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KKR - Q2 2013 KKR & Co. L.P. Earnings Conference Call

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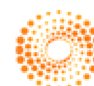

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's second-quarter 2013 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 opened for questions.

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

Craig Larson - *KKR & Co LP - Head of IR*

Thank you, Danielle. Welcome to our second-quarter 2013 earnings call, thank you for joining us.

As usual, I am joined by Bill Janetschek, our CFO; and Scott Nuttall, Global Head of Capital and Asset Management. Given recently we held our Investor Day, and the detailed nature of those presentations, our prepared remarks this quarter are actually a little shorter than usual, so we will have ample time for Q&A. Before we begin, I'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, and we will also refer to non-GAAP measures on the call, which are reconciled to GAAP figures in the press release. This morning we reported second quarter economic net income of $144 million, which equates to $0.18 of after tax economic net income per unit. Fee related earnings for the quarter were $98 million, representing a 41% increase relative to the $70 million reported for the second quarter of 2012.

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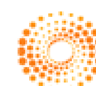

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We continue to be active on the realization front, so I'd like to highlight some of our cash metrics. Total distributable earnings were $404 million, up almost 40% quarter-over-quarter. This increase was driven by the $162 million of realized cash-carry in the second quarter, over 3 times the $53 million we reported in Q1.

During our Investor Day in late May, we highlighted a few times that over 80% of the remaining fair value in our private equity funds is in position to pay cash carry, and we are seeing the benefits of this in these quarterly results. We announced a distribution this quarter of $0.42 per unit, which is comprised of $0.10 of fee related earnings, $0.09 of net realized balance sheet income, and $0.23 of realized cash carry. In fact, this is the highest quarterly cash carry figure we have reported as a public company, and it's the 13th consecutive quarter where we've seen cash carry in the distribution.

And with that, I'll now turn it over to Bill to discuss our performance in depth, and then Scott will walk through what we've been focused on across our segments. Bill?

Bill Janetschek - *KKR & Co LP - CFO*

Thanks, Craig.

We ended the second quarter with record assets under management of $84 billion, an increase of 7% from last quarter, and 36% on a year-over-year basis. The majority of the AUM growth this quarter was attributed to the close of our Asia II fund, at its $6 billion hard cap. And as of June 30, our financials now include $5.75 billion of third-party capital committed to that fund. Our fee paying AUM was also the highest we've reported, totaling $68 billion, up 9% from last quarter. Similar to AUM, the addition of Asia II drove the increase in our fee paying AUM.

Turning to our segment results, in Private Markets fee related earnings were $43 million, up 5% from last quarter, and 18% from last year, where again, the activation of our Asia II fund drove an increase in management fees. Higher fee related earnings in the quarter, together with the 1% write-up in our private equity portfolio, translated into ENI of $72 million. Our publics were down 3% this quarter, while the private companies in our PE portfolio were up about 2%. Overall, the 1% appreciation in our PE portfolio was in line with the MSCI World, and slightly below the S&P 500, which were up 1% and 3% respectively.

Moving to Public Markets. Fee related earnings were $34 million in the second quarter, compared to $37 million last quarter, and only $12 million for the second quarter of last year. The year-over-year growth was driven by higher management and incentive fees, as fee paying AUM continues to scale in this segment, both organically and inorganically through Prisma and our stake in Nephila.

Year-to-date performance reflects the same trends, resulting in fee related earnings of $72 million for the first half of the year, up sharply from the $28 million in the first half of '12. ENI in this segment was $40 million for the quarter, and $90 million for the first six months of this year, which includes $19 million of net accrued carry. This figure continues to become more significant as we put more capital to work in carry eligible funds.

Touching on Capital Markets and Principal Activities, fee related earnings were $21 million for the quarter, flat from the second quarter of 2012, but meaningfully ahead of last quarter's figure. The results this quarter demonstrate the global nature of our Capital Markets business, as 75% of revenue came from outside of the US. Additionally, over 25% of our revenue was derived from our third-party platform.

Second quarter ENI in the segment was $32 million, down significantly from last quarter and last year. Our balance sheet was up only 1% this quarter, compared to 7% both last quarter and Q2 of last year. Our Q3 book value per unit is $9.65, which is down slightly from last quarter since cash distributions paid out during the second quarter exceeded the increase in the carrying value of our balance sheet investments in the quarter. As Craig mentioned earlier our distribution for the second quarter was $0.42 per unit. The fee related earnings and cash carry totaled $0.33, which is more than 2.5 times the comparable $0.13 distribution we reported in the second quarter of 2012. Also, if you look at the realized cash carry component of our earnings this quarter, cash carry out paced accrued carry.

Additionally, we wanted to give you a peek at the third quarter distribution based on where we are today. In early July, we participated in the 16 million share Dollar General block trade, which did amount to approximately $0.08 in our third quarter distribution. To clarify, using today's

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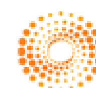

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information, that $0.08 is a combination of both cash carry at $0.04, and net realized balance sheet income associated with the sale of another $0.04.

Before I move on, I want to give you an update on netting. Back on our Investor Day in May, we highlighted the positive impact that filling the 2006 netting hole had on the percentage of private equity assets in position to pay cash carry. And as of today, that figure is still over 80%. As the Europe II, as of June 30, our netting position decreased from about $700 million as of March 31, to about $625 million, largely due to the write up of Prosieben. We will continue to update you on significant improvements we are making with respect to netting in Europe II.

And with that, I will now pass it over to Scott.

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Thanks Bill. I'm going to briefly discuss four main topics with you today. The first is capital deployment. We've had several investors ask about our ability to deploy capital, given the rising interest rate environment, and when you look at our investment activity this quarter, you will see we were actually quite busy. In Private Markets, we invested over $1.3 billion of fund capital in the quarter, including two European investments as well as Alliance Tire out of our Asia fund. This is the most active quarter we've had since the fourth quarter of 2011, and excludes the acquisitions of both Gardner Denver, and PRA International, both of which have been announced but not yet closed.

If you include these two deals, total Private Markets equity invested or committed, totals approximately $3 billion year to date. We've also been active in Public Markets. To give you a sense, if you look at mezzanine, we deployed over $200 million of capital in the second quarter across all of our accounts, versus $280 million for all of 2012. A similar trend was seen in special situations, where we invested about $400 million in Q2, which compares to $950 million for all of last year. And in both cases the majority of investment activity came out of Europe. So, we continue to be quite active in both private and public markets.

The second area worth touching on is our level of realization activity. Overall, we are pleased with the breadth and depth of monetizations that occurred in the second quarter. We returned over $2.7 billion of cash back to our private markets investors in Q2 alone, through a mix of secondaries, strategic sales and dividends. We exited BMG and Intelligence at 1.8 times and 5.4 times our cost respectively, and the four secondaries we completed in the quarter were done at 2.5 times blended multiple of invested capital. With all this exit activity we are generating a lot of cash. Our total distributable earnings for the first six months of this year were just shy of $700 million, up 22% from the $570 million for the first half of last year.

And we started to see the benefit of our netting hole progress in our cash earnings, as $215 million of the $700 million of cash flow, came from realized cash carry. The third item to focus is continuing to build our businesses, including scaling our newer initiatives. Here we continue to see progress. In Private Markets, as Bill mentioned, we closed on our second Asia fund at the $6 billion hard cap in Q2. Earlier this month, we also held another close on NAXI bringing commitments so far to just over $8 billion. And our first real estate fund is off to a good start. We've closed on $300 million of capital from a strategic institutional fund investor, and the investment capital in that fund is currently marked at 1.2 times cost. Total capital committed to our real estate strategy is nearly $800 million so far.

But it's also the case in public markets, where we raised $3.2 billion of new capital so far this year, accounting for about 30% of the total capital raised by the firm. The impact that the Public Market segment has on our financials continues to become more material, as we scale our businesses both organically and inorganically. To be more specific, Public Market's fee related earnings in the first six months were more than 2.5 times last year's figure, representing 38% of total firm fee related earnings for the first six months of 2013, double the 19% last year.

The fourth area I want to focus on is our balance sheet. We focused on this topic during our Investor Day, so let me just hit one key update. We continue to diversify the balance sheet, and use it to accelerate the momentum in our non-private equity businesses in particular. Given the opportunity that we are seeing, we have decided to allocate $250 million of additional capital to each of our real estate, special situations, and energy strategies. We like the yield and overall return profile of these assets, and think these are interesting places to deploy capital. So, if you pause and think back to where we were 12 months ago, since then, we've organically raised over $19 billion of fee paying AUM, including $14 billion in private markets, and $5 billion in public markets.

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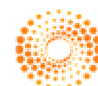

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We've announced and closed the acquisition of Prisma, and our stake in Nephila. Our fee paying AUM has increased 44% versus Q2 last year, including Prisma's assets, but not Nephila's, and some of our newer initiatives like real estate are only now accepting third-party capital. We've invested about $4 billion out of our private equity funds, and $1 billion out of our carry paying credit vehicles, which is the most we've invested in public markets over four quarter period. We've reduced netting holes, and today have over 80% of our private equity remaining fair value in position to pay cash carry. And in turn, our cash metrics have grown nicely.

If you focus on the distribution for a second, in the first half of 2012, we distributed $0.28 per unit, of after tax fee related earnings, and cash carry. For the first six months of this year, this comparable figure has almost doubled to $0.51. And with the change in our distribution policy to now include 40% of net realized principal investment income every quarter, the total distribution paid to all of us as unit holders in the first half of 2013, is $0.69 which is up from $0.28 in the first half last year. Said simply, our total distributable earnings were up 22% in the first half, and our distribution per unit is up 140%. So we feel like it's been a strong first half of 2013. As Craig said, we've kept our comments short this quarter, but we are happy to elaborate more in Q&A. Operator can you open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Chris Harris from Wells Fargo Securities

Chris Harris - *Wells Fargo Securities - Analyst*

Thank you, good morning. First question is a question really on just the general environment. Wondering why we aren't seeing more buyout activity, just generally, at this point in the cycle? It would seem like it's a pretty good environment for that given where interest rates are, and the economy plugging along here. So just wondering if you could maybe comment a little bit about that, and then what do you think generally is going to be the catalyst to get volumes higher?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure Chris, it's Scott here. Actually, if you look at our activity so far this year, including committed and announced and closed deals, it's about $3 billion of equity capital we've invested out of our Private Markets businesses, so it's picking up quite a bit. I agree with you, I think the environment is quite favorable. The financing markets are certainly open. If you look across US, Europe, and Asia, I'd say our pipeline continues to be reasonably strong, in particular North America and Asia with Europe maybe pulling back a little bit as of late. Really it's down to price.

There's a lot of interesting situations we are looking at around the world. But as the economies continue to improve, valuations continue to move up, and so we're just being very disciplined on the front price side. But, if you look at the pipeline that would indicate there is more coming. It's hard to predict how much and when. But I think the thing that we are looking for is making sure that you get the right balance in terms of the growth trajectory of the business you are investing in, and the valuation at which you are entering. It's really the ability to grow the business, top and bottom line, that impacts returns. Much more so, frankly, than the financing rates.

Craig Larson - *KKR & Co LP - Head of IR*

And Chris, this is Craig. The only thing I would add, is if you think of the total amount of dollars within Private Markets that we committed out of our funds for the full-year 2012, that number itself was just a hair over $3 billion.

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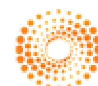

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Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

The only thing I would add Chris, is if you look at the history, and the firm has, obviously, been in the private equity business for 37 years so we have a lot of data, it is rising rate environments tend to be quite good for our portfolios. And so what tends to sometimes get lost, is a rising rate environment tends to go along with an improving economy. And a lot of the geographies we are operating in around the world, we're feeling like the backdrop is improving somewhat.

Chris Harris - *Wells Fargo Securities - Analyst*

So, the message is if we did get higher rates, maybe your financing costs go up a little bit, but maybe that's offset by generally just the improvement in the economy and so forth?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Yes, I think there's a couple of messages I would take. One is if you look at our existing portfolio, we have swapped a significant amount of our floating rate debt exposure to fixed rate. So it's 87%, give or take, of our total debt outstanding in our private equity portfolio is either fixed or swapped to fixed, so we feel like we are protected there. And the very powerful aspect of what increasing rates can do is increasing the ability to grow revenues and, therefore, profitability. And that tends to be very good for our portfolios, and in a rising rate environment our private equity performance has been particularly strong.

Chris Harris - *Wells Fargo Securities - Analyst*

Okay, thanks very much, guys.

Operator

Howard Chen from Credit Suisse

Howard Chen - *Credit Suisse - Analyst*

Scott, you touched a bit on how the interest rate shock and rising rates impacts the private equity business. I was hoping you could also touch on how you think about it, and the growth prospects of your more credit oriented strategies?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure, thanks Howard. I mean, look, the important thing to understand is our credit business of 75% plus of the investments that we have are floating-rate in nature. And so we feel like we are levered to increasing rates. The other thing to keep in mind, especially in the carry paying vehicles, those have hurdles. And the hurdles do not float with rates. So if rates go up, and it drives our ability to generate higher returns given how much floating-rate exposure we have, that's a very good thing for us.

And then the last piece is if you think about the credits that we are investing in, rising rates, improving economy, improving economy less downside risk from a credit standpoint and improved profitability, that should be good as well. So we actually feel like we are well levered to an increasing rate environment, in a positive sense, both in our credit and our private equity businesses when you look up at the makeup of how the portfolios are positioned.

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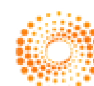

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Howard Chen - *Credit Suisse - Analyst*

Okay, great thanks. And my second question. On the incremental $250 million deployment to those three strategies you spoke about Scott, if its specific to real estate, how does the timing of that incremental capital work with your drop-down strategy that you've articulated. Should we think of that extra $250 million as an incremental investment to the drop-down fund?

Bill Janetschek - *KKR & Co LP - CFO*

Hey, Howard, this is Bill. It wouldn't be an incremental $250 million, so as we're deploying that real estate capital, we might see some opportunities that actually won't fit into that mandate. And so to make sure that we have the ability to put capital to work in things that we are looking at and we find interesting, that's why we dedicated an additional $250 million to deploy in a strategy that might be away from traditional real estate fund

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Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Yes, I'd call it new strategic initiatives within the real estate business, Howard, is the right way to think about it.

Howard Chen - *Credit Suisse - Analyst*

Okay, great thanks. And my final question, Bill, I know we will get a little more of this in the 10-Q, but I was hoping you'd give us a sneak peek on maybe the composition of the investment income, generated within the Cap Markets and Principal Activities segment this quarter, thanks?

Bill Janetschek - *KKR & Co LP - CFO*

Are you talking about the increase in the portfolio, the 1%?

Howard Chen - *Credit Suisse - Analyst*

No, just thinking about maybe just a bit of the puts and takes related to what got us down to the net $11 million of investment income?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

I think the punch line on that one, Howard, is going to be Scott's speaking, it's going to be the underlying balance sheet portfolio moving up in a manner that reasonably consistent with the overall underlying private equity portfolio. Our credit portfolios, we are up about 4% in the second quarter, so those have continued to perform. And then netting against that is interest expense. So the $11 million is a result of all of that. So, it's largely driven by a 1% or so move the private side, a 4% or so move in the more public investments in the balance sheet, you net against that the interest. (multiple speakers)

Bill Janetschek - *KKR & Co LP - CFO*

If you take a look back over the last five or six quarters, so goes the private equity market so goes balance sheet. So, as we are diversifying the balance sheet so, as we are selling off some of the private equity investments, and redeploying that capital, and adding to the mix of investments in our balance sheet, it's still heavily weighted towards private equity, and it probably will be for a short period of time.

Howard Chen - *Credit Suisse - Analyst*

Great, understood. Thanks for the color.

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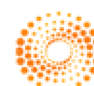

Operator

Mike Carrier from Bank of America

Mike Carrier - *Bank of America - Analyst*

Thanks, guys. First question, just on the Asia opportunity. You raised the fund, it seems like of all the regions, you've got quite a bit going on there, meaning some of the markets pulling back more significantly. You have some questions around growth, and then some other countries, maybe seeing a pretty significant turnaround. So, just curious, given that you raised this capital, you have the opportunity to deploy it now, the piece of deployment, and where you are seeing the most interesting opportunities in the region?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure, thanks Mike, it's Scott. I'd say, overall in Asia right now, the pipeline is actually quite strong. So we've invested about $700 million year-to-date in the region, and the pipeline is quite good, and it's reasonably broad based. So, we're seeing opportunities in terms of the growth equity investments in a variety of different markets, in which those are more prevalent. We've seen activity in places like Australia, in terms of pipeline been busy. Japan is looking a bit more active, as well. It's hard to predict where that goes, but as that market opens up, there's meaningful opportunity there. So I'd say the pipeline is strong and broad-based, so we feel good about our ability to deploy that capital well.

Mike Carrier - *Bank of America - Analyst*

Okay, thanks. And then I just got a follow-up. In the Public Markets, so you guys had been active across new asset classes. Just given what you're seeing, in terms of investor demand, and given what you have on the line up now, do you still see quite a bit of inorganic opportunities in that bucket? Or from here, are we likely to see more organic from the teams that you have in place launching new products, raising more capital?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

We are busy on both fronts. We continue to be very busy deploying the capital we've raised, and see opportunities to raise more. As you look at the footprint of the business though, that business year over year has gone from $9 billion of fee paying assets to $22 billion. So meaningful growth. But, we still have a significant amount of opportunity, for example, in Europe and Asia, as we build the Public Markets business to be more consistent with the footprint of the firm. So, see opportunities there to grow organically and inorganically. So, I'd say we are excited on both the organic and inorganic fronts, in terms of what we can do with that business across credit and hedge funds. And so both of those businesses, we have a lot of room to run.

Bill Janetschek - *KKR & Co LP - CFO*

And Mike, this is Bill Janetschek. Just to give you a little more color. If you take a look at page 19, you can see that in Public Markets, we actually raised new capital just during the quarter, a fee paying AUM of about $1.2 billion, for six months that number is $2.7 billion, and over the last 12 months that number is $4.7 billion. That's all organic. Away from that was the acquisition of Prisma. We ended up bringing online another $8 billion of fee paying AUM. So, you can see that there has been a significant ramp up in our Public Markets segment, and we are pretty excited about the capital deployment and investment pace over the last 12 months.

Mike Carrier - *Bank of America - Analyst*

Okay, that's helpful. Maybe just a final one on that. Maybe just the focus on the quarter, the $1.2 billion. Do you see any color in terms of which products that's coming in, whether it's the quarter or year to date, just because you have quite a few different strategies in there?

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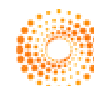

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Bill Janetschek - *KKR & Co LP - CFO*

That's a combination of a few things. Just to give you a little color around the $1.2 billion, very high level. We've got CCT, which is our BDC, which actually had $400 million come into that during the quarter alone. And when you look at that mandate over the last 12 months, that number is probably in excess of $1 billion. We also raised $400 million from our Prisma platform, and in addition we raised approximately $300 million from separately managed accounts, for the most part in liquids credit.

Craig Larson - *KKR & Co LP - Head of IR*

What's interesting, is when you look at the breadth within those numbers in Public Markets, there are over 10 components as it relates to that buildup, and for the first three months. And there's a number approaching 20 separate components, and in terms of that the last 12 months. So when you look at the growth in Private Markets, that's naturally, this quarter for instance, driven largely by Asia II as well as real estate. When you look within Public Markets it's interesting just to see the breadth of that growth.

Mike Carrier - *Bank of America - Analyst*

Okay, that's helpful, thanks a lot.

Operator

Matt Kelley from Morgan Stanley

Matt Kelley - *Morgan Stanley - Analyst*

Good morning, guys, thanks for taking the question. I wanted to circle back on real estate. I saw that you made a hire from M&G in Europe, putting more of your balance sheet to work there, obviously, in newer strategies. But I'm just curious, as I look at your fund table now in your release, you've got about $338 million left to deploy. I would think given the size of yield that you see out there that's, I don't want to say easy to do, but if you find some sizable deals that could get used up pretty quickly. So, I'm just curious, cause you're relatively early stage in the real estate investor process, how quickly you could potentially go back to market and start fundraising a subsequent fund?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Hey Matt, it's Scott. I'd say, first off, that real estate fund disclosure, it's the first time we put that disclosure in. We are still raising capital for that vehicle. So that number will continue to change. We agree with you that the opportunity is meaningful, relative to where we are today. But that it's early days in terms of how we started closing that fund. That's really largely the first close with the institutional investors, they gave us $300 million plus our own capital. And so, you'll see as subsequent fund closes occur, that number continue to move up. We also have our real estate business working with our capital markets business.

So, we have an ability to speak for more capital and deals in syndicated, and then often times we will be able to retain some economics on the syndicated capital as well so that we can get after the size of the market opportunity. And your observation is right, I mean we see this as a global opportunity in real estate. And so the moves that we are making in London, I think you'll continue to see more moves like that around the world, as we continue to scale that platform. And just parenthetically, I'd also note that KFN, which is KKR financial another vehicle that we control, has also committed capital to our real estate strategy. So, that number will also be getting deployed alongside the fund.

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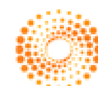

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Matt Kelley - *Morgan Stanley - Analyst*

Okay. So, a follow for me is as we think about your principal investments on your balance sheet, is it fair to assume over time, even from here, that the Private Markets portion is going to shrink, Public Markets grows, or how do you guys think about that? Should they grow in tandem?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

I would say it's going to be, probably there will be some mix shift. As we've talked about in the Investor Day a little bit, we're focused on having more of the balance sheet have a yield to it, so it can be part of your, and our, quarterly dividend that we can all count on. Probably a bit more liquid over time, as well, in terms of the composition. And within Private Markets, I think you'll see a bit of a shift. Now keep in mind, we have real estate and energy as we report within the Private Markets segment.

So I think you will see over time private equity come down a bit. You'll see real estate and energy go up, and you'll see Public Markets continue to increase as a percentage. But keep in mind we think private equity will continue to be a very meaningful component of the exposure on the balance sheet, because we very much like the risk/reward. And if you look at the returns we've been able to generate from our private equity assets, we think it's a great use of capital. But there will be a bit of a mix shift, as we move from the legacy KPE, all private equity portfolio, to something that looks more in balance and consistent with the composition of the firm's overall asset base.

Matt Kelley - *Morgan Stanley - Analyst*

Makes sense. And then my final question for you guys. Just any color you can give us for directionally transaction fees from the Gardner Denver deal for the third quarter would be helpful? I'm not sure if you can disclose that are not?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

I don't think we can go there, Matt. We will be happy to talk to you about that next quarter.

Bill Janetschek - *KKR & Co LP - CFO*

Talk about it next quarter.

Operator

Michael Kim from Sandler O'Neill

Michael Kim - *Sandler O'Neill - Analyst*

Hey guys, good morning. First, any incremental insights into what you're seeing in terms of the realization opportunity, particularly as it relates to IPOs given the recent step up in market volatility as you look out to the back half of the year?

Bill Janetschek - *KKR & Co LP - CFO*

Hey Michael, this is Bill. As it is relates to realizations, perspectively, you probably noted that one of our portfolio investments, Santander actually filed to go public, and so that's a private that will go public. Now that will probably be all of primary, but the way we've historically operated is that we actually take a company public. We try to delever the company, we usually don't participate in the IPO. But then that gives us an opportunity to participate then in the secondary market. We also, during the second quarter of 2013, took another private company, Kion, public.

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Again, that was primary, which is typical of the way we operate. But, that will now give us an exit opportunity in a secondary market. So, when you take a look at where we sit today, as of June 30, about 23% of the value in our private equity funds are still in public securities. And so we have that opportunity to exit. Also, on a strategic front, and we had talked about this earlier, during the second quarter alone, we actually had two strategics, one Intelligence and one BMG. So, we feel pretty comfortable of the realization activity that might take place over the next couple of quarters.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then second, in terms of the incremental capital earmarked for some of these less conventional investment opportunities, if you will. Any plans to put together maybe a more formalized strategy to be able to capture capital from third parties, given it just seems like there's rising demand for these types of more flexible strategies?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Yes, Scott, Michael, I would say for all those areas we see opportunities to take what we are doing with our balance sheet, and figure out other ways to scale the business. So across real estate, we are raising capital at some of these newer strategic initiatives. There's opportunity to marry our capital with theirs. Same thing in the special situations area, where we are doing a lot through our funds, but also some alongside. Energy income and growth, we see a meaningful opportunity there, we like the returns. We are raising third party capital for that strategy, alongside our balance sheet as capital.

So, if you think about the way we think about the ability to generate a return on equity, in effect, for the firm, you've got the base investment itself, which we think can generate a very attractive risk/reward. You take that capital and you marry that with third-party capital, which between fees and carry significantly increases the ROE over the already very attractive level. And then, you add on top of that what we can do with our capital markets business, in terms of taking excess flow and then monetizing that by speaking for more of the opportunities that we originate. So, we think across all three of these there's opportunities on both the third-party capital front, and the capital markets front.

Michael Kim - *Sandler O'Neill - Analyst*

Got it. And then just finally, any update on how you're thinking about headcount or infrastructure needs as you continue to build out the footprint, and how that might potentially impact the trajectory for fee related earnings margins going forward?

Bill Janetschek - *KKR & Co LP - CFO*

I would say on the headcount front, we've got the machine built. There might be incremental people that we will add on, but that won't be a significant number. Remember, we talked about this when we met live last time, Michael. A lot of the platforms that we've launched over the past two years, we hire the people first before we launch that platform. So a lot of that cost is already embedded into the numbers that we reported to date. So, I would say that it's a lot easier, on the economic front, when you raise that second fund, where hopefully you're raising more capital. The margins on that second fund will be much better than the margins on the first. So, I would say that the infrastructure is for the most part built, as I said there's probably a few people that we'd have to add, but it's not going to be a very large number.

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Yes, it's Scott, Michael. I'd say head count growth has slowed. We have invested, as we discussed in prior quarters, meaningfully in the build out of the firm, in terms of building new businesses and then going global. It's not that it's stopped, but it has slowed, and we are starting to see the benefits of getting some scale in these businesses. I mean, if you think about the Asia II fund coming online, that $6 billion or so of new fee paying AUM, without any incremental heads.

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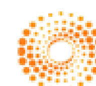

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If you think about and look at the economics in the Public Markets business in the first half, last year first half fee related earnings were $27 million. This year it's $72 million. Prisma is in the $72 million, but if you back that out there's still very significant organic growth as we have been able to scale assets, and really not have to scale expenses all that much. So, we are starting to see the benefits of that, and as we move from fund I to II, across the 8 or 10 strategies where we've been in fund I mode, we think there's more opportunities to get scale benefits as we make that transition and mature some of these businesses.

Bill Janetschek - *KKR & Co LP - CFO*

And Michael, if you look at page 6, when you take a look at where fee related earnings are for the first six months of 2013 as compared to '12, margins were 41% for the first six months in '13 as opposed to 38% in '12. So, you are starting to see some of that come through.

Michael Kim - *Sandler O'Neill - Analyst*

Got it, thanks for taking my questions.

Operator

David Chiaverini from BMO Capital Markets

David Chiaverini - *BMO Capital Markets - Analyst*

Thanks, good morning. So you touched on this a little bit, where geographically and in what sectors are you seeing the best opportunities?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

I'd say, let's go maybe by region. I think we are busy across US, Europe and Asia, but it's a little bit different depending on the business. So Europe, the private equity pipeline is good but I'd say that the credit and distressed pipeline is even better. And if you look at the capital deployment we've had in our mezzanine and special situations businesses in the first half, a lot of that has been from Europe, as result of us finding companies that need our forms of capital from either rescue finance, or an opportunistic credit standpoint.

So there are some opportunities in European private equity, and we have some high-quality situations we are looking at, but I'd say new deals in PE slowing, credit very busy. In Asia, as I said, private equity activity has been pretty strong, and we've got a strong pipeline. In particular, I'd say right now in the more developed markets Japan, Australia in particular are looking at some different transactions. The US, as of late, has been busier in private equity than originating credit. So we talked about Gardner Denver, we talked about PRA. We have a decent pipeline in North America, very price sensitive as I said.

But we are busy, and looking at a number of situations on the private equity front. Because of the strength of the secondary credit markets until recently, there has been less to do, in terms of mezzanine and distressed. But, we've been busy on the direct lending front, in the middle market area in particular. And so if you look at it by industry, we've been busy in health care, industrials, looking at transactions in financial services and retail, and then our energy platform, frankly in particular in the US, has continued to be quite active. So hopefully that gives you some helpful color.

David Chiaverini - *BMO Capital Markets - Analyst*

Yes, thanks for that. And then regarding performance can you comment on how infrastructure and energy funds performed in the second quarter?

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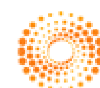

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Bill Janetschek - *KKR & Co LP - CFO*

Well, this is Bill. On the infrastructure, there was modest increase, but remember a lot of the capital that's been deployed right now in the natural resources, and particularly in infrastructure, is very early days. And so there's the J curve effect, where you've got to actually have those assets in the ground for a little while before you actually see true performance. So, I'd love to talk about that number probably a year from now.

David Chiaverini - *BMO Capital Markets - Analyst*

Got it, got it. Okay, thanks.

Operator

Roger Freeman from Barclays

Roger Freeman - *Barclays Capital - Analyst*

Hi, good morning. Just wanted to touch on something you can talk about in bits and pieces. But, thinking about your balance sheet, the advantage you have, especially with new strategies within Public Markets broadly to do some launch products on your balance sheet, generate that track record. And then go out to the market, and potentially even go out with a fund that's got some size to it already. And I'm just wondering, you've talked about various components, but do you aggregate it all? How much capital do you have invested, and maybe number of funds, since you probably haven't talked about all of them, is represented by investments, products, eventual funds that haven't started taking in third-party yet?

Bill Janetschek - *KKR & Co LP - CFO*

Roger, this is Bill. If you take a look at page 16, we provide pretty good color on the investments that we've actually got now. You can see starting from top, a lot of these are legacy private equity investments that were on balance sheet because of the KPE merger, and so we've got a lot of co-investment, and private equities plus Private Market. But you can see now in real assets, in particular, that number was zero 18 months ago, and now we've got about $300 million. And in the Public Markets we've got approximately $500 million.

Roger Freeman - *Barclays Capital - Analyst*

Okay. It's not part of products, funds that had third-party capital?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

No, I'd say if you look at page 16, Roger, the vast majority of those are seeding vehicles that have third-party capital. I think the point we are making, is several of those are still raising money in the market. Or those that have closed, the first fund tends to be smaller, you get it deployed more quickly, you continue to build the track record. And then the second fund has an opportunity to be much larger. But we have, to a large extent, used the balance sheet to help seed those newer strategies.

But, we also see opportunities to use the balance sheet to opportunistically invest in things that don't fit into any of our strategies. So that as we find opportunities around the world, we have the ability to move quickly and capture interesting risk/reward opportunities, especially in periods of time of dislocation. So that what you see deployed there is largely alongside third-party money. But, as we continue to deploy the balance sheet, I think that will continue to be the case, but you'll see us do things opportunistically that are not necessarily alongside third-party's. (multiple speakers)

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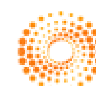

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Roger Freeman - *Barclays Capital - Analyst*

-- product that hasn't actually gone out to third parties yet? That you plan to, because you want to generate some track record, have the fund running?

Bill Janetschek - *KKR & Co LP - CFO*

Well, the perfect example on that is energy income growth. So, if you take a look at page 16, we've got royalties in drilling. Right now, we've got, right now, $140 million-odd, carried at $155 million in the ground. The reason why we are excited about that particular strategy is we like the risk/reward and the return on the assets themselves, but we are actively marketing a fund. And, as Scott mentioned earlier, once that fund comes online, not only do we get the return off our balance sheet from the investment itself, but from the management fees and the carry applicable to those particular funds. Also, if you take a look at page 3, that gives you the snapshot of what our remaining commitments are. And so, hopefully that might be a little more helpful, so that you take a look on page 3, that's what we've actually committed of late. And so you might actually see new funds on there, like for example, Asia II.

Roger Freeman - *Barclays Capital - Analyst*

Okay, got it. And then just on the long-short fund. How is the marketing on that going? I know you were going to push on that in the first half of the year?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

I'd say we have recently started to talk to investors again. We are coming up on the two-year anniversary there. And so, I think we are going to continue to plug away, two-year anniversary is in August. So, we will go out with even more activity after that two-year date. But performance has been good.

Roger Freeman - *Barclays Capital - Analyst*

Okay, great, thanks.

Operator

Chris Kotowski from Oppenheimer & Co.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Good morning. I'm not sure if there's going to be a great answer to this, but this is the question I get the most from investors. And that's that post-crisis, say between 2009 and 2012, you guys invested some $16 billion, $17 billion in private equity. But where we have the best window in how investments are doing from page 16 of your release, those are all the pre-crisis vintage investments. So what kind of window can you give us on the performance of those post-crisis investments, either in terms of aggregate EBITDA metrics, or how can we gauge the value creation stage in those investments versus prior cycles say?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure, hey Chris, it's Scott. I think, as you say, it's hard to give you too much specificity, but I'd say across both our private equity and credit investments made post-crisis, they have performed very well. If you look at, let's isolate private equity for a minute, if you look at our total private equity portfolio, last 12 months, revenue growth has been 8%, 9%, EBITDA growth has been about 11%, last 12 months. If you isolated that to the companies that

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we invested in post-crisis, you would see statistics that are very favorable. And if you look within the marks, in terms of the underlying private equity portfolio, you'd see the deals that were done post-crisis have moved up in valuation quite nicely, in aggregate, and quite quickly.

And that's consistent with, frankly, what we've seen over several cycles as a firm, in post recession periods. Deals that we tend to do, tend to move up quickly from a valuation standpoint, and, frankly, the holding period tends to be a bit lower, therefore the IRR higher. So I'd say we are feeling very optimistic about the investments that we've made. The same is also true on the credit side. We've seen good performance out of special situations direct lending, and our mezzanine portfolio, and in several of those situations our investments are being taken out. And we are capturing some realized return there, as well. And that is why we've had good 10%-ish plus performance in the first half out of our originated credit funds. So, overall we feel very good about those investments.

Craig Larson - *KKR & Co LP - Head of IR*

I think the other point on that, Chris, we actually had a slide in our Investor Day. So, if you look at our 2006 fund, and so, again, remember we were investing the 2006 fund through September of last year, and you focus only on those post-2007 vintage investments, this is dated through March 31, we haven't updated through June 30, but through March 31, the IRR on those investments was 23% versus the S&P 500 and the MSCI World at 10% and 7% respectively. So, that also probably gives you a good sense of the performance of those post-crisis investments.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, that's it for me. But again, I do think that that's the one of the biggest things that people are struggling with. And I'm not sure how you can improve the disclosure on that, but that, I find, is what people ask me about the most.

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Well, you can point them to that page in the Investor Day deck, we will send it to you.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, thanks.

Operator

Robert Lee from KBW

Robert Lee - *KBW - Analyst*

First question is, and I apologize if you touched on this earlier I got on the call a little late, but how should we be thinking about the head of the credit business side deciding to step down. I mean what are clients saying or you're seeing any feedback from your LP's?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Hey Rob, it's Scott. No, I'm glad you asked. Look, I think what our clients are aware of, that we haven't talked about as much publicly, is how we've been starting to realign the businesses a bit internally at the firm. So what we found, as we built over the last couple years, our credit business is out, especially on the originating credit side, mezz, special sits, direct lending, at the same time we were building out our capital markets business, in particular our third-party capital markets business. That we had both capital markets executives and credit executives out sourcing credit opportunities. So, at the end of last year, what we decided to do was to move those groups closer together, and create one face to the market, so

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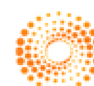

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that we could have a more coordinated approach around sourcing credit opportunities for our investors. We began to do that at the end of last year. And, frankly, we have been really pleased with the results.

So if you look, as an example, at what we've done from an origination standpoint first half of this year versus first half of last year, in terms of credit opportunities, this year it's about $1.45 billion, and last year it was about $450 million. So we've seen $1 billion increase in terms of originating credit opportunities by having these groups work more closely together, and be more closely aligned. And our credit investors have obviously seen that, because they are invested in the funds and they've seen what's happened from a deployment standpoint in terms of their portfolios. So, what we're really doing from our standpoint is continuing the process that we started at the end of last year, by putting Craig Farr over both credit and capital markets as a consolidated effort. And we think it will allow us to drive even better returns and more opportunities for our investor base. So, we've been talking to them, and frankly because they have been part of this journey with us, I think it is pretty clear to them why we are doing what we are doing.

And at the same time, what we found if you finish the trip through our Public Markets business, is if you think about what's happened in our hedge funds, we started by bringing over the equity strategies team from Goldman Sachs. Then we did the transaction with Prisma. Then we bought a stake in Nephila. And we have, in the meantime, been launching some direct strategies with our balance sheet capital. What we found is, there is significant opportunity, and synergy, from having those hedge fund businesses more closely aligned together. So, as part of this effort what we are doing is also moving the hedge fund businesses to be under two individuals.

One is Girish Reddy, who heads up the Prisma business, and one of the founders and CEOs of Prisma. And we've also hired someone named Todd Builione, who was president of Highbridge until recently. And Girish and Todd are going to oversee a consolidated hedge fund platform for the firm. And so going forward, you'll see a credit and capital markets business that's more closely aligned, and then one combined hedge fund effort for KKR. So, that gives you a sense as to what we are doing, and why we are doing it. I say it's a big opportunity, we think, to continue to scale these two platforms, and you can see in our Public Markets businesses, they've been scaling nicely already. We think we can take it to the next level.

Robert Lee - *KBW - Analyst*

Okay, appreciate the color. Maybe looking at the balance sheet, and understanding it's still early days, and you're in the process of migrating the balance sheet to more liquid, recurring income strategies, there's some that will have those characteristics at least. But we look at the $0.09 from the balance sheet in the distribution, is it possible to characterize at least where we are now? I mean, do you feel like say every quarter, and maybe it's only $0.01 or $0.02, but is there like $0.02 you think can come in relatively consistently from balance sheet. And that would be a great metric to keep track of, I think, over the next couple of years, see how it migrates?

Bill Janetschek - *KKR & Co LP - CFO*

Hey, Rob, this is Bill. Just to give you a little color on that, now the predominant driver of that $0.09 has been the realizations of our private equity portfolio. And so, we had realizations on Dollar General, and Nielsen, et cetera. So, again, that's the biggest component. But, as Scott and I mentioned earlier, as we diversify the balance sheet away from pure PE into real assets, which would be energy and real estate, plus on the fixed income side, we are looking for liquidity, and we are also looking for yield. So, over time that number will increase, hopefully, quite substantially. And so the mix, when you are looking out a year from now, is going to be some components still coming from the realization of our PE portfolio, as well as a quarterly distribution on the yielding assets on our balance sheet. That's the ultimate goal in trying to diversify the mix of those assets on the balance sheet, is to make sure that we have a recurring distribution from those yielding assets on our balance sheet.

Robert Lee - *KBW - Analyst*

Yes, but at this juncture is it fair to say that it's very de minimis? I don't know, I mean is it maybe $0.01 or $0.02 each quarter or --

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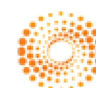

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Bill Janetschek - *KKR & Co LP - CFO*

It's probably $0.01.

Robert Lee - *KBW - Analyst*

Okay

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

It's pretty de minimis, I'd say at this point. But, I think, Rob as we continue to deploy the capital under these strategies that we talked about, we will see that move out. And I think you're right, that's something that we can give some thought to sharing with you more proactively and regularly over time

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Bill Janetschek - *KKR & Co LP - CFO*

Right, I would agree with Scott. I mean, as that number gets more meaningful, in order to help you try to model out what the balance sheet performance is going to be from a yield perspective, we will certainly give you that additional color.

Robert Lee - *KBW - Analyst*

Great, and one last question, I appreciate your patience. In the PE side on capital raising, NAXI, I assume is close to done. Asia II is done. I know you're raising, you mentioned the royalty in drilling, and the real estate, but if we look on the Private Market side, could you maybe tell us where you, from a size perspective, do you think you can say, gee we think, I don't know if it's royalty in drilling you are targeting $1 billion, $2 billion? Real estate, where do you feel like in the near term is a comfortable level to get to? Just trying to size what we should think of from new capital formation over say the coming six months to a year in that business?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure, Rob, it's Scott. It's a little hard, cause we are in the market with all these. I think if you looked at our first time fund record, in terms of the amount of capital we've raised, and we've done a number of them now, it tends to be circa $1 billion, give or take. Some are a bit below, some are a bit above. So, if you think about the energy income and growth fund, the real estate fund, as examples, that's probably not an unreasonable expectation. But having said that, we're in the market and having these conversations now, so it's hard to predict.

As you look further down the road, we do see, as I said, opportunities to launch, for example, our Infrastructure II fund, which will be coming at some point. We are going to raise second pools of capital for some of our originated credit strategies. And so what we are particularly keen on is getting to fund II for a number of those strategies, now that we have track records for fund I. But, to your very specific question, if you want to think about $1 billion, give or take, as a reasonable guess, that's probably a decent place to be thinking about it, and if we can do better than that, we will, we will try.

Robert Lee - *KBW - Analyst*

Great, thanks for taking my questions, guys.

Operator

Marc Irizarry from Goldman Sachs

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Marc Irizarry - *Goldman Sachs - Analyst*

Great, thanks. Scott, can you talk a little bit about the performance in the quarter of the private equity portfolio, and specifically, is there anything that you're seeing from the underlying company performance that suggests that your outlook in some way, shape, or form, is shifting in terms of where you should be putting money to work today?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure, Mark. Look, I'd say the performance overall has been quite good. There continues to be attractive revenue and EBITDA growth of the portfolio. As we look at the economy, frankly, we feel, especially in the US, a bit better about the second half than what we all saw in the first half in terms of the backdrop. So, I don't think there's any specific guidance I'd give you, other than we continue to feel good about it. I do think we all need to be very careful about thinking about one quarter's marks.

We were up 24% in our private equity portfolio last year. 6%, 7% in the first half of this year, so we are up 30% plus over the last 18 months. The portfolio's performing nicely. And as a firm, as we've been talking about, we are focused on generating cash. And, if you look at what we've done from the standpoint of filling the netting holes, you've seen the dividend in the cash flow generation by the firm. We have been able to do that, and then we are trying to build scale profitably across these newer businesses, which we are doing as well. But, the private equity portfolio, privates and public, operationally are performing nicely.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, and then just, I appreciate your comments about how the second funds coming on are going to be it within the existing lines of businesses or strategies, are going to be accretive to margins. But how do you think about balancing launching the second funds or maybe launching first funds versus acquisitions or areas where maybe you can bring in some talent from the firm?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

That's a great question, and we spend a lot of time on both. Actually, in a lot of instances we will look at it on a parallel basis. So, as we consider, for example, how to build our Public Markets and Private Market strategies globally, we are looking at a build opportunity, and buy opportunity. So we are proactively looking at both fronts. And, if we can find an existing business that has talent with a good cultural fit, Mark, that's something that we will consider, because obviously it gives you a big head start relative to the fund I and II dynamic that we been talking about the last several quarters.

But it is literally down to asset class by asset class, and then trying to see if there's any players out there that we think would be consistent with our culture, that have the level of investment performance and strengths that we are looking for. So it's a bit of a needle in a haystack, but we are operating down both parallel paths. And then if we can't find anything strategically to do, then obviously we will move to the organic build.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great, thank you.

Operator

Bill Katz from Citigroup

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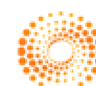

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Bill Katz - *Citigroup - Analyst*

Okay, thanks very much for taking my questions. Bill, question for you. You mentioned the improvement in the fee related earnings margin year-on-year first half versus last year's first half. As you think about the dynamic of getting into your second round of fundraising more generically across your organization, is there a way to be thinking about where that margin might be able to get to on a more sustainable basis?

Bill Janetschek - *KKR & Co LP - CFO*

No. To be honest with you Bill, depending on what the size of those second funds are going to be, I wouldn't even want to speculate as to what those margin improvements could be, other than they will be better.

Bill Katz - *Citigroup - Analyst*

Okay. And the other question I have, just go back on this increase to investment through real estate portfolio, can you tell where it's being funded from? Is that at the expense of distribution, is that just a reallocation of capital elsewhere? And the second part of the question is, is that move done in anticipation of accelerating the opportunity to market to third parties?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Hey Bill, it's Scott. To be clear where it's coming from, it is going to be cash on the balance sheet. Will not impact the distribution one iota. And that's true, not only of the real estate $250 million, but also the energy and the special sits allocations that I discussed. So, no impact on the dividend at all. And in terms of what it could mean for third-party capital, we are already accessing third-party capital alongside our opportunistic real estate strategies, and so that is in process. These new strategic initiatives we are talking about, think of those as potentially seeding platforms that we could raise third-party capital alongside, but it's relatively early days.

Bill Katz - *Citigroup - Analyst*

Okay, all right, thank you.

Operator

Patrick Davitt from Autonomous Research

Patrick Davitt - *Autonomous Research LLP - Analyst*

Hey, good morning, guys. You mentioned US outlook. Could you speak more broadly in terms of what you're seeing from a macro standpoint globally through the prism of your portfolio metrics?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Sure. So, as I said US feels second half a bit better, maybe some momentum into next year. We continue to see strength in energy, autos, manufacturing, as examples. Europe weaker. Europe feels like it's going to be down zero to 1% GDP decline this year. Next year, based on what we are seeing in our portfolio, though, our companies are doing well operationally, and we are seeing good EBITDA growth. As an overall economy, we think Europe's probably a very slow grower next year, zero to 1%, give or take. We are seeing some markets, like Germany and Ireland, that are seeing some improvements being weighed down by others.

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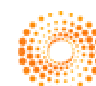

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Asia, we own 20 or so companies, pieces of 20 or so companies in China, has seen some decline in growth. Bit of an improvement recently in terms of the consumer. So mix is a little bit more optimistic about the near term, but the export market is tough. And then the rest of Asia, a mixed set of stories. But, overall, our Asian private equity portfolios continue to do really well because we are exposed largely to the consumer, and internal consumption driven demand across those markets, as opposed to the export market. So we like the way that we are positioned. But, overall US improving. Europe should be a bit better next year, but still really slow. Asia, a bit mixed, but overall much better growth than we can find other places in the world.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay, great. And it sounds like your comments on the US are incrementally more positive than last quarter, is that fair?

Scott Nuttall - *KKR & Co LP - Global Head of Capital & Asset Management*

Yes. I'd say we have a lot of indicators that we look to, in terms of data we get out of our portfolio, and I think, on balance, and we are not predicting some a major upturn, on balance, what it feels like is it's a bit better than it's been. Especially our consumer facing companies. There's a bit of a fiscal drag in the first-half. We think that will abate a bit in the second half. So, I'd say just based on the last couple few months of buying behavior, given the US is 70% consumption driven, that makes us a bit more optimistic for the second half than the first. But, keep in mind, we are off a relatively low base, Patrick, so better than it was, but by no means exciting.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay. And just finally, Bill, real quick. I think the last quarter you mentioned the Asia fund coming online adds $13 million of management fees per quarter. It increased $8 million in Q2, so is it fair to assume another $5 million in 3Q from that?

Bill Janetschek - *KKR & Co LP - CFO*

No. What you have to think about, Patrick, is that a majority of the $5.75 million closed before June 30, and there was an incremental amount that actually came online after June 30, but that impact is only like $1 million. What you'll also have to realize, is that in some of the post-investment periods funds, as we have realizations and we are selling assets, the management fees from those funds are actually going to go down a little. So, what you see in the second quarter is an increase, because of Asia II. But a slight decrease from some of the post-investment period funds managing less capital.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Great, thanks a lot

Operator

Thank you, and I'm not showing any further questions. I would now like to turn the call back to Craig Larson for any further remarks.

Craig Larson - *KKR & Co LP - Head of IR*

Okay, thank you Danielle, and thank you everyone, as always, for joining us and thanks for your interest. Please do follow up with either Sara, or with me, if you have any additional questions.

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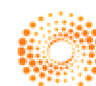

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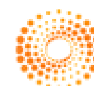

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