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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's third quarter 2011 earnings conference call. As a reminder, today's call is being recorded. (Operator Instructions).

I will now hand the conference over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson - *KKR & Co. L.P. - Head Investor Relations*

Thank you, David, and good morning, everyone. Welcome to our third quarter 2011 earnings call. We'd like to remind everyone that this call will contain forward-looking statements which do not guarantee future events or performance. Please refer to our SEC filings for cautionary factors related to these statements. We'll also refer to non-GAAP measures which are reconciled to GAAP figures in our press release.

I'm going to start off the call by reviewing our results. Bill Janetschek will then get into our performance in more depth and Scott Nuttall will give you a sense of what we're seeing across our businesses.

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The third quarter was a bumpy ride for the markets and like many others we weren't immune. This morning we reported a third quarter economic net loss of $592 million and an after tax economic net loss per unit of $0.91. And the big driver here was an 8.5% reduction in the carrying value of our private equity investments. Still that outperformed the S&P 500, which declined by 14%, and on a year-to-date basis our private equity funds are up 1.5% beating the S&P by over 1,000 basis points.

Turning to our cash metrics for a moment, we feel good about their progression. Fee-related earnings, gross distributable earnings and our distribution for the first nine months of 2011 increased 35%, 22% and 35% respectively from the same period of 2010.

Now as you know the economic net loss in the quarter is the result of marking our portfolio to market at a point in time and markets have continued to move considerably. Over the month of October, for instance, the S&P increased 11%, it's single highest monthly move in 20 years, and our stock price was up 30%.

Importantly with this volatility we have the luxury of long-dated capital. We can wait to exit until the market ascribes what we believe is full value to what we own since we're not subject to redemption risk on the vast majority of AUM. In the meantime, we can ride out disrupted markets focusing on enhancing performance in our portfolios and growing value over the long-term.

Now looking beyond the mark-to-market noise, our business momentum has not abated. First, we continue to focus on those things that we can control in our own business. That's meant driving steady management fee streams. This quarter we achieved net inflows in each segment on a fee-paying AUM basis.

In our portfolio companies, as always, it means improving operations, which we have continued to do. If we improve the performance of our companies, exits tend to take care of themselves. That's been true even in the choppy market environment since our last call as we did two large follow-on offerings in Dollar General and Avago in September, and earlier this week we closed on the sale of Hilcorp Resources and a second smaller shale investment.

We also continued to take advantage of the investing opportunities this environment provides. Activity across our businesses is the busiest we've seen it in a while. We have closed on all the transactions we had pending at the time of our last call with the exception of one where we are awaiting final regulatory approval, and we've announced four new private equity investments since then.

Finally, our newest initiatives are really starting to pay off. Scott will get into more on this, but it's put us at a huge advantage to have the pools of capital and expertise to access the different types of opportunities we're seeing.

Take alternative credit. Since we last spoke we've invested about $370 million in special situations and made three new mezzanine investments. Similarly, the capital markets team saw a major pickup in activity resulting in a record fee-related earnings quarter for this part of our business.

So in short, the business is continuing to grow, transaction activity has heightened and our investments are holding up well despite the equity market volatility that dragged down this quarters ENI.

I'll now turn it over to Bill.

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

Thanks, Craig. Our assets under management were $59 billion as of September 30, up 6% year-over-year but down 5% from last quarter. Though we've continued to raise new capital in the quarter, AUM fell due to the mark-to-market on our investments. Equity market declines impacted both our public companies and the public peers of our private companies. However, our

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companies themselves have continued to perform. Our portfolios LTM August revenue and EBITDA are up 11% and 9% versus the prior year.

Our fee-paying AUM at the end of September was $46 billion, flat from last quarter but up over 8% since the same time last year. Because most of our fee-paying AUM is not impacted by mark-to-market, there wasn't as much of a move as you saw in AUM. The quarter-over-quarter comparison was impacted by the depreciation of the euro on our euro denominated commitments and our PE funds. Capital raising drove most of the year-over-year increase but was partly offset by distributions to our LPs.

In terms of our P&L, we posted our second highest quarter feel-related earnings since going public. Fee-related earnings were $98 million, up 29% versus last quarter and 41% compared to last year. The increase over last quarter resulted from higher transaction fees. The large increase over last year was driven by these higher transaction fees and additional management fees from new capital we've raised.

As Craig mentioned, we had an economic net loss this quarter of $592 million. The key driver was the 8.5% decline in the carrying value of our private equity investment. This impacts our P&L in two ways. First, it reduces accrued carry. Second, because our balance sheet is invested largely in the same assets as our private equity funds, it reduces the value of our balance sheet which you see in the other investment income line. Together, these two items more than offset the increase in fee-related earnings in the quarter.

Looking at our segments, in private markets we generated fee-related earnings of $41 million, up 9% from last quarter but down 4% from the third quarter last year. The increase from last quarter is mostly due to the higher level of transaction fees resulting from closing a number of new private equity investments. The decline from last year resulted from expenses related to new businesses, like real estate, oil and gas, and a continued build out of our client and partner group. This was partly offset by an increase in management fees as we've continued to raise new capital.

Private markets had an economic net loss for the quarter of $152 million compared to income of $128 million last quarter and $174 million last year. Because we marked our funds down by 8.5%, we had to reverse some of the net carried interest we had accrued in prior quarters. Even after the reversal, we still have accrued unrealized carry of about $460 million or about $0.67 a unit. And despite the mark-to-market decline all of our private equity funds, except Europe II, are above cost so there is still accruing carry.

Our public market segment generated $12 million of fee-related earnings in the quarter versus $21 million last quarter and $13 million in the same quarter last year. The big difference here is the KFN incentive fee. As we said before, this fee is dependent on KFN's performance exceeded a certain hurdle. That hurdle is currently about $0.33 of GAAP EPS per quarter. KFN didn't beat the hurdle this quarter so there was no incentive fee. However, this was somewhat offset by a one-time catch-up management fee of $7 million earned in connection with the mezzanine fund close.

Moving to capital markets, this was a record quarter. Fee-related earnings were $45 million compared to $18 million last quarter and $13 million in the same quarter last year. The improvement in both periods reflect more transaction closings, many of which included equity syndications. The improvement over last year was also helped by increased activity in Europe and Asia now that the business is global.

We have also continued to grow our third party business. The principal activities part of this segment, which refers to our balance sheet investments, offset the strength in fee-related earnings. The decline in marks during the quarter resulted in economic net loss of $449 million versus ENI of $166 million last quarter and $130 million in the same quarter of last year.

Our balance sheet is mostly invested in the same assets that make up our PE portfolio but with a little more exposure to some of the public companies that traded down this quarter, like HCA and NXP. So we saw a 9.5% decline in the carrying value of our balance sheet assets. This reduced our book value to $8.17 per unit at the end of September. Still, this is up 7% since the same time last year.

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We declared a distribution of $0.10 a unit for the third quarter, approximately 20% of this came from cash carry. Our year-to-date distribution is now $0.42, up from $0.31 for the same period in 2010. Looking to next quarter's distributions, the shale deals that close this week should contribute about $0.06 of cash carry to that distribution.

I'll now turn it over to Scott.

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

Thanks, Bill. Well, this is certainly an interesting environment. When we step back we see it as a great environment for what we do. Traditional capital providers to many asset classes are impaired or gone but there's still a significant need for capital in our system.

The result we're finding is a supply demand imbalance in a number of markets and we've been building KKR with a focus on having long-dated capital that can rotate to these imbalances as they occur. So in environments like this we're actively deploying capital into the uncertainty.

Let's separate ourselves from the headlines for just a moment. As we look at our business we see the following. Continued growth in Asia where we're busy across private equity and special situations, dislocation in Europe where we're very active in both special sits and originating credit, lower valuations in the US where we're active in private equity and in originated credit as the banks have cut lending activity to the middle market in particular, and we see significant opportunities in energy on a global basis.

We're cognizant of the risks but feel environments like this yield great investment opportunities. There are very few long-dated pools of capital as large as ours that can take advantage of dislocations. So we're very busy.

Now let me share some observations on our different businesses and our overall strategy. On the private equity side, let's start with the portfolio. Given the markdown this quarter it's fair to question how our companies are doing. We watch this very closely, as you'd expect. As Bill mentioned, the answer is that they're doing surprisingly well overall. EBITDA for our global portfolio was up 9% over the 12 months through August.

And you may ask, "Well, what about Europe? What about more recently?" Well, actually the number is actually 12% EBITDA growth in Europe over the last 12 months, so higher than our global average. And when you look more recently, we saw 7% growth for the three months through August and isolating August alone we actually saw EBITDA up 8% for our portfolio.

But we're keeping a very close eye on this performance. We do a survey of our global CEOs once a quarter and that survey came back more cautious in September than it did in June. So we're continuing to say focused on the details and working with our companies on their cost and their capital structures.

In that regard, a couple of interesting statistics. Since 2009 we have refinanced $100 billion of debt in our portfolio, over half of that was refinanced in 2011. So, almost 75% of our companies' maturities are now in 2015 or later. We're also focused on fixing floating rate obligations, locking in rates while treasuries are all-time lows. And today over 80% of the net debt in our North American portfolio is now fixed for the next three to four years. So while we're under no pressure to exit, the performance of our portfolio has certainly provided us with the opportunity in certain situations.

Important to recognize that 30% of our portfolio is in public stocks today and they're trading on average at 2.7 times our cost. As such, they're more mature and much easier to monetize. We have two very recent examples of this. In mid-September we did a $1 billion secondary for Dollar General at 3.9 times our cost, and in late September we did a $500 million secondary for Avago at 6.6 times our cost. And what we did is we returned our share of those proceeds to our LPs and to our balance sheet.

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But the public markets aren't our only exit route. We find that strategic sale dialogue ticks up in times like these. Last call we mentioned that we sold Hilcorp to Marathon and that returned 2.7 times our $420 million of cost within 18 months.

As Craig mentioned, we sold a smaller shale investment just this week which returned 2 times cost in less than 12 months. And these sales are in addition to our sales of East Resources last year to Shell for 4.7 times our cost after a one-year holding period. So this focus on exits has helped us return almost $9 billion of cash to private equity LPs since the start of 2010, about $5 billion of that in 2011 so far.

We've also been very busy on the new deal front. We find some of our best investments in low growth, lower multiple periods like this. The LBO math of acquiring assets at lower valuations is very attractive, even incorporating the somewhat lower leverage and higher financing costs in this type of environment. So we've been actively putting money to work. In Q3 we closed on about $2 billion of investments, and since our last call we've announced four more private equity investments.

In terms of fundraising, we have not yet had a first close on our next North American private equity fund but we're making very good progress. Though we can't get into too much detail on the call because of private placement rules, we do have a direct line of sight to a sizeable first close. We still have about $2 billion left in the 2006 fund when you adjust for recently announced deals so we're comfortable with where we are in the process.

Also, our first Asian fund is now about 70% invested and already marked at 1.5 times cost so we expect to begin the marketing process for its successor soon. In total today we have over $9 billion of dry powder in private equity right now so we have a lot of opportunity and a lot of money to invest at a very interesting point in the cycle.

So let's move to energy and infrastructure. These businesses are scaling quickly for us due to the demand for yield orientated and inflation protected product. KKR Natural Resources, which is our oil and gas platform, now has 1.5 billion of commitments. In total, we now have over 3.5 billion of commitments for non-private equity energy and infrastructure up from nothing at the beginning of 2010. And our team is in advanced dialogue on a number of transactions so we expect to continue deploying capital at a good pace in this business.

Some of the opportunities we're seeing, like royalty interests and energy-related mezzanine, might actually be big enough opportunities to raise some dedicated pools of capital down the line.

Our public markets business is also benefiting from the dislocated markets. Mezz and special situations have been busier than ever. Since the start of the third quarter we deployed over $130 million in mezz and about $370 million in special sits, and our pipeline continues to build. In Europe we're starting to see more assets shake loose from bank balance sheets. And in the US we're seeing deal flow in real estate and regulatory driven industries like healthcare and utilities.

On the long/short equity front, our hedge fund started investing in the third quarter and we started with some capital from our balance sheet and some other founding investors. As of quarter end, the team is managing over $270 million, which we expect to grow over time. Though it's very early in this process, we're quite pleased with the performance so far.

With all the activity in this segment, fundraising remains a big priority. We had a final close on our first mezzanine fund this quarter at $1 billion, 70% of the LPs in this fund are new investors to KKR. And given the level of activity, about 30% of that fund is already invested.

We also now have over $2 billion of commitments to special situations. That capital is substantially invested so we may raise a dedicated pool of capital here in the near-term. In aggregate we now have over $3 billion of capital focused on alternative credit from nothing 18 months ago.

Our capital markets business and the balance sheet are huge differentiators for us at times like these. They facilitate activity during dislocations and enable us to keep working when outside financing sources slow down.

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Our capital markets team helped us get the private equity deals we announced earlier in the year over the finish line, including significant equity syndication. And we see opportunity in the mid-market as the universal banks focus on larger companies. So we're working on more merchant banking type business for third party clients, and we're pursuing this activity globally. For example, we created a non-bank finance company to provide debt solutions to local companies in India.

And our balance sheet enables us to accelerate growth despite the environment. It's important to recognize we view our balance sheet as a real strategic differentiator. We've been redeploying capital from realizations to support our capital markets business and to seed new investment strategies for the firm.

Beyond the contractual commitments on Page 3 of our press release, we've committed $300 million to real estate where we have a robust pipeline of actionable opportunities. We committed $140 million to two standalone liquid credit strategies, $100 million to launch our long/short equity hedged fund, and we also committed $100 million to build the NBFC in India I just referenced.

We find that these commitments help us develop formal track records enabling consultants to recommend us to potential partners. They also demonstrate to those investors our dedication to these new efforts and they should help us scale new business more quickly, which means more fee-related earnings, carry and therefore distributions. And this is in addition to the fact that they're invested in our own higher returning asset management strategies that should deliver attractive returns over time.

Before we wrap up let me just spend a minute on strategy. Our strategy from here is focused on a few areas. First, we want to continue to grow the businesses we're in. We're starting to achieve scale in energy and infrastructure and alternative credit and we see significant opportunities for further growth in both. In liquid credit, there's also substantial room to grow as we capture more market share. We're also just getting started in real estate and hedge funds, two large markets where we have new efforts. And finally we continue to see opportunities to grow our private equity business as we did with our recent China growth fund.

Second, we want to continue to take our expertise global. This means bringing some of the businesses we first built in the US and growing them in Europe, Asia and over time in South America. Third, we want to expand our capital markets activities, both with our own investing businesses and by developing merchant banking efforts, selectively providing capital and advice to third parties. And finally, we want to use the balance sheet to drive and accelerate the growth of the firm.

So there's plenty to focus on and a lot of compelling opportunities in this uncertain world in which we all find ourselves. We're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). We'll take our first question from Robert Lee with KBW securities.

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

Good morning, guys.

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

Morning, Rob.

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

Couple questions, just trying to get a little bit -- make sure I understand some of the moving pieces around the uncalled commitments and the capital raising you've been doing. If I look at the uncalled commitments of 11.2 billion in aggregate, are those all at this point fee-paying? And I guess what I'm trying to get at is what's the amount of commitments you have, maybe it's in the energy business, that's committed not yet paying fees at this point?

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

Hey, Rob. This is Bill, how are you?

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

Good, Bill. How are you doing?

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

Okay. You're referring to the table on Page 19 so, obviously, with our private market funds we've got uncommitted -- uncalled commitments of about 8.7 billion and those are traditional fee-paying funds. As it relates to energy and infrastructure where we've got the natural resources that is paying a fee as well as the infrastructure itself.

On the co-investment vehicles, those are paying fees although some are at a reduced scale depending on the strategy that we're investing in. So the short answer is that all of the assets that are listed on the 11.2 are paying some sort of management fee.

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

Okay. And I guess what I'm also trying to reconcile, if I look at the capital flows into AUM and then compare it to the capital inflows into fee-paying AUM obviously the capital flows into AUM is higher. I'm just trying to understand maybe some of the discrepancy there. The incremental capital flows into kind of I'll call it grossed up AUM, there is some piece of that that's not earning fees. Is that correct?

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

Correct. So if you take a look just in private markets you could see that the new capital raise was about 172 million coming in as inflows, but for the fee-paying AUM that number is $103 million. We actually had syndicated out some co-investment where we're entitled to carry but not fee and that's what makes up the differential there.

And you'll see that each quarter where there's going to be subtle differences between AUM and fee-paying AUM. Obviously, also to the extent that we actually deploy capital, as Scott mentioned earlier, we put in 100 million into KES. That will go into AUM but it won't show up as fee-paying AUM.

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

Okay. And maybe one more question and then I can circle back. Along the same topic, last quarter and, Scott, I think you kind of touched on it this quarter you talked about signing the $500 million I guess separate account for I guess it was the energy business. Again, just trying to -- is that the situation where it is kind of once you call it -- you don't earn anything until you call

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the capital? I think that's back to my earlier question, is there kind of chunks of capital that you have that you're not earning fees yet but kind of still could be drawn down?

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

You're right, Rob. There are going to be pools of capital where we get paid on committed and invested and then we're going to have some pools of capital where we just get paid on invested. So those we'd only get paid once the money gets in the ground it'll take a little time for that to show up in the table.

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

Is it possible to quantify what that may be?

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

I don't know that we -- we don't actually look at the business that way so I'm not sure we have an aggregate figure for you. It's not that material relative to our $59 billion in assets it's a relatively small overall number.

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

That's a fact. It's not that big a number, Rob.

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

Okay, great. Thanks for taking my questions. I'll get back in queue.

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

Thanks, Rob.

Operator

Next we'll go to William Katz with Citi.

William Katz - *Citi - Analyst*

Thank you. Good morning. Two questions, first one just, Scott, you mentioned you have some good line of sight onto a North America fund. Do you think you can maybe add a little more flavor around that in terms of the new growth existing LPs? Obviously, you provided it on some of the other portfolios but I'm sort of curious the kind of traction you're getting in the core business.

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

Sure. Like I stated, the flavor we'd be prepared to share with you, Bill, is that we're having a robust set of dialogues, both with the existing investors that have supported us historically in private equity and frankly several hundred new prospects that we've never really spoken with before.

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So the overall dynamic I think is a good one. We're continuing to see some of the trends that we've talked about in prior quarters play out that there's this rotation to alternatives that is absolutely happening. The consolidation of relationships that we're seeing institutions determine they want to have fewer friends is absolutely playing out as well and so we think we're going to be the net beneficiaries of that.

That takes some time to occur but the overall color is many more discussions than we've ever had before, good traction with the existings, and a number of new prospects that we're spending a significant amount of time with and we're hopeful will be supportive of our North American fundraise.

William Katz - *Citi - Analyst*

Okay, that's helpful. The second question sort of comes back to sort of growth versus margins, and if you look at your fee-related margin you've kicked off a number of things you want to invest in. How should we think about either at the business line, the segment level whether it be the private or public markets or capital markets or in aggregate in terms of margins on just sort of the management fee side of the business?

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

I'll take that, Bill. I kind of view it as a bit of a tradeoff each quarter. If you think about the number of businesses we've started in the last 18, 24 months it's actually pretty significant. I think we've launched six or seven new efforts for the firm. So in any given quarter you're going to have a couple things going on. You're going to have some of those newer efforts starting to scale and we mentioned that we're starting to achieve some scale in energy and in this alternative credit space, mezzanine and special situations. So we're starting to get quite positive operating leverage in those two areas in particular.

And then you're going to have that positive flow-through in margin dynamic offset in any given quarter by new things we're doing. And so the newer efforts of late are frankly real estate and launching our long/short equity hedge fund, which is not yet positive in terms of the bottom line. So I think if you look at this quarter actually that dynamic played out well. We saw some margin expansion. We saw positive overall flow-through of our revenues down to the bottom line relative to our historical margins, but it's really going to be that tradeoff quarter-to-quarter as to how it comes out in the numbers.

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

And, Bill, let me just add when you think about it and to Scott's point as we launch these new strategies we're taking that expense, obviously, though our P&L. That being said, our margins for the first nine months of 2011 are 45% in total, which is up from 43% for the first nine months of 2010. So as we continue to grow the business and we're taking those expenses upfront, over a nine-month basis our margins actually have improved.

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

The way I think about it, Bill, is in our business our capital expenditures flow through our income statement and we've been investing a lot in the firm. Despite that we've managed to grow our margins.

William Katz - *Citi - Analyst*

Okay, perfect. Thank you very much for taking my questions.

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

Thanks.

Operator

Next we have Michael Kim with Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hey, guys. Good morning.

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

Morning.

Michael Kim - *Sandler O'Neill - Analyst*

First, is there any way to kind of break down the different components of the markdowns this quarter so a portion was obviously related to the public equity declines versus FX losses versus any kind of changes to your internal valuation models?

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

Hey, Michael, it's Scott. To answer the last part first, there was no change to our internal valuation model. So the methodology has been consistent for the last many quarters, ever since we launched the process so no change on that. As you'd expect in any given quarter that has this kind of volatility, we saw the public market marks go down a bit more than the privates this quarter and that's frankly been pretty consistent with what we've seen historically.

The private marks tend to be a bit muted relative to what's going on with the public markets given that half of their valuation comes from market comps and half comes from DCF and the DCF doesn't move as much as the public markets do. But no change in methodology and this is just kind of what fell out of our normal process.

Michael Kim - *Sandler O'Neill - Analyst*

Okay, that's helpful. And then maybe just to follow up on deal flow, I know you talked a bit about it earlier but just seems like there's some headwinds maybe around rising credit costs and kind of ongoing market volatility but at the same time there's obviously fewer competitors out there and the opportunity set maybe seems to be broadening out. So can you just maybe give us some color in terms of how you see that dynamic playing out?

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

I think you articulated it well. I think the net of that dynamic from our standpoint is positive as it relates to deal flow. We're quite busy in the US, as I mentioned in the comments, actually having valuations come down helps our returns a lot more than a bit less leverage and a bit more expensive leverage will hurt our returns.

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So the net of that is a big positive for us. Frankly, the public markets being less hospitable is actually driving a significant number of discussions with private companies where our competition historically was them going public, being public right now is not necessarily as attractive a proposition as it once was. So the private company dialogue in the US is particularly busy.

In Europe, we're quite active as well. That's really more in the public to private side of things. Public company stock prices have fallen quite a bit, as you know, and so there's some companies that were frankly out of reach for us from a multiple standpoint for a long while that are now back in reach and we're starting to have those conversations. And Asia has frankly been busy throughout, largely on the growth capital front. So I'd say the overall dynamic is actually quite positive net in terms of the deal flow we're seeing in private equity.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then just finally you talked about some of the capital you've committed to some of your new initiatives. Doesn't sound like it but has the recent market action had any impact on some of those plans just as maybe the outlook for realizations gets pushed out a bit?

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

It really has not had an impact on any of those plans. If anything, Michael, I think we see more attractive deal flow and more to do in some of the areas that we articulated where we're rotating some of our capital but no impact from the recent volatility in the markets.

Michael Kim - *Sandler O'Neill - Analyst*

Okay.

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

And the good thing is we've got a significant balance sheet to execute on those strategies if opportunity presents itself.

Michael Kim - *Sandler O'Neill - Analyst*

Got it. Thanks for taking my questions.

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

Thank you.

Operator

Next we have Howard Chen with Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Hi. Good morning, everyone.

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

Morning.

Howard Chen - *Credit Suisse - Analyst*

I wanted to revisit the strong capital markets transactions fees this quarter, is that entirely due to the improved equity syndication fees? And I guess on that, Scott, I found your commentary pretty interesting given the constructiveness on the opportunities that you see versus clearly what the lack of kind of public markets activity we're seeing from the global investment banks in a quarter like this. So just hoping you can kind of dig a little bit more into the opportunities that you see on that front. Thanks.

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

Bill, do you want to start off?

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

Well, what I was going to point out is that you're right as it relates to syndication of equity as it relates to our capital markets. What we've done during this quarter and we announced two transactions in the second quarter is that those actually closed in the third quarter and we did a very good job of syndicating the equity to strategic investors in mutual funds and our LPs.

And by doing that we were able to capture a good amount of economics in our capital markets business. As well, we deployed a certain amount of capital in our private market funds, and from that we received transaction fees as well and so that's why you see a big increase in the third quarter compared to the second quarter.

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

I'd say, Howard, a couple incremental comments. The results this quarter in capital markets were really driven by a few different things. The biggest contributor was the equity syndication that Bill referenced. Also, though, the team was involved in some debt underwriting opportunities and so some of the economics for the quarter related to the debt underwritings they participated in.

And I mentioned that we're doing more of this merchant bank third party client business, we also saw that business pick up quite a bit in the third quarter as well. So it's really the aggregate of those three things that came through in the record capital markets quarter we reported.

The only other comment I'd make is this is an important part of our business model to understand. We find that we're in many of our businesses able to originate transactions where the investment opportunity is larger than the amount we can responsibly allocate to the pools of funds that we control. So what we will do is we will actually speak for more, allocate what we want to hold and own from a diversification standpoint to our own funds, and then syndicate the rest.

And by syndicating the rest we're able to do several things, including controlling the asset in a number of instances where probably 5, 10 years ago we would not have been able to control the asset. But it also allows us to retain economics on that content by syndicating it to pools of capital that we partner with as opposed to compete with. And so it is a very important and developing part of our business model. And so as you see us pursue big transactions I think you'll continue to see that syndication element consistent throughout.

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

And one last point in capital markets is obviously we've gone global and so we've got a business in Europe and we've also got a business in Asia and approximately 25% of the revenue this quarter actually came away from the United States.

Howard Chen - *Credit Suisse - Analyst*

All really interesting, thanks for that color. And then separately, Scott, you gave a brief update on KKR equity strategies. I know it's very early here but if performance, knock on wood, is where you want it to be how do you think about when the right time is to scale us up, raise external capital?

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

Well, we really just started investing in August so, as you say, it is very early. We purposely started with just some of our own capital and some founder capital alongside so at a pretty modest size. We are now starting to accept some third party commitments so we are in the market, but I think what we're most focused on, Howard, is that we have good performance and then we think fundraising and the ultimate size of the capital will take care of itself but very early days but so far so good.

Howard Chen - *Credit Suisse - Analyst*

Great, thanks. And then my final question, you noted some of the opportunities you're pursuing. Not sure if this is even the way you look at it, Scott, but how do you think about prioritizing liquid credit versus real estate versus natural resources in the context of all the opportunities you're seeing today?

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

Well, the good news is we're seeing opportunities to invest across all those different areas and we have dedicated teams focused on each. So the nice thing about having long-term dedicated capital is you can actually invest when the opportunities are there and wait when they're not. We just happen to be in a period of time right now where we see opportunity basically everywhere we look and so all of our teams are busy. So there hasn't really been a need to prioritize per se because the pools of capital are relatively dedicated and the teams are quite dedicated as too. We all help each other but everybody wakes up with a day job.

Howard Chen - *Credit Suisse - Analyst*

Okay. Thanks for taking the questions.

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

Thank you.

Operator

Next we have Roger Freeman with Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

Hi, good morning.

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

Morning.

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

Hey, Roger.

Roger Freeman - *Barclays Capital - Analyst*

I guess first back on the marks quickly, is the -- I should know this and I just don't have it handy. But I assume that none of the public company positions had any outsized losses in the quarter because your marks were less than at least two of your large competitors who did have some significant declines. And I think that's probably the reason because if you look at your overall mark and you just round numbers look at global equity markets and what you marked at and assume 50/50 the DCF doesn't change you kind of marked down half of what the global markets were down.

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

I think that's generally right, Roger. We didn't have any -- overall our publics were down probably not much more than the market was down. There was some offsetting numbers, frankly. Dollar General was up and that's a big position, HCA was down. Those were two of our bigger dollar movers, but they kind of offset one another to a certain degree and the rest was kind of in line with market a bit more than that.

Roger Freeman - *Barclays Capital - Analyst*

Okay.

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

Roger, keep in mind that when you're look at the private equity portfolio about 30% of the assets are in public mark and 70% are in private mark. So again, Scott mentioned earlier that appreciation or depreciation in the market because half of the valuation done on our private companies is through DCF and it's somewhat muted you're not going to see as big a swing on the private company marks.

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

The other consideration is EBITDA that keeps growing, right? So even if multiples are down you can still have value creation just depends on how much the multiple is down and how much the EBITDA is up.

Roger Freeman - *Barclays Capital - Analyst*

Just out of curiosity, at what point would you look to change DCF inputs like discount rates of the markets are down and there's a view that equity risk premiums have gone up?

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

We look at -- we reassess the inputs into the DCF model every quarter. That includes both the long-term outlook for the company that is, obviously, the set of projections running through the DCF, but also rates. So we look at that on a quarterly basis for each one of our private companies.

Roger Freeman - *Barclays Capital - Analyst*

Right.

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

And keep in mind that when we go through our valuation process, to your point, we look at this every single quarter and we also have Duff & Phelps signed off on our valuation methodology each and every quarter.

Roger Freeman - *Barclays Capital - Analyst*

Right, okay. In Europe, Scott, you made some interesting comments about just valuations being low and your public to private discussions had picked up. How does that -- how about the ability to do deals because it seems at least when we were talking to Blackstone a couple weeks ago that there's very limited credit availability so it's limiting the size of deals. So are your discussions with sort of smaller opportunities or do you not find the environment as challenging?

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

No, I think we're -- it's all the size of transaction that you're trying to pursue. We think that there is a credit market, especially on the senior term loan side. That market is relatively open. There's not much of a high yield market in Europe today, Roger, so you're talking about more of a bank debt funded transaction plus maybe some mezzanine. But we think you can get kind of new transactions with 40% to 50% debt $2 billion or $3 billion type transaction could be potentially doable in this environment. Having said that, the credit markets are a bit of a week-to-week dynamic these days, but that's what it looks like lately.

Roger Freeman - *Barclays Capital - Analyst*

Is it European banks that are or other like US banks that you're bringing over to work with potentially on transactions or?

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

In some of these transactions a lot of the banks are now global in their approach so it'll be global banks plus some of the European competitors to those global banks that'll participate in these syndicates. But also, as we referenced, we're spending a lot of time actually buying assets from the banks in our special situations business. So there's a number of dialogues going on at any given time.

Roger Freeman - *Barclays Capital - Analyst*

Right, and that stuff's not -- that's not levered.

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

Correct.

Roger Freeman - *Barclays Capital - Analyst*

Last question just on syndication, your comments there. Just thinking in terms of you said you can look at deals today that you couldn't have a while back in terms of size. How do you sort of think about your capital base, your ability to step up for a large deal that might have been, just speaking theoretically, would have been a club deal in the past and potentially wind up with risk of not being able to syndicate. Presumably you'd have to syndicate afterwards if the market were to [discern] and then you paid too much and you couldn't sell. How do you think about that from a risk management perspective?

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

For the most part we're very careful about risk management. So the way these processes tend to work is we have a group of partners that we know want to invest in our private equity transactions on a direct or co-invested basis. We've kind of built up these relationships globally. We know what industry they like and we know what equity size checks they will consider.

And what in a lot of instances we'll do, Roger, is we'll have them work alongside us in the latter stages of the diligence process and the overall transaction assessment process so that when we actually announce a deal we're signing together. That's how most of these transactions work. There will be some sell down process post announcement in some of these situations, but the bulk of the syndication work is done before it actually gets announced.

Roger Freeman - *Barclays Capital - Analyst*

Okay. So it doesn't really sound like a change in strategy with what you've done in the past just because you've got this bigger capital base now.

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

It's not a change in strategy but we do have the flexibility now that we have permanent capital that's becoming more liquid to actually bridge if we choose to do so. We're not doing that in any great degree. I wouldn't worry about it from a risk management standpoint.

Roger Freeman - *Barclays Capital - Analyst*

Okay. Thanks a lot.

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

Thank you.

Operator

(Operator Instructions). Next we'll go to Marc Irizarry with Goldman Sachs.

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Marc Irizarry - *Goldman Sachs - Analyst*

Thanks. Scott, can you just hit a little bit more on the middle market opportunity that you see? Is this going to be more of a public market opportunity or is this a bit more for some private equity capital formation?

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

You're talking about the middle market as it relates to the capital markets comments I made, Marc?

Marc Irizarry - *Goldman Sachs - Analyst*

Well, you just said as part of the themes you mentioned Asia, Europe and the US middle market opportunity. Where do you see that in public or private?

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

Got it. We're seeing that predominantly in public markets, what we call public markets, which will include our mezzanine business where we've been very active working with middle market companies. And frankly what we're finding is that we've been talking to them about their capital needs and that a number of the folks that used to cover them from the big universal banks have frankly moved on to just cover larger competitors of theirs or are no longer at their institutions.

So we're engaged in a number of discussions in terms of providing capital, and it's largely debt capital, to those companies and that's middle market companies directly and then also middle market sponsors in the companies that they own. And what that's done is also developed some opportunities for us in the senior loan space so we're doing not just mezzanine but also more senior loans to the middle market.

And what we'll do there is we'll partner that business with our capital markets business, Marc. So what we'll actually do is in some of those instances we will underwrite off our credit teams the loan or the mezz and we'll put what we want in our funds and we'll syndicate the rest through capital markets. So it's predominantly impacting on a segment basis public markets and capital markets.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then just in your discussions with LPs where are you seeing the most interest? Is it in some of the more liquid public market areas or maybe more recently in sort of lower demand environment for some of the less liquid areas?

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

I'd say it's pretty broad based today, Marc, and it really depends on the institution that we're speaking with. The general theme is that this rotation out of high grade fixed and out of long only equities into other strategies that have higher return potential, and we're seeing that on a pretty broad based fashion that rotation. And then kind of where they want to rotate to is somewhat dependent on with whom you're speaking.

But I'd say a couple of themes, one is people like yield right now so if you think about what I mentioned in terms of our mezzanine special situations businesses, our oil and gas business, our infrastructure business, there's a significant focus on yield in the markets that's lining up with a number of the opportunities that we're seeing. And institutions are saying okay, I need to beat an 8% hurdle. If I think that I can actually get a return of 6%, 7%, 8%, 10% just in the current yield on the investment, that gives me a much better chance of having an overall return ahead of my hurdle. And so we're seeing interest in that.

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I'd say we're seeing some interest in inflation protected products, which I think has helped us grow our energy business. But also we're seeing capital still remain interested in the longer dated asset classes like private equity. I think investors have received far more cash back from their private equity partners as an industry than they expected to, and so we're seeing some of that capital get redeployed back into funds.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, that's great. And then, Bill, can you just talk about the distribution as we look out to the fourth quarter. You mentioned the $0.06 shale distribution, but I guess you've done 401 million through nine months in distributable earnings and distributed a little under 100 million. How should we think about how much capital you're going to sort of retain? How much of the capital are going to retain versus distributed for the fourth quarter?

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

Well, Marc, as you know our stated distribution policy is that what we've said is that all fee-related earnings we expect to distribute. All cash carry that we earn in a particular quarter we would distribute. And to the extent that there is going to be taxes that are going to be ascribed to our LPs in our public units because of the nature of the flow-through of the income on carry, we would make a tax distribution. That policy hasn't changed so when we look at the fourth quarter we anticipate distributing fee-related earnings that are earned in the quarter.

We've already given you some guidance as to what the cash carry would be because the two shale transactions that did close in this quarter will be distributed next quarter, that amount is about $0.06. And then keep in mind that we've done a broad calculation as it relates to what the tax distribution number would be as of September 30. And just to give you an indication, if taxable income didn't change from September 30 to December 31, the tax distribution that we anticipate distributing with our fourth quarter distribution in February of 2012 would be about $0.08 a share.

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

Marc, I think if you're looking at Page 20 of the press release just to be real clear, the gross distributable earnings for the firm on 100% basis is 401 million. But what actually you're looking at I think maybe the portion that is attributed to the percentage of the company that the public holds, and so that'll be the big bridge from the 401 down to the 100 or so. So basically public owns a bit over 30%, 400 million of distributable earnings gets brought down to 129 million less taxes that's how you get to the 95 million or so of distributable earnings post tax that goes to the public shareholders.

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

And, obviously, that 94 million is then just divided by the number of the public units.

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

Does that make sense?

Marc Irizarry - *Goldman Sachs - Analyst*

Got you. Thank.

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

Thank you.

Operator

Next we have Guy Moszkowski of Bank of America Merrill Lynch.

Guy Moszkowski - *Bank of America Merrill Lynch - Analyst*

Good morning, just a couple of cleanup type of questions. The first one is can you just give us a number of how much AUM is committed but not yet in fee earnings and maybe a timetable to bring that online? So it's really a pipeline question.

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

I don't know that we can share that number with you, Guy, because the biggest component of that number frankly is going to be some of the private equity fundraising that's still ongoing. We're limited in terms of how much we can share at this point. But I think if you go back and you exclude the private equity piece, I'd refer back to the comments we made prior, we've got some co-invest vehicles where that's the case. We have some separate accounts where that's the case. It aggregates in kind of I would say $1 billion plus. It's not a big number.

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

That's right. But remember, to Scott's point, as it relates to private equity or the North America fund, obviously, we've got soft circles but obviously that wouldn't come in until we actually close that fund and actually had committed capital. That would go on the table and we'd start collecting a fee once we turned on that fund.

Guy Moszkowski - *Bank of America Merrill Lynch - Analyst*

Okay, fair enough. And maybe you can just give us a little bit of an explanation of that management fee catch-up from the closing of the mezz fund. Is it just because you were deploying the capital before the final close?

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

No, what that is is interestingly if you come into a traditional private equity fund or a mezzanine fund after the fund has already closed, so in this instance it was six quarters worth of activity in the mezzanine fund before that investor actually joined. Once that investor joins he has to pay the management fee as if he was in the fund from day one. So what ended up happening is in this quarter we received about $7 million of management fee on that committed capital that came in six quarters late.

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

Yes, we just had a big final closing on mezz, Guy, so it kind of had a big catch-up back to when the first closing was.

Guy Moszkowski - *Bank of America Merrill Lynch - Analyst*

Got it. Okay, that's all I had. Thanks very much.

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

Thank you.

Operator

Next we'll go to Chris Kotowski with Oppenheimer & Company.

Chris Kotowski - *Oppenheimer & Company - Analyst*

Good morning. Maybe it's a fool's errand but I always try to forecast --on Page 20 of your release I always try to forecast the realized cash carry from looking at the transactions that happen. And I guess can you kind of break up -- what are the components of the 12.9 million just because with Dollar General it seemed like it might have been a bigger number. So were there offsets to that and is there a way to kind of give us guidance how the 12.9 was generated this quarter so that to help us figure this out in the future?

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

Well, as we mentioned in the past, all of our private equity funds but one are above cost and so we're accruing carry and that's showing through in our ENI. But we have a few funds where they're clearly well above cost but we have a couple of investments in that portfolio which are below cost. So as we exit other investments that cash actually goes back to our LPs so there wouldn't actually be a cash distribution to the GP on a transaction like Dollar General because it's in the '06 fund. So even though we had a realization and we distributed cash to our LPs, there was no cash carry from Dollar General as it relates to the '06 fund.

Chris Kotowski - *Oppenheimer & Company - Analyst*

Okay.

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

Scott had mentioned earlier that we did do a secondary on Avago and that is largely held by the European fund. The European fund is a fund that pays cash carry and so we had a realization and that's what generated for the most part the $0.02 of cash carry distributed this quarter.

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

I think, Chris, in terms of the overall topic the thing to focus on is which of our funds are in a cash carry paying mode. And we have more that are accruing carry than those that are paying cash carry. Dollar General just happens to be held in the 2006 fund which is accruing but not yet paying cash.

Chris Kotowski - *Oppenheimer & Company - Analyst*

Right, okay. And then you mentioned on the '06 fund that there's about $2 billion left. And correct me if I'm wrong, I think you had historically said about -- you'd like to retain about 10% of the portfolio for follow-on investments something like that, correct?

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

Actually, I think we may have mentioned this last quarter, Chris, in response to one of your questions but to clarify it, we historically have not had reserves in our funds. And so I think what we were talking about last time was that for this fund we may very well go setup a reserve as we get closer to the finish line, but we haven't crossed that bridge. It won't be anything near 10% of the size of that fund, which was $17.6 billion it would be more modest than that.

Chris Kotowski - *Oppenheimer & Company - Analyst*

Okay, thank you.

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

Sure.

Operator

Next we'll go to William Katz with Citi.

William Katz - *Citi - Analyst*

Part of my question was just answered, but I do have a follow-up. In terms of where we stand in the fourth quarter, any sense to think about how much of the ENI decline has been clawed back given the markets to date, either from a balance sheet perspective or in the portfolios?

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

Hey, Bill, that's a good question. Remember, the way we look at our business we're long-term holders and so there is going to be volatility quarter-to-quarter. And, as you saw, there was significant impact on our portfolio being written down in the third quarter. We did a back of the envelope and if you took just our public companies and marked them as of October 31, so one month later, and Craig had mentioned that the S&P was up about 11% that month, the ENI impact would be about $275 million to the positive.

William Katz - *Citi - Analyst*

Okay, that's helpful.

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

Said another way, if we add those marks as of September 30 the ENI that we reported would have been $275 million to the good against the $592 million.

Craig Larson - *KKR & Co. L.P. - Head Investor Relations*

And again to clarify, Bill, that's only on the publicly traded companies so it does not reflect any change in the public comp perspective if you think about the private companies.

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William Katz - *Citi - Analyst*

Right, but that probably doesn't change as much given your DCF discussion before, right?

Craig Larson - *KKR & Co. L.P. - Head Investor Relations*

There would be some positive impact but it wouldn't be as big.

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

It's muted, as Scott had said. I agree.

William Katz - *Citi - Analyst*

Okay. Thanks for taking my extra question.

Craig Larson - *KKR & Co. L.P. - Head Investor Relations*

Thank you.

Operator

I do show we have no further questions at this time. I'll now turn the call back over to Craig Larson for any additional comments or closing remarks.

Craig Larson - *KKR & Co. L.P. - Head Investor Relations*

Thank you, David, and thank you, everyone, on the call. We appreciate your interests.

Operator

That does conclude today's conference and we thank you for participating.

Editor

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