes		21,702		12,401		9,356
<b>Economic net income (loss)</b>		<b>630,254</b>		<b>789,649</b>		<b>647,742</b>
Plus: Income attributable to segment noncontrolling interests		3,202		1,943		1,101
Less: Investment income (loss)		481,738		671,459		560,843
<b>Fee related earnings</b>		<b>151,718</b>		<b>120,133</b>		<b>88,000</b>
Plus: Depreciation and amortization		4,035		3,658		3,681
<b>Fee related EBITDA</b>	\$	<b>155,753</b>	\$	<b>123,791</b>	\$	<b>91,681</b>
Less: Depreciation and amortization		4,035		3,658		3,681
Plus: Realized cash carry		116,130		150,300		52,900
Plus: Net realized principal investment income		192,892		250,856		153,156
Less: Local income taxes and noncontrolling interests		13,932		10,938		3,442
<b>Total distributable earnings</b>	\$	<b>446,808</b>	\$	<b>510,351</b>	\$	<b>290,614</b>



# Reconciliation of Net Income (Loss) Attributable to KKR & Co. L.P. (GAAP Basis) to Economic Net Income (Loss), Fee Related Earnings, Fee Related EBITDA, and Total Distributable Earnings (Unaudited)

(Amount in thousands)

	Year Ended		Year Ended		LTM	
	December 31, 2012	December 31, 2013	December 31, 2013	March 31, 2014	March 31, 2014	
<b>Net income (loss) attributable to KKR &amp; Co. L.P.</b>	\$	<b>560,836</b>	\$	<b>691,226</b>	\$	<b>707,828</b>
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings L.P.		1,116,740		1,056,126		1,022,828
Plus: Non-cash equity based charges		400,207		307,514		303,392
Plus: Amortization of intangibles and other, net		9,683		102,789		93,773
Plus: Income taxes		43,405		37,926		50,272
<b>Economic net income (loss)</b>		<b>2,130,871</b>		<b>2,195,581</b>		<b>2,178,093</b>
Plus: Income attributable to segment noncontrolling interests		7,043		6,387		8,488
Less: Investment income (loss)		1,818,103		1,789,620		1,710,515
<b>Fee related earnings</b>		<b>319,811</b>		<b>412,348</b>		<b>476,066</b>
Plus: Depreciation and amortization		12,499		14,648		15,002
<b>Fee related EBITDA</b>	\$	<b>332,310</b>	\$	<b>426,996</b>	\$	<b>491,068</b>
Less: Depreciation and amortization		12,499		14,648		15,002
Plus: Realized cash carry		285,424		414,016		477,246
Plus: Net realized principal investment income		866,776		657,139		696,875
Less: Local income taxes and noncontrolling interests		22,615		27,625		38,115
<b>Total distributable earnings</b>	\$	<b>1,449,396</b>	\$	<b>1,455,878</b>	\$	<b>1,612,072</b>
Economic net income (loss), after taxes	\$	2,028,451	\$	2,133,980	\$	2,100,028
Less: Equity-based charges		62,877		114,709		126,644
Economic net income (loss), after taxes and equity-based charges	\$	1,965,574	\$	2,019,271	\$	1,973,384

# KFN Reconciliation from Total Capital to Total Shareholders Equity

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*(Amount in thousands)*

	<b>As of</b> <b>March 31, 2014</b>	
Portfolio holdings	\$	3,006,547
Plus: Working capital		33,328
Plus: Cash		185,073
Total capital	\$	3,224,948
Less: Allocation of holding company debt		645,862
<b>Total shareholder's equity</b>	<b>\$</b>	<b>2,579,086</b>

# Reconciliation of GAAP Common Units Outstanding to Adjusted Units

	As of March 31, 2014	As of December 31, 2013
<b>GAAP Common Units Outstanding - Basic</b>	<b>300,354,288</b>	<b>288,143,327</b>
Unvested Common Units <sup>(1)</sup>	30,098,382	24,164,354
Other Exchangable Securities	4,904,472	-
<b>GAAP Common Units Outstanding - Diluted</b>	<b>335,357,142</b>	<b>312,307,681</b>
Adjustments:		
KKR Holdings Units <sup>(2)</sup>	393,357,457	404,369,018
<b>Adjusted Units</b>	<b>728,714,599</b>	<b>716,676,699</b>
Adjustments:		
Unvested Common Units	(30,098,382)	(24,164,354)
Unvested Other Exchangable Securities	(2,545,602)	-
<b>Adjusted Units Eligible For Distribution</b>	<b>696,070,615</b>	<b>692,512,345</b>

(1) Represents equity awards granted under the KKR & Co. L.P. 2010 Equity Incentive Plan. The issuance of common units of KKR & Co. L.P. pursuant to awards under its equity incentive plan dilutes KKR common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR business.

(2) Common units that may be issued by KKR & Co. L.P. upon exchange of units in KKR Holdings L.P. for KKR common units.

# Reconciliation of KKR & Co. L.P. Partners' Capital (GAAP Basis—Unaudited) to Book Value and Book Value per Adjusted Unit

(Amount in thousands, except per unit amounts)

	As of March 31, 2014	
<b>KKR &amp; Co. L.P. partners' capital</b>	\$	<b>3,011,683</b>
Noncontrolling interests held by KKR Holdings L.P.		5,118,491
Equity impact of KKR Management Holdings Corp. and other		15,588
<b>Book value</b>		<b>8,145,762</b>
Adjusted units		728,714,599
<b>Book value per adjusted unit</b> <sup>(1)</sup>	<b>\$</b>	<b><u>11.18</u></b>

(1) Adjusted units represent the fully diluted unit count using the if-converted method. See the Appendix for a reconciliation of this item to the comparable GAAP measure.

# Reconciliation of GAAP Cash and Cash Equivalents to Cash and Short-Term Investments

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*(Amount in thousands)*

	<b>As of</b> <b>March 31, 2014</b>	
<b>Cash and cash equivalents</b>	\$	<b>1,324,925</b>
Liquid short-term investments		815,015
<b>Cash and short-term investments</b>	\$	<b><u>2,139,940</u></b>

# Important Information

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