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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's Second 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.

(Operator Instructions)

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 & IR*

Thank you, Ben. Welcome, everyone, to our second quarter 2010 earnings call. As usual, I'm joined on today's call by Scott Nuttall and Bill Janetschek. Before we begin, we would like to remind everyone that today's call may contain forward-looking statements.

These statements do not guarantee future events or performance. And actual results may differ materially. Therefore, undue reliance should not be placed upon them. Please refer to our press release and SEC filings for cautionary factors relating to these forward-looking statements. We also will refer to non-GAAP measures on this call. For reconciliations of these figures, please refer to our press release for these as well.

Last night, we reported economic net income of $433 million, which compares to $613 million for the second quarter of 2009 and $675 million for the first quarter of 2010. The year-over-year and sequential decline is primarily driven by a lower rate of appreciation of our investments. Importantly, though, our investments continue to grow in value and outperform the equity market benchmarks.

In the second quarter of this year, our private equity funds appreciated by 3.5% compared to an almost 11.5% decline for the S&P 500. And year to date, our funds are up almost 14% compared to an almost 7% decline for the S&P 500 over the same period, outperformance of more than 2,000 basis points.

Given the overall economic headwinds and the fact that our valuations are based in part on market comparables, we are pleased with our performance this quarter. On a year-to-date basis, we have generated $1.1 billion of economic net income, representing a significant increase over the first six months of last year.

Before I turn it over to Bill to discuss the financial results and Scott to discuss the environment and business update, let me cover three items; one, the relisting and the offering; two, our credit ratings; and three, some points on our disclosure now that we are US listed.

First, the listing -- as you're aware, we successfully delisted our business from the Euronext exchange and relisted our business on the New York Stock Exchange on July 15th. We know investors have been focused on this event for some time, and we appreciate your patience during this process.

Last night, we also announced our decision to withdraw the $500 million primary equity offering that we had been contemplating in connection with the relisting. We had planned to use this capital to invest further in our business.

However, we decided to withdraw the offering for two main reasons; first and foremost, the current volatility in the capital markets; and secondly, we opted to use this time to educate the investor community on our story in the absence of a specific securities offering. In that vein and as a start to this process, we'll be posting an updated investor presentation to our website tomorrow morning.

As for our credit ratings, we received A and A-minus ratings from Fitch and Standard & Poor's, respectively, both with a stable outlook. We're pleased with the additional flexibility provided by going through this process with them.

My final comment is on disclosure. Because we are now an SEC filer, we made slight changes to the format of our press release. You will notice that we added consolidated GAAP financial information. And importantly, we continued to include our segment financial information, which is the data we use to make operating decisions and assess our performance.

With that, I'll turn it over to Bill.

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

Thanks, Jon. Our assets under management were $54.4 billion at quarter end, up $7.5 billion or 16% from the same time last year but down slightly from last quarter. The significant increase over a year ago is primarily driven by a 45% appreciation in our investments over the past 12 months.

During the quarter, our private equity investments appreciated 3.5%, so the slight sequential decline in AUM was primarily driven by three factors; One, realizations in our private equity portfolio; two, redemption in our public markets business, where investors that have done quite well in our liquid credit strategies are rebalancing their portfolios; and three, euro-dollar foreign exchange movements.

Our fee-paying AUM declined slightly on a year-over-year and sequential basis. As fee-paying AUM does not benefit from the mark to market on our investments, the three factors that I just mentioned drove the decline. That said, we are seeing a relatively strong pipeline of fundraising activity that we expect to offset these factors, and Scott will cover this in more detail later in the call.

On an overall basis, our earnings metrics compared quite favorably to last year. Through the first six months of the year, we have generated $1.1 billion of ENIs compared to $616 million last year. Our fee-related earnings went from $93 million to $154 million in the same comparison.

Turning to our business segments. In our private market segment, we generated economic net income of $155 million in the quarter, which compares to $223 million in the same quarter of last year and $194 million last quarter. The decline in ENI primarily relates to lower rate of depreciation across our private equity funds. As mentioned earlier, our funds appreciated 3.5% this quarter compared to 11.5% in the second quarter of '09 and 10% last quarter.

Importantly, for the first six months of 2010, our funds overall had outpaced equity market benchmarks. And as of June 30th, we are accruing carry in all of our funds, except for our Europe II and III funds. To put it another way, we are accruing carry on over $19 billion of our $26 billion of total invested capital in our private equity funds. As a reminder, our private equity funds are not structured with a preferred return, so we accrue carry from the first dollar of gain above cost.

In the second quarter, the mark to market on our investment in East Resources was a significant driver of our economic net income. We announced the sale of East Resources to Shell on June 1st, and the first public transaction closed on July 29th. The remaining approximately 15% of transaction is scheduled to close in the fourth quarter.

We acquired approximately one-third of this company for $312 million in June of 2009, and the sales price represents more than four and a half times multiple on our invested capital. This investment was in the 2006 fund and as we have discussed in the past, despite being above cost and accruing carry, the 2006 fund is not currently paying cash carry due to the way netting works in the fund.

However, due to the structure used for this particular investment, it does not net with the rest of the fund. Therefore, we are expecting a carry distribution equal to approximately $0.08 per unit from the East transaction, which we expect will be paid as part of our third-quarter distribution.

This represents the cash carry arising from the closing of the first part of the transaction. The formal declaration of this amount depends on Board action to be considered in the next quarter.

In our public markets segment, we generated $12.2 million of economic net income during the quarter, which compares to $0.5 million in the same quarter of last year and $16.3 million last quarter. The significant increase over last year relates to higher fee-paying AUM and inclusion of an $8.4 million incentive fee, where there was no similar fee in the same period last year. The decline from the first quarter of 2010 relates almost entirely to the lower incentive fee.

It is also worth noting that while our public market fee-paying AUM fell in the second quarter due to the redemptions mentioned earlier, our weighted average fee rate in this business increased. And we expect this trend to continue as we add higher fee-paying strategies to this platform. Additionally, these new strategies generally earn carry interest whereas the redemptions were from fee-only products.

In our capital markets and principal activities segment, we continue to see strong appreciation of the investments on our balance sheet. We generated economic net income of $266 million, which compares to $390 million last year and $465 million in the prior quarter.

Similar to our private market segment, ENI was lower simply due to the lower rate of appreciation on our investments relative to the comparable periods. The fee-related earnings generated from our Capital Markets business, while significantly higher than last year, were lower than the previous quarter. Keep in mind, fees earned in this segment are highly correlated with capital markets activities in our portfolio, and are therefore lumpy period over period.

Turning to our balance sheet for a minute, our book value was $7.37 per unit as of the end of the quarter, which is up over 6% from the end of last quarter and 21% from the beginning of the year. We ended the quarter with over $500 million in cash and drawn debt of $314 million, which is down $420 million from the end of last year.

Finally, we're making a second-quarter distribution under our distribution policy in the amount of $0.08 per common unit. Now that we are listed in the US, the distribution will no longer be subject to withholding by our corporate subsidiary. Importantly, our distribution this quarter includes realized cash carry of approximately $0.02 per unit. This carry came from our European fund.

Thanks for joining the call. And I will now pass it over to Scott.

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

Thanks, Bill. And thank you, everyone, for being on the call. Over the last several quarters, we have used phrases like "cautious optimism" and "fits and starts" to describe the environment we have seen since the depths of the financial crisis. The second quarter was a perfect example of why we use such phrases. The quarter started out well, but uncertainty and spotty economic data have led to a loss of momentum.

During the quarter, equity markets declined, credit spreads widened and volatility spiked. We are not predicting a double dip in the US economy, but we do not expect a V-shaped recovery either. We're not surprised by what we are seeing and believe this environment of sluggish growth will continue for some time.

Outside of the US, the picture is a bit brighter. European economies have held up surprisingly well, given the sovereign debt issues. And Asia on the whole continues to exhibit solid growth. Overall, we are seeing slow to moderate growth globally, which provides a good backdrop for our business.

With that, let me turn to a discussion of the key highlights across our various businesses. I'm going to start with private markets, discuss asset management and capital markets, and then conclude with a few comments on the firm. In our Private Equity business, we continue to be quite active. During the quarter, we invested $1.1 billion of capital, bringing the year-to-date figure to $2.1 billion; this compares to $580 million in the first half of last year.

As of June 30, we had also committed $380 million of equity to transactions that had yet to close. We are actively deploying capital in a variety of ways around the world. We completed follow-on investments in BMG and Northgate to support acquisitions.

We also completed new investments, including Hilcorp Resources, which is a newly formed oil and gas partnership; Inaer, which is a European provider of mission-critical helicopter services; and WILD Flavors, a producer of natural ingredients for the food and beverage industry. Transactions announced but not yet closed as of June 30 include Dalmia, a cement business in India, and Intelligence, a recruitment services provider in Japan.

We're finding that financing is available for the right businesses and while credit spreads widened during the quarter, absolute costs of financing have not moved materially, given a lower interest rate environment. Leverage levels of five to six times debt to EBITDA are achievable for the right businesses, and our pipeline is full with opportunities covering all geographies and industries.

As for our portfolio, we're pleased with the progress we're seeing. Similar to the trends in the broader economy, performance was quite strong through the first quarter and remained strong through April. We see some softening trends in May and June, especially on the top line. However, the cost reductions implemented throughout our portfolio in 2009 have enabled earnings to hold up quite well.

As Bill discussed, our portfolio has continued to appreciate nicely with private equity valuations up 3.5% in the second quarter versus the S&P, which was down more than 11%. Ultimately, of course, we need to return capital to our private equity fund investors through realization. In that vein, we distributed $713 million to these investors during the second quarter, up from $589 million in the first quarter.

We have three companies on file to go public, and 23% of our portfolio is already publicly listed. Notably, NXP priced its IPO last week and is trading slightly above the June mark. Additionally, as evidenced by East Resources, we'll consider strategic sales and recapitalization in certain cases.

Now turning to asset management. As with the equity markets, it was a challenging few months for the leverage credit markets. While the sell-off affects the mark to market on our investment portfolios, we like the investment opportunities created by the volatility. And we're finding attractive investment opportunities in both liquid and illiquid credit.

In liquid credit, the recent downturn has created a market where risk return is currently very attractive. High-yield spreads are 110 basis points wider than the 20-year average, and leverage loans are 280 basis points wider. We believe the frothy market of Q1 has turned to a buyers' market and we like the compensation we're receiving for risk in these markets.

In liquid credit, we've continued to be a top quartile performer over the past year. These strategies include secured credit, bank loans plus high yield, high yield standalone, and flexible credit. We think this type of performance will serve us well in raising capital over time.

Additionally, when the lending environment tightens, we see even more opportunities to invest in proprietary debt transactions. Let me give you one example of this. In the recently announced sale of RBS WorldPay, our asset management team partnered with our capital markets team to underwrite the entire $450 million of mezzanine.

As a result, we were able to source over $200 million of attractive investments for our fund and earn capital markets fees on the piece we syndicated to third parties. Year-to-date, the various funds and vehicles that we manage have invested, or committed to invest, over $700 million across our mezzanine and special situations efforts.

Now turning to our capital markets and principal activity segment. We reported a strong quarter in this segment. While capital markets activity slowed during the quarter, our balance sheet continues to appreciate. We believe there remains significant upside in the investments that we own, and we see attractive opportunities to reinvest the proceeds from realization into our business.

We think our balance sheet provides us with a strategic advantage. This was evidenced by the RBS deal, where we're able to commit to a transaction, keep the amount we wanted for our own funds, and syndicate the remainder. Overall, we feel we had a good quarter, and we're making progress across our businesses.

As Jon referenced, we went public in the US in a fairly unconventional fashion. Without a road show, we've not yet had an opportunity to tell our story. We're excited to be listed in the US, as we think there will be more institutional investor interest, retail investors can now own our stock and we expect enhanced research coverage.

While we moved to the New York Stock Exchange a few weeks ago, our job is only partially done. Over the next couple of quarters, we will be working to finish the job we started by introducing our story to investors and working with the research community to expand coverage.

As we won't have the opportunity to meet with all of you, let me conclude this call with a few points on our strategy and how we're building the firm. Our strategy is a result of a simple observation; we believe we can do more with the intellectual capital, insights, and relationships we have in our firm.

We've evolved significantly over the last ten years. In the 1990s, we were a private equity firm focused almost exclusively on North America. In the late '90s, we expanded our private equity business to Europe and subsequently to Asia. We also significantly expanded our investing team and built operational capability so post-investment we could help our management teams create value.

We now have a global Private Equity business operating out of 14 offices, with an institutionalized approach to industry coverage, relationship building, and operational value creation. As we evolved our private equity model, we found that we were able to build close relationships with companies all around the world, and these relationships yielded investment opportunities.

But our issue has been that because many companies -- because companies rarely pursue private equity deals, many of the opportunities that came our way were not relevant for a private equity fund. So, we would spend years building a relationship and then have to pass on the hard-earned call only to watch others execute on the opportunity because they had more flexible capital or broader mandate.

So the logical conclusion was that we should build businesses that allow us, where appropriate, to use more of our expertise, relationships, and insights to make good investments. In effect, we wanted to have the ability to invest behind more of what we see.

The first business we entered was non-investment grade credit. We started this effort in late 2004 and today, we manage over $13 billion. Like our Private Equity business, we started in credit in North America and are now expanding to Europe.

We began with liquid strategies, such as leverage loans and high yield, and have now expanded to mezzanine and special situations. We see many opportunities to continue to grow this business, both through geographic expansion and adding new products.

The second business we're building is in energy and infrastructure. Here, we have a long record of completing energy-focused and infrastructure-related private equity investments. But we kept finding attractive infrastructure investments not appropriate for a private equity fund.

So, we set out to build an infrastructure team that is building a platform on a global basis dedicated to this large and attractive space. The same is true in oil and gas, where we invest through KKR Natural Resources.

As we have built all these new capabilities, we've added people to enhance our expertise in these areas and integrated them into our one-firm model, where regardless of who sources the opportunity, the best resources with the right expertise can execute. As a result of adding these new efforts and meaningfully investing in our private equity investment and operating teams, in the last three years, we have doubled from 115 investment and operations professionals to nearly 230 today.

However, as we grew, it became clear that our capital base was not keeping up with the growth of our sourcing and investment machine. We have only 300 institutional investors across everything we do, so we did two things.

First, we built our own Capital Markets business. This business brings KKR-originated product to institutional investors so we can speak for more capital and retain more economics from our content while helping our investors by delivering direct co-investment opportunities. We built this business from a startup in 2007 through a group of 22 people sourcing capital for all of KKR's investments across all of our businesses.

Second, we invested in our team that is focused on building relationships with investors. This group has grown from eight to 36 people in the last three years. As a result, we are building more and deeper relationships. Putting these groups together, we have gone from eight people helping investors to 58 in the last three years alone. This investment will take time to show results, but we are convinced it'll serve us well.

The bottom line is that we are investing in our firm in multiple ways to better monetize our content and we're doing this in a one-firm model, where we bring our best thinking and resources to bear in everything that we do.

We found that our team-based approach and use of communication and intellectual capital results in better decision making. And, when we combine this strategy and vision with a balance sheet that gives us nearly $5 billion in permanent capital, we get quite excited at the potential.

Thank you for your partnership, and we're happy to take any of your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We'll go first to the line of Robert Lee with KBW. Please, go ahead.

Robert Lee - *KBW - Analyst*

Thanks. Good morning, everyone.

Unidentified Company Representative

Morning, Rob.

Robert Lee - *KBW - Analyst*

First, I'd maybe like to start off a little bit on the capital raising front. Just have a couple questions here. I guess the 2006 fund is somewhere just under 75% invested. Could you maybe update us on kind of what you're thinking about for the next PE fund? And then maybe also update us on -- I think you have the mezzanine fund in the public markets and I guess any other fundraising that may be underway, just to maybe get a sense of what you're targeting or where you think things stand.

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

Sure. Hey, Robert, it's Scott Nuttall. In turn -- the next PE fund, we haven't quite determined when we would launch the fundraising process for that. We still have nearly $5 billion to put to work in the 2006 fund and we're actively looking at opportunities. I think we'll be assessing that over the next several quarters as we see the pace of deployment of the remaining capital in the '06 fund. So, it's a bit early to comment on that.

With respect to the other fundraising that we have ongoing, it's hard to comment too specifically, but what I'll tell you is that as a general matter, we're finding that the fundraising environment continues to improve. We're finding institutional investors of all types are increasingly interested in the types of products that we're out talking to them about.

And whereas a year ago, there was a real reticence to talking about new funds or new situations, we found that that's changed quite a bit and people are looking for ways to generate returns.

So, the overall tone is much better. You'll see in our filings that we've raised a little bit more money this quarter for the mezzanine fund as you can see in some of the disclosures that we've put in the press release. But as a general matter, the pipeline continues to build and the conversations we're having are reasonably productive ones.

Robert Lee - *KBW - Analyst*

Okay. Great. And maybe just a follow up or two. I'm just curious. I guess after the -- I think it was after the close of the quarter -- you had NXP IPO. Just curious how that was valued relative to where you had it marked. And just maybe some sense as historically when you've gone to market, is there any kind of rule of thumb you have where the IPO values initially are some multiple where you have it marked or similar. Just trying to get some sense of that.

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

Sure. Hey, Robert, it's Scott again. I think with respect to NXP specifically, the IPO price was a slight premium to our June mark. So, we marked it at June as at 0.5 and the IPO price was at about 0.54, just to give you the specifics, so a bit of a premium to our June mark.

But we don't really have a policy per se; each situation is different. I think there's a bit of a misunderstanding as to what an IPO is as it relates to our business. In most situations, we raise just primary capital in an IPO. And that was certainly the case with NXP. So, we raise primary capital only and we used the proceeds from the offering to pay down debt.

We still own all of the shares that we owned before the IPO. So, we suffered a little percentage ownership dilution, but we were able to delever the capital structure of NXP. And we felt it was an appropriate step to take in a cyclical business. But as a general matter, we wait to see where we are in the lifecycle of the Company and we don't have a specific rule that we follow as to when it's time to go.

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

And, Rob, it's Jon. Just add one thing to what Scott says, just to give a bit of a history on NXP, at one point, that was marked at about 0.1 times our invested capital. It was 0.4 at March 31 and then marked up to 0.5, as Scott said, at June 30. And then there was a slight premium to that.

So, I don't think it's unusual that when you see a liquidity event it tends to happen at a slight premium to where we had the investment marked given some of the illiquidity and other discounts that are built into the valuation process.

Robert Lee - *KBW - Analyst*

Okay. Great. And just a couple of maybe kind of one or two accounting or modeling questions. The uncalled capital commitments in the public markets, is that already included in fee-paying AUM? Or, is that kind of flow through as you call the capital down, or --?

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

That is included in fee-paying AUM.

Robert Lee - *KBW - Analyst*

Okay. And maybe lastly on the distribution policy, I guess my understanding is that in any given quarter where you have cash carry, I think, as you said, you would be thinking of distributing that. So you wouldn't have, say, three quarters and a true up, so to speak, in the fourth quarter. It's going to be pretty much more as earned?

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

This is Bill Janetschek again. Yes, our distribution policy is for the most part to pay out all fee-related earnings and all cash carry that we receive on realizations of our exits from our private equity funds.

Robert Lee - *KBW - Analyst*

Okay. But if you realize a cash carry like you did this quarter, you're not--we should expect that over time in any given quarter you have a cash event, you may choose in that quarter to have that reflected in the distribution.

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

That's correct, Rob. I mean, unlike other public companies that you've seen out there, where they're kind of fixed the first three quarters and do a true up at the end, we're just going to do it every quarter as it's earned.

Robert Lee - *KBW - Analyst*

Okay. Great. All right, thanks, guys.

Operator

And we'll go next to the line of Marc Irizarry with Goldman Sachs. Please, go ahead.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. Thanks. Scott, could you talk a little bit about the 2006 fund, the debt maturity schedule upcoming? And then also, it seems like the IPO environment, to your point about not raising equity capital, that the environment's a little bit difficult out there, so to speak. How does that sort of play out in terms of the recapitalization of anything in the '06 fund at this point? Thanks.

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

Sure. Thanks, Marc. The debt maturity schedule, the general matter we've been proactively working to push out maturities in companies where we've got upcoming debt maturities. We've made a lot of progress in that regard, Marc, over the course of the last couple years and been very active in terms of doing amendments to bank deals and pushing out maturities at both banks and bond deals.

And have over the course of the last couple years been able to extend maturities on kind of $15 billion-plus of maturities. And we continue to proactively work to address those maturities.

As a general matter, though, we've been able to push the maturities out, so we don't have much maturing over the course of the next couple years. And so, we're really now chipping away at the kind of 2013 through '17 maturities and we've made a lot of good progress. So, we're not losing a lot of sleep over it because we've got a proactive program to address it.

The best way to address it, frankly, is to create value in our companies. And as I mentioned in my comments, we think we're continuing to do that. We're as a general matter seeing revenue growth. We're seeing that revenue growth float through in a fairly active way down to EBITDA. And so because of the expense controls, we've been able to translate revenue growth and the quite attractive EBITDA growth across the portfolio.

And that leads to two things; One, it's obviously delevering naturally because multiples come down as EBITDA goes up. But also, we're generating free cash flow to pay down debt. Frankly, it also leads to an ability for a lot of our companies to consider taking them public.

And as I mentioned, HCA, Toys and Nielsen are already on file; NXP, Avago, and Dollar General have already completed their IPOs. And the IPO markets are going to be a bit fickle and a bit volatile. But our perspective is and our experience has been that if we create value in our companies, those markets will open. And as long as the value has been created, we'll have an ability to access the markets and continue to delever by raising fresh capital for the Company.

So the bottom line is we're -- we've made a lot of progress. 90%-plus of our maturities in the portfolio are 2013 and beyond, 75% are 2014 and beyond, and we think the value we're creating in the portfolio will allow us to take some of these companies public over time.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. And then, can you just help us reconcile the -- some of the movements in the broader equity markets and some of the sectors for the '06 fund versus the marks that you took?

I know you mentioned maybe one or two specific companies, but it seems like there's the--. Can you just maybe walk through your valuation technique again for value in the PE funds and why the disconnect, such a big gap between public market performance and your private companies?

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

Sure. Hey, Marc, it's Scott again. I'll start that. I think it's important to understand we can have a bit of a disconnect, as you saw this quarter, between what's happening in our portfolio and what's happening in the public markets for a couple different reasons. One, our public companies, as I mentioned, the 23% of our portfolio overall are already public.

And just to give you a sense, while the S&P was down 11%-plus in the quarter, the public holdings that we have in our funds were actually up 1.5%. So we can see because we're in a specific set of sectors or because of our companies' individual performance, we can see that they can perform quite a bit differently than the broader markets.

Secondly, for the private companies, we've got some of the same dynamic in that the comps for some of our public companies are really sector specific. But there is really a couple of different components to think about. One, valuation on the public market side -- and it's about 50/50 for our private marks between public comparables and discounted cash flow, but the public comparables are largely EBITDA-driven valuations.

So, there's a few things going on. One is multiples, the other is EBITDA growth and then the third is going to be free cash flow and delevering. So in the sector, you can have comparable companies' multiples come down.

But if we've grown EBITDA in our companies and we've generated free cash flow to delever, we can actually see that we can create value, even in an environment where the public comps are down. And that's the first half of the valuation metric for the private companies.

The second half is going to be discounted cash flow. And on discounted cash flow, we're making progress in our companies. And that DCF model is based on a couple things. One's going to be the discount rate, which can obviously move, but also, it can be informed by the long-term projections that we have for our companies.

And as we've been able to drive top line and bottom line in our companies, a lot of the management teams that believe that the longer-term outlook is actually quite positive.

So, the big picture is we own defensive companies. We've got a lot of operational activities going on in our companies that can drive the bottom line at a rate that can be faster than the public market comparables. And we're seeing a lot of the cost reductions and good work we did over the last couple years really flowing through in an environment where frankly revenues are growing faster than we would have guessed a year ago.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. That's very helpful. And then just in terms of client LP interest in private equity, where would you say you're seeing the most opportunity to potentially raise up funds? Like what sort of clients are you maybe seeing more opportunity on the LP side to get them to contribute to some of the private funds? And then also, on -- can you comment on the public side as well, the client-type set that you see yourself gaining the most share?

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

Sure. Yes, I think for us, Marc, we're probably a bit unique. As I mentioned, we only have 300 investors across all of our funds, which is a fraction of our competitor's number. So we've got two things going on. One is we're actually out building a new set of relationships all over the world. And so we're seeing a lot of interest and increased dialog across both public markets and private markets from people that have never invested with us before and that runs the gamut.

It's sovereign wealth funds, institutional investors, like pension funds in the US and in Europe. It's insurance companies. And increasingly, we're having conversations with endowments and foundations. And finally, we've now recently started a small high net worth effort. And so, we're out talking to high net worth investors really on a direct basis for the first time.

So, we're seeing interest across the board. And a lot of it is we're just out introducing ourselves to people for the first time with this now much broadened team that I referenced in the comments.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. And then just in terms of product, I know infrastructure was one area where you maybe thought there was some opportunistic fundraising opportunities. Could you just update us on fundraising efforts on the infrastructure side?

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

It's really hard to comment on specific products, Marc, given we're out in the market with a variety of different offerings. As a general matter, though, I think my comments before would suffice in that, whereas a year ago there was less interest in long-dated products, like infrastructure and private equity, we're seeing increasingly as our performance has shown a big disconnect with the public markets. And we've shown we can create value.

And as we're returning cash back to our investors, we've seen a significantly increased interest in longer-dated products like that.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. Thanks.

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

Sure.

Operator

We'll go next to the line of Michael Kim with Sandler O'Neill. Please, go ahead.

Michael Sarcone - *Sandler O'Neill - Analyst*

Hey, guys, this is Mike Sarcone filling in for Michael Kim.

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

Hey, Mike, how are you?

Michael Sarcone - *Sandler O'Neill - Analyst*

Good. Thanks. Could you just walk us through the East Resources discussion as it relates to ENI and cash distribution?

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

Sure, Mike. This is Bill Janetschek. On East Resources, during the quarter, we marked up that portfolio almost to the full exit price. So you're going to see ENI come through the second quarter, even though the distribution will not occur until the end of the third quarter.

The total ENI as it relates to our cash carry was approximately $80 million. And remember, we also own these resources as an LP in our 2006 fund. And the economic net income from our balance sheet assets was an increase of roughly $45 million. So, that would be the impact on ENI for the second quarter.

As it relates to the distribution, I had mentioned earlier that the distribution's going to be roughly $0.08. I just do want to point out that due to structuring reasons, East Resources was held in a vehicle that actually flows through the management company and there's actually going to be some tax leakage on that investment as it relates to carry.

Typically, carry flows right through. And there's actually no tax leakage. However, in this transaction, it had to go through a corporate blocker. So, the economics are roughly $0.12 gross or $0.08 net once you take into account the tax that's going to have to be paid.

Michael Sarcone - *Sandler O'Neill - Analyst*

Okay. Thanks. And then as it relates to possible new funds, can you give us your thoughts on the possibility of stricter terms, then maybe lower management fees or stricter call-back provisions?

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

Sure, Mike. It's Scott. It's a bit premature to comment on that. We are not in the market with a new private equity fund - traditional private equity fund today, so it's a bit early to comment. I think we'll be able to be more informed once we start the fundraising process for our next fund in North America, which will be sometime over the next few quarters.

Michael Sarcone - *Sandler O'Neill - Analyst*

All right. Thanks, guys.

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

Thank you.

Operator

(Operator Instructions)

We'll go next to the line of [Aaron Kettle] with (inaudible) Capital. Please, go ahead.

Aaron Kettle - - *Analyst*

Hi, can you hear me okay?

Unidentified Company Representative

We can.

Aaron Kettle - - *Analyst*

Thank you for taking my questions. First, just I guess some modeling-type issues. Given the ramp up in headcount and business development, can you give any sense of what you think a normalized level of expenses would be aside from incentive fees and allocation of the carry pool, but just the absolute level of compensation and non-compensation expenses?

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

Sure, Aaron. This is Jon. Thanks for the question. Yes, I think if you look at the fully reportable segment data and you look at the other operating expenses and you look at the six-month period because you can tend to have a little bit of lumpiness from period to period, they're reasonably flat year-over-year -- right, going from $92 million to about $94 million.

Aaron Kettle - - *Analyst*

Right.

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

And I think you will see some reasonable growth there as we expand the business, open new offices, and et cetera. But we think that there's a good amount of incremental margin and good operating leverage with respect to other operating expenses, which I would consider or call kind of more fixed-base expenses other than some of the deal expenses that might go through there, which meets some of the volatility quarter to quarter.

From a compensation perspective, clearly, the run rate number you see in 2010 is a better number than what you see in 2009. And really, the jump there relates to two things. It relates to accruing higher compensation because our performance was significantly better -- I mean, fees went up from $264 million to $350 million and also because of the continued expansion of the business as we add the headcount.

So I think to summarize that, you'll see the comp fluctuate a little bit as we grow the business and we improve performance. You'll see good operating leverage, though, as it relates to both compensation and other operating expense.

Aaron Kettle - - *Analyst*

Okay. And then, can you just update us on the tax rate and just the latest news on developments out of the regular form and the higher act? And when would you expect your tax rate to go up? And how high you think it'll go?

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

Aaron, it's Bill Janetschek. As you know, there was carry legislation that was trying to be passed over the last couple of months. It went through the House but was unsuccessful in the Senate. And so, it's really hard to speculate right now what the impact is going to be with regard to carry legislation that may or may not be passed. So, I'd rather not comment any further than that.

Aaron Kettle - - *Analyst*

Fine. And then last question, could you just review again your commentary on East Resources? I just did not follow that -- what the bottom-line impact of that is. I think you said it was in the third quarter. But can you just review that again, please?

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

Well, the bottom line impact as it relates to economic net income in the second quarter was approximately $80 million of carry that was recognized from the '06 fund. In addition, we had approximately $40 million of earnings from our balance sheet asset. So in total, roughly, ENI in the second quarter as it relates -- East Resources was approximately $120 million during the second quarter.

Aaron Kettle - - *Analyst*

Okay. But it -- so there's no third quarter impact. It was all recognized second quarter.

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

In the third quarter, it was what potential distribution as it relates to cash carry might be.

Aaron Kettle - *- Analyst*

Got it. Okay.

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

Aaron, just to add one thing to that, I mean, what you'll see is because we announced the sale of that business in the second quarter, when we go through our valuation and our mark-to-market process, of course, we're going to reflect the value of what that sales price is in our second quarter financials. So, you see the non-cash mark to market in the second quarter.

Because the sale, though, didn't actually close until the third quarter so we didn't actually receive the cash until the third quarter, consistent with our distribution policy, we'll then pay out the cash impact of that in the third quarter. And that's the $0.08 that Bill alludes to, to the extent that that's approved by the Board for our third quarter distribution.

So had the sales announcement and the close happened all this quarter, hypothetically, you would've seen another $0.08 of distribution on top of the $0.08 we have already this quarter.

Aaron Kettle - *- Analyst*

Okay. Thank you very much for taking my questions.

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

Thanks, Aaron.

Operator

We'll go next to the line of William Katz with Citi. Please, go ahead.

Unidentified Participant

Good morning. This is actually Neil filling in for Bill. A question, regarding the withdrawal of the public offering, would you say--is there any read through regarding any near-term investment opportunities or other capital deployment? Thank you.

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

I'm sorry, Neil. Just in terms of withdrawing it and what we're seeing in terms of opportunity to invest off the balance sheet?

Unidentified Participant

Exactly.

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

Sure. I mean, obviously, like today, our balance sheet is reasonably well invested across our private equity business for the most part in terms of investing in our funds and in our coinvestment. As we have realizations of that portfolio, we'll continue to make new commitments to some of our newer efforts and also to our subsequent private equity funds.

We're also using the balance sheet, as Scott mentioned in the prepared remarks, to support some of the interesting risk reward opportunities we've seen in our capital markets business. So I'd tell you, as a general matter, we continue to be quite excited about the opportunities and the strategic advantage provided by our balance sheet. And we'll continue to invest behind everything that we do, even in the absence of this offer.

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

I wouldn't take any broader message from it, Neil. I think we continue to see good opportunity to invest.

Operator

And we'll take a follow up question from the line of Marc Irizarry with Goldman Sachs. Please go ahead.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. Scott, could you just comment on the fixed income business? Looks like there might've been some outflows there. I know you've had some success growing that business. But can you just comment on what looked like some redemptions from that business?

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

Sure, Marc. We have been managing on a separate account basis capital for some institutional investors. And some of those investments were made during the course of the credit crisis. And so, what's happened is, those portfolios have performed quite well.

And so, largely what we saw during the quarter is that some of those investors were pulling some of their profits off the table and just rebalancing their portfolios. So these were investments in leverage loans and high yield that were largely made near the bottom that had moved up significantly - so a bit of profit taking.

And you also saw during the quarter we raised a little bit of money for the mezzanine fund. And we'll continue to raise money for the illiquid strategies. I think the important thing to understand economically from that is that AUM can be a bit misleading because obviously every mezzanine fund dollar you raise at one and a half and 20 generates a lot more economics than our separate accounts that are fee only and in the range of largely 50 to 100 basis points with no carry attached.

So, we've seen the blended fee go up for that business over the course of the quarter. And what you really saw in the numbers in terms of the quarter itself was really just in profit taking and some timing in terms of how some investors were balancing their portfolios.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. And then, Bill, just a quick question for you. Is there any other realized but undistributed carry in the funds that could potentially be thought of as distributable over the next quarter outside of East?

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

No. And so, Marc, as we said earlier, we had a realization in the second quarter from the European fund, which amounted to roughly $0.02 a share and that's $16 million we've shown on the distribution schedule. And that entire amount was distributed. We plan to do the same thing with East in the third quarter. And if in fact we have another realization from either the Asia fund or the European fund where we're in a cash-paying mode, we'll distribute that cash carry as well.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. Thanks.

Operator

(Operator Instructions)

And we'll go back to a follow-up question from the line of Aaron Kettle with (inaudible) Capital. Please, go ahead.

Aaron Kettle - - *Analyst*

I guess I'll keep going if you've got the time. My question is on basically -- one of the issues with the registration filing and the raising capital was you have, obviously, cash on the balance sheet. And the commitments to your funds is greater than that cash that you have. Can you just walk through -- obviously, they're not -- they'll fund over a long period of time.

And can you just walk through the options that you have in terms of funding through credit facilities and/or taking gains from your portfolio to fund the capital commitments? And over what period does that capital commitment exist? Is it one year, two year, five years? Just give us a little more detail on that.

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

Sure. Thanks for the question. It's Jon, again. And you made it easy for me because you helped me answer the question in your question. So we've got a net cash position on the balance sheet, as you alluded to. Those commitments that we have will be funded over call it one to four-year period, depending on the fund and the life left on it. So we've got plenty of time in terms of meeting those obligations.

So if you combine the net cash as well as the expected realization from the assets on our balance sheet as well as revolver capacity that we have, we're quite comfortable with our ability to meet those obligations.

Aaron Kettle - - *Analyst*

Okay. Thanks.

Operator

And with no further questions in queue, at this time, I'd like to turn the call back over to Mr. Levin for any additional or closing remarks.

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

Thank you, Ben. Thanks, everyone, for joining the call this quarter and we look forward to seeing a lot of you over the coming weeks and talking next quarter.

Operator

And that concludes today's conference call. Thank you for your participation.

Editor

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