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KKR - KKR & Co. L.P. Fourth Quarter Financial Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the KKR & Co. LP fourth-quarter financial results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Craig Larson. Please go ahead, sir.

Craig Larson - *KKR & Co. L.P. - IR*

Thank you, Rochelle. Welcome, everyone, to our fourth-quarter 2011 earnings call. Thank you for joining us. As usual I'm joined by our CFO, Bill Janetschek; and by Scott Nuttall, Global Head of Capital and Asset Management.

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. And we will and we will also refer to non-GAAP measures on this call which are reconciled to GAAP figures in our press release.

This morning, as you may have seen, we reported our fourth-quarter and full-year 2011 earnings. A few highlights -- our fee-related earnings were $117 million in the fourth quarter, up 23% versus 2010. And for the full year, fee-related earnings increased 31% to $417 million.

Our fourth-quarter distribution is $0.32 per unit. This includes $0.09 of realized cash carry and our fourth-quarter tax distribution.

Beyond delivering strong operating results we also had a very busy quarter on the new investment front across all of our segments. This ranged from the $7 billion acquisition of Samson Resources, which ranked as the largest private-equity backed transaction in 2011 to our Infrastructure, China Growth and Mezzanine Funds, and to our special situations business which continues to be busy, particularly in Europe. In total, we completed over $27 billion worth of transactions in 2011.

We thought, though, we would begin with a topic where we know there is a lot of interest, fund-raising. We are happy to announce that we have continued to raise capital since year end principally from two areas. The first of these is the initial close of our 11th North American private equity fund referred to internally as NAXI. We are now at the $6 billion mark, having closed on over $5.5 billion of commitments at this point and with expectations of at least another $500 million in the near term subject to documentation.

This is only the initial phase, and while we are limited by private placement rules in elaborating further, we think $6 billion is a great start. It adds to our $40 billion of existing private equity AUM and brings dry powder to over $13 billion after only the first close on this fund.

Second is the strategic partnership with the Teacher Retirement System of Texas which we are pleased to say has now been finalized. We were selected to manage $3 billion of TRS capital across a variety of asset classes within our private market segment and our alternative credit strategies within our public market segment. In a few minutes, Bill will walk through how NAXI and the TRS strategic partnership impact our financial statements. And Scott is also going to spend some more time on our fundraising initiatives, including the launches of three new funds across our public and private market segments.

Before we move on, I also want to bring your attention to an upcoming event. On March 12 we'll be hosting an investor presentation focused on taking our Capstone, our team of operational experts and how Capstone differentiates our private markets investing platform. We'll put out a press release beforehand with information on the live webcasts. We hope you'll be able to join us.

In one additional note about the distribution, the record date is supposed to be February 21 and not the 20. We'll be confirming this publicly later today. And with that I'll turn it over to Bill.

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

Thanks, Craig. Good morning, everyone. Our continued progress in raising capital and building out new businesses drove a 31% increase in fee-related earnings in 2011 to $417 million. We've now organically grown our fee-related earnings by nearly 70% since 2009.

We also reported gross distributable earnings of $196 million, our highest quarterly number as a public company. Our fourth-quarter fee-related earnings of $117 million was our second-best as a public company. Remember that doesn't include fees on the new capital we have raised since the end of the year.

Our P/E funds which are the biggest drivers of ENI today since they make up most of the carry-generating balance sheet assets, were up 2% in the fourth quarter and 4% for the year. This compares to 2010 appreciation of 11% for the fourth quarter and 33% for the full year.

Because valuations depreciated less in 2011 than in 2010 you saw a decline in our ENI both for the quarter and the year. If our public companies alone had been valued on December 31 at the stock prices they closed at yesterday, our ENI for the quarter would have been an additional -- an additional -- $300 million or approximately double what we reported. But remember, this is just a point in time estimate.

Relative to the market, though, our 4% growth for 2011 compared to a 5% decline in the MSCI World Index, so our full-year performance reflects 900 basis points of outperformance.

And if you look back over the last two years our portfolio was up 36% versus an increase of just 7% for the MSCI World.

So in short the outstanding performance on fee-related earnings, much of which came through IPOs and continued transaction activity, was somewhat masked by less significant mark-to-market appreciation, meaning less to mark-to-market carry and less balance sheet investment income.

On a cash basis, strong fee-related earnings and a strong quarter of monetizations drove gross distributable earnings up 24% year over year. This led to our largest quarterly distribution as a public company, $0.32. And it's important to remember that this is before some of our big funds are paying cash carry and in the realization in volume is that still hasn't fully normalized since the financial crisis.

As a reminder, our distribution policy is to retain gains on our balance sheet assets so we can reinvest in our business. But since those gains may generate flow-through taxable income to our unit holders, we do make a year-end distribution to cover the estimated tax liability associated with this flow-through income. This portion of the distribution amounted to $0.13.

Our AUM at the end of the year was $59 billion and fee-paying AUM was $46 billion, both up slightly from the end of last quarter. At year end, our book value stood at $8.29 per unit, including net cash of approximately $500 million.

Touching on our segments, in private markets we put more than $3.5 billion of capital to work this quarter, about 50% of which was through our funds. This drove a substantial uptake in transaction fees leading to an increase in fee-related earnings of 39% relative to the fourth quarter of last year. As we discussed, ENI was lower, given the more limited increase in valuations this quarter relative to the same time last year.

The full year showed essentially the same trends for both fee-related earnings and ENI. Capital deployment and monitoring fee termination payments contributed to a 24% spike in fee-related earnings, even after taking into account the additional costs incurred in building out our business operations, fund raising and real estate teams.

Moving on to public markets, this quarter, fee-related earnings in ENI were more modest than in the same quarter last year for two reasons. First, we have continued to invest in the buildout of our newest strategies. The KKR equity strategy team joined us from Goldman Sachs at the start of 2011, and we've also been expanding our special situations platform.

Second, we earned a smaller incentive fee at KFN. However, management fees were up 27%. This was driven by the significant new capital raise in the business over the last year at attractive fee rates and with potential to generate future carry.

Looking at the full year, we grew total fees in the segment by about 22% with the roll on of management fees from these new strategies, but this was largely offset by expenses associated with building out those strategies, many of which are just beginning to raise capital and generate fees.

In Capital Markets and Principal Activities, KKR Capital Markets, or KCM, had a record-breaking quarter and year, generating its best quarterly fee-related earnings and 66% growth for all of 2011.

The team's equity syndications effort did more than just drive fees. They also facilitated our ability to add attractive new investments to our portfolios.

On the Principal Activities side, we saw an increase in the value of our balance sheet investments, but to a lesser degree than last year. As a result, other investment income declined for both the quarter and the year.

I thought it would help to discuss the impact recent fund raising will have on our financials. Remember, the fee-related earnings growth I've gone over is all before you factor in the inflows we've recently announced.

For NAXI we expect that in the fourth quarter we'll begin accruing an investment period management fee. All third-party capital in the new fund will be added to fee paying AUM at that time. At that point the management fees on the 2006 fund will step down to 75 basis points on remaining costs.

Regarding Texas Teachers, as we have mentioned the partnership is focused mostly on our private market segment with some allocation to our alternative credit strategies. Some of those dollars have already been committed. One of the $3 billion is already accounted for in our AUM and fee-paying AUM.

The simplest way to think about the economic impact of this partnership is that over time, additional AUM and fee-paying AUM will show up in our figures as the partnership makes commitments to new funds we raise. And given the recycling provisions in this relationship, we would expect the total $3 billion in capital to grow as we perform. I'll now pass it over to Scott.

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

Thanks, Bill. Hi, everybody. Thanks for being on the call with us today.

Now that Bill has taken you through the financial results I thought I'd take some time to talk about the progress we're making in realizing our vision for the firm.

Our view is that the financial and capital markets are changing. Many traditional providers of capital are impaired but the needs for capital are greater than ever before. This dislocation creates an exciting opportunity for us. So in addition to optimizing the value in and growing our private equity business, we are working hard to invest into the dislocation and scale our newer businesses.

Our goal is to be able to invest behind our ideas and partner well with our clients to help them take advantage of the opportunities in the market. To accomplish this we are working to achieve several objectives. If we do these things well, we'll continue to make progress as a firm and the financial results will follow. Let me spend a few minutes talking through each.

The first goal is creating value for our clients. We feel very good about the progress we've made on this front. Our private equity funds are up 36% in the last two years, meaningfully outpacing the public markets which were up 7%. Our funds are currently marked at 1.5 times cost and the realized and partially realized investments in these funds have returned more than 2.8 times cost.

And our private equity portfolio continues to perform operationally. The EBITDA of our companies grew over 7% over the last 12 months.

In addition to private equity our energy and infrastructure platform continues to perform well, generating midteens returns. And our public markets businesses remain top quartile performers.

The second goal is monetizing investments when it's sensible to do so. Here, even with the volatile market conditions we all experienced in 2011 we had a great year. We had over $5 billion of realizations in our private equity portfolio in 2011 at an average of 2.4 times our invested capital and more than $9 billion of realizations over the last two years at an average of 3.4 times invested capital. Approximately 30% of our portfolio or $9 billion is now in public stocks, which allows us to exit more readily. We're also seeing strategic exits start to pick up with five sales to strategics last year.

In public markets we've been taking gains when it is sensible to do so and locking in attractive returns for our partners. So, overall, cash back is a good story for us.

The third goal is to source attractive new investments. Here we had an extraordinary year. We see this as a good environment in which to be investing capital and we've been investing aggressively. We closed on $26 billion of new private markets investments during the year. Total equity in these transactions was taking $13 billion, of which over $4 billion came from our funds and the rest was syndicated to various partners.

In private equity we announced or closed on 16 new investments in 2011, including six growth equity investments, seven LBOs, two joint ventures and a corporate carve out. We also began investing out of our Infrastructure Fund where we've now completed four investments.

In public markets we also had a busy year, investing more than $1.1 billion through our mezzanine and special situation strategies. And the level of activity continues to increase as we take advantage of the pullback of traditional lenders.

Our fourth goal is to monetize more of the content we generate. An important part of our vision for the firm is to be able to invest behind our ideas in scale, and when we source a transaction be able to retain as much of the economics on that transaction as we can. Building adjacent investment capabilities allows us to do that.

Three years ago if we sourced an infrastructure investment we had nowhere to make the investment. Now we have over $2 billion in dedicated funds through which we have been able to act on our ideas. This is now the case in energy and infrastructure, liquid credit, alternative credit, real estate and public equities. So we are acting on far more of our ideas than ever before.

Our capital markets business also allows us to monetize our content. It gives us an ability to syndicate excess equity and debt in our own transactions and in many cases routine economics on what we syndicate. In 2011 our capital markets revenues were up 62% and our fee-related earnings were up 66%, so we feel like we are seeing real traction here.

Samson is a great example of how our capital markets business is allowing us to punch above our weight. The equity requirement in the Samson transaction was over $4 billion. While we spoke for $1 billion, we decided that to execute our strategy with the company we needed to control it. So instead of being a 25% holder, alongside several other sponsors, we decided to bring the excess $3 billion of equity to others. So we ended up being able to speak for the entire $4 billion, control the company, and make more money in the process.

This business has grown from $34 million in revenues in 2009 to $170 million in 2011.

The fifth goal is earning the trust of our investors. Without this trust we cannot build our firm. We're making great progress on this front as well. We've grown from about 275 investors two years ago to approximately 400 today, or an increase of about 40%. Including where we are on NAXI, we have raised over $10 billion of capital since the start of 2011, almost double the $5.4 billion raised in 2010. And that $10 billion figure includes only a portion of the capital from TRS.

In addition to NAXI we were able to close our Mezzanine Fund, add to our Energy and Infrastructure Funds, scale capital in our liquid credit businesses and launch our first equity hedge fund all last year.

We remained very busy on the capital-raising front and recently launched fund raising for a new direct lending strategy, Asian private equity and special situations.

We have made and continue to make a meaningful investment in distribution around the world. Here, again, the expenses show up before the revenues, but with the goal of significant investor growth. We believe it is an important investment to make with a high return over time.

The sixth goal we've got is to create more scale in the newer businesses we've launched. If you step back and think about it we really have one scale business at KKR, which is private equity. It's a wonderful business where we have about a 4% market share in what is about $1 trillion global market.

Our other investing businesses, energy and infrastructure, real estate, high-yield, leveraged loans, mezzanine, distressed, hedge funds are all at relatively early stages in their evolution. Two exciting things about this from our standpoint.

First, the end markets in these businesses are materially larger in aggregate than private equity, roughly $6 trillion, so we have a lot of room to run. Also, the expense for these businesses is already burdening our P&L, so as we raise new capital, the flow through from revenue to profits should be quite high.

So, how are we doing overall? Well we now have $12 billion in leveraged loans and high-yield, $4 billion in energy and infrastructure and $3 billion in mezzanine and distressed for an aggregate of $19 billion in non-private equity assets, all built organically.

Most of this was achieved in the last few years and the momentum is growing. Our committed energy and infrastructure capital grew over 100% last year and our mezzanine and distressed capital grew 37%.

We continue to use our balance sheet to further accelerate our momentum in these businesses. Since our last call we've committed $300 million to seed two new energy strategies and $100 million to launch our direct lending strategy. As we scale capital in these areas, we expect our AUM, fee-related earnings and our carry opportunity will benefit.

But we can't do any of these things without retaining our culture and attracting and retaining great people. We are passionate about getting this right. Our greatest accomplishment is that we've been able to grow our firm globally and into multiple asset classes while keeping our one-firm culture in fact. While we have a lot to do we feel great about our progress in 2011, especially considering the very large investments we're making in new people, new businesses and distribution. Our fee-related earnings were up 31% in the year and about 70% since 2009.

Our P/E portfolio beat the global market by 900 basis points last year and was up 36% over the last two years. Our investment performance in energy and infrastructure and public markets remains very strong. And our distributable earnings were up 23% last year and our distribution is up materially.

We think this is a great time for us. We are sourcing attractive new investments on a global basis and generating strong returns for our clients, which is allowing us to scale our businesses of our firm with a consistent culture. We remain resolutely focused on execution, and we are excited about the future.

Thanks for joining the call. We are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Scott, I just wanted to maybe take one of the themes you had highlighted. You have sort of laid out a few, but in terms of the number of LPs that have participated in I guess the North American number 11, called NAXI Fund, I guess you're calling it -- how many are sort of new if you will versus maybe your existing LPs? And how much may be outside the United States versus inside the United States?

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

Bill, thanks for the question. Just to give you some color, about 50%, roughly half are from the US and about half is from non-US, which is about what we would expect. It was really broad-based support. And remember this is just the first close. So we have got another year of fund raising ahead of us. But to just give you some color it was pension plans, sovereign wealth, insurance companies, some financial institutions and high net worth as well.

We would expect in a first close a very high percentage to be re-ups from prior funds, and that's what we found here. The majority and the vast majority to kind of think about it, is three-quarters plus of the first closers are existing relationships with us. And then we've got a very long list of prospects for the second and subsequent closes.

Bill Katz - *Citigroup - Analyst*

That's helpful. And the second question is just in terms of the Texas account it seems like there's a lot of that going on. I think a couple of your peers have had similar type of dynamics. So two questions, one is, to help frame maybe the economics of the business I guess there's been some discussion of fee give up for longer-lived capital. And the second part of the question is, are there others behind this from a pipeline perspective that you can see?

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

Sure. I think the way to think about it is this is highly accretive type of relationship for us. You know I think what we're finding is a number of institutions -- and we've talked about this on prior calls -- are looking to consolidate the number of relationships they have and really go from kind of a silo'ed one (technical difficulty) to a multiproduct related.

So, if Texas can give $3 billion to 10 groups maybe we get our $300 million of that, but in this instance, they decided to give us $3 billion outright on a long-term basis with a recycling provision. So as we perform the $3 billion of AUM will increase over time.

The fee give up is not a meaningful figure frankly. This is the way I would think about it is highly attractive and highly accretive for us. And over time we think this is going to be a big win for us and for them. So think of it as multiproduct, long-term, large-scale and broad-based across most of what we do as a firm without a meaningful give up on the economics -- some give up but not meaningful.

In terms of others, we'll see. This is hard to -- they are hard to get done. It took us a couple of years to get this strategic partnership with Texas completed. There are other dialogues going on out there but it's hard to predict how many we'll actually get over the finish line.

Bill Katz - *Citigroup - Analyst*

Thanks for taking all my questions, but one last one. I think if I had the numbers right in the capital put to work in private equity it sounded like about 50% equity contribution. Just sort of given the improvement in the markets and so forth and a little bit of an opening of the funding markets in the United States in particular has there been any kind of relaxation of that trend or is it maybe - -maybe just a big picture of how you sort of see the allocation going forward between the equity and debt in incremental private equity deals.

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

Yes, sure. I would say that the market right now in the US is a little bit different from Europe, Bill, so I would say the US is probably 30% to 40% equity in transactions. Europe is probably going to be 40% plus at this point. So I think last year you had some numbers that maybe -- some deals that maybe skewed the number a little bit, including a deal like Samson, which was a big transaction that had more than half equity in it. But I'd say the overall market is a 30% to 40% equity contribution today.

Operator

Michael Carrier, Deutsche Bank.

Michael Carrier - *Deutsche Bank - Analyst*

Maybe first question, just when we think about the mark to market and the returns, you know just in the quarter, the color on the public portfolio you know as of today, that's helpful. If I think about like the private side, though, when I think about this quarter when you look at what drives those valuations in terms of the assumptions, the discounted cash flows, like as we continue to get some incremental better data out of the US on the economic or the macro front, like how should we expect that to change or were there many changes made in those assumptions this quarter but the likelihood that those could get incrementally more positive if this data continues. Just trying to figure out the value on the private side you know versus the public.

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

Sure. Thanks, Michael. It's Scott, I will take that one. The first thing I would say and I'll come around to trying to address your questions, I would not get too focused on the quarter. So keep in mind -- you've got to remember in Q3 our portfolio was down 8.5% but the market was down 14%. And for the year we outperformed by 900 basis points. And for the last two years we outperformed by 29 percentage points -- 2900 basis points. So we're not as focused on the quarter to quarter and we are really happy that we're outperforming the markets so -- by such a large margin over the last couple of years in 2011.

Specific to Q4, what we found is that the publics did perform well, our publics went up, but a bit less than the market; it just happened to be mixed. And the privates -- some of our private portfolio companies adjusted their longer-term projections down a little bit, which impacted their DCF valuations somewhat in the quarter. But keep in mind, that was done in a bit of a different environment in the fall. The world feels a bit better today. So the way we look at it is, it is a moment in time. I think you've got the right interpretation. As management teams get more optimistic about the economic environment and the prospects in the longer term, you would expect those DCF valuations to move up, but there was not a material change in approach in the quarter.

And I think what Bill said on the prepared remarks is really important. It is a moment in time calculation. Our publics are up 11% in the last five or so weeks. So, that impacts our income statement meaningfully and would've basically doubled our ENI for the fourth quarter on that basis alone, created the better part of $300 million of incremental earnings just by that move, all else held equal.

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

Right. But, again, it's just a moment in time. And so we control when we exit investments, and so even though the S&P was up say 12% in the fourth quarter and our publics were up 7%, six weeks later, our public portfolio was up 7-and (technical difficulty) and the S&P is only up 7.5%. And so it's really hard to just fixate on a particular mark at a particular quarter end.

Michael Carrier - *Deutsche Bank - Analyst*

Yes; no, it's helpful, all the color. And then maybe on the exit side you guys have probably been a bit more active than maybe the overall industry, but when you look at -- especially on the public side in terms of going to the market, is that environment getting better just given the increase in the overall market levels -- conversations out there? It seems like it's been more subdued and there's been more strategic sales than outright like IPOs but just any color on that?

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

Yes, I break it into two buckets. I think first is -- where we've seen a lot of our realizations is around companies that we have that are already public. So I mentioned that we've got about 30% of our portfolio is already in public stocks so, companies like HCA, like Dollar General, like Avago that have already gone public, and what we're doing is secondary offerings to sell down our position. And what we're finding is, as our companies continue to perform, those stock prices are performing quite well. I mean HCA is up 30% since the beginning of the year. We've got other companies like Rockwood up 40% plus since the beginning of the year.

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

Right. And NXP is up 40%.

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

So we're seeing good performance. And as the companies perform there is an opportunity to monetize in the secondary market. And that's actually where you are seeing a lot of our realizations happen.

The second dynamic is strategic sales. And that has been relatively quiet over the last few years. We are seeing that start to pick up. I mentioned five strategic sales last year which was a big increase over the prior. We've been particularly active in our energy businesses on the strategic sale area. And I think that will continue to pick up as corporates are sitting on a lot of cash. And I think one of the big beneficiaries of increasing confidence at the CEO level will be increased M&A activity. So I think that will aid our strategic sales.

In the IPO market, frankly, it's a very company-dependent and it's kind of week to week. But since we've got so many companies that have already jumped through the IPO window, that's probably the least important consideration as we sit here today.

Michael Carrier - *Deutsche Bank - Analyst*

Okay, thanks a lot. And then just you mentioned on some of the new funds, I think there was a lending one, the Asia private equity and then special situations. Just any color or update on progress on some of those new products?

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

All three of those, relatively early, so probably better to give you an update in next quarter and subsequent quarters.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. Thanks a lot, guys.

Operator

Roger Freeman, Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

I guess first just on the Texas Teachers -- is there a rough timeline that you anticipate the rest of that capital flowing in like over a one to two-year period?

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

Hey, Roger, it's Scott. I would expect the capital to start to flow -- will flow in over the next call it two to three years.

Roger Freeman - *Barclays Capital - Analyst*

Okay. And then how does the recycling work? Is that over a specific period of time, like if you have realizations early on and you can reinvest those?

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

Think of it as -- basically the way it works is that we can recycle all of the capital, so the entire $3 billion, and then a portion of the profits that we generate on that capital. So we'll get to use the $3 billion over and over and as we generate profits we get to take a portion of those profits and recycle them back in. So the $3 billion of AUM that will start to show up over the next few years should grow over the subsequent several years.

Roger Freeman - *Barclays Capital - Analyst*

Okay, but I forget -- does that have a lifespan to it? Or is this just perpetual?

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

It is very long term. The lifespan has not been disclosed by them or us, but think of it as much longer than your normal fund relationship.

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

Think of it as long-term capital.

Roger Freeman - *Barclays Capital - Analyst*

Okay, great. And then I think -- you touched on this a bit but you've seen a nice increase in number of clients, the 250 to 400. Maybe of the 400 now -- how many of those are invested in two strategies or maybe how many are in three or more? I'm just trying to get a sense because you're both growing the client base as well as cross selling them. I'm curious how you view that opportunity?

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

We think that's a big opportunity, Roger. So on average I think the number is about 1.6 products per client. And as we've added meaningfully to the number of products we have, we are just starting to make a real dent in that figure. And so, I think the opportunity for us is exciting on both fronts. And we talk a lot about adding to the number of clients, but I think you're right, the cross sell opportunity is pretty exciting as well and we are really just starting to get traction on that in the last year or so.

Craig Larson - *KKR & Co. L.P. - IR*

The only thing I would add on that Roger is if you think of the capital that we added in 2010 in particular, a lot of that was in first time funds, but was energy, it was mezzanine, it was infrastructure and the like. So as we are now marketing some of the more traditional strategies like the North American private equity fund and second Asia Fund, etc., that is certainly something that we are very focused on.

Roger Freeman - *Barclays Capital - Analyst*

Can you remind us how (multiple speakers)

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

Keep in mind we're in the early innings here because we just started launching these new strategies over the last two or three years, and so that's why it's so important that we've got the client and partner group to actually get out there and introduce these new products to a whole host of current and new investors.

Roger Freeman - *Barclays Capital - Analyst*

Yes, and that was actually my other question. How big is the sales team today versus when you had the 250 clients? And how much do you expect that to still grow?

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

Yes, roughly -- just rough justice we had, at the end of 2008 -- let's use that as our starting point, we had about four people marketing product for KKR globally. We now have over 40 people in that group, probably 20 to 25 of those client facing and the rest more on the service and support side. So we've made a meaningful investment in that area and we would expect those numbers to continue to grow this year.

Roger Freeman - *Barclays Capital - Analyst*

Great, all right. And just lastly, what are your updated thoughts on opportunities for the firm in the new regulatory environment when you think about factoring in Basel, Dodd-Frank, with respect to the dealers, and particularly I'm just thinking something like bulk or you know which -- you know from a -- even a market-making standpoint, you have a capital markets business on the balance sheet. I'd like there to be some opportunities to buy liquidity on a short-term basis facilitating some of the credit markets if they become uneconomic.

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

I would say the opportunities are pretty exciting for us coming out of all the regulatory change. As we discussed in the past, a lot of the traditional sources of capital to the markets are seriously impaired for all of the reasons you've talked through in all your reports. And what we're seeing on the regulatory front is impacting that as well. We think with Basel and Volcker that is only going to increase.

So if you think about what that means for us, I would say there's really two primary benefits. One is just investment opportunities. So you've seen us really try to scale our special situations business. That business is spending a lot of time today lending to providing capital to companies that don't have alternative sources. It's also spending a lot of time with banks and today particularly in Europe that need to sell assets. So the opportunity for that business is very exciting.

We're also seeing that in our alternative credit strategies. So, a lot of companies, especially middle market companies, are finding that their banks are not providing them with capital anymore.

So, what we're doing is we're stepping into the fray. Our mezzanine business is doing that. We've launched this direct lending strategy we mentioned. That business is providing senior loans to companies that need capital. And so, we are seeing opportunities in those parts of our business and so we've really been scaling quite a bit.

And part of the reason that opportunity is there, Roger, is the traditional providers are either out of those markets permanently or temporarily. So we're stepping into the void.

The other thing that is providing the second opportunity for us is really talent. What we found is that under Volcker and as these banks have been trying to figure out how to operate in this new regulatory regime they've been letting people go. They've been getting out of businesses.

The prime example of that for us is the Goldman Sachs principal strategies team that we brought over and started that hedge fund that Bill mentioned last year. That team came over en masse and joined us. It's not clear to me if it hadn't been for the Volcker rule that that would've happened. So I would say the opportunities for us are really one investments, and, two, people.

Operator

Michael Kim, Sandler O'Neill Investments.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

First, you know I know you've got the European funds, the Asia Fund, sounds like another one is on the way and kind of the China Growth Fund. But is the plan to continue to come to market with more specialized funds either from a geographic standpoint or in terms of different strategies to kind of continue to broaden out the franchise and maybe improve the consistency of fund raising going forward?

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

Michael, it's Scott. Yes, I think that's right. We've got -- the way I would think about it is we have our traditional larger scale funds. So in private equity we've got North American Fund, European Fund, and our Asian Fund. And so obviously we've talked a lot about NAXI. That's a continuation of it in one of our traditional funds. The Asia private equity vehicle that I mentioned is really our second vehicle for Asia more in the traditional fund category. But then, we are going to launch adjacent strategies like China Growth which raised $1 billion in a very short period of time that we've talked about.

So I think you are thinking about it right. We'll have a group of traditional funds that we'll continue to scale and then we'll build adjacent strategies alongside in private markets. But, that's just kind of in the private equity space.

If you think about what else we've been doing, we've been launching vehicles in energy and infra-. We've been launching vehicles in alternative credit. At some point we'll figure out what we're going to do in terms of launching a real estate vehicle.

So, I think you're right. We're going to have just a constant stream of ongoing traditional funds. We're going to have kind of the newer funds that we'll be launching and raising that will then have their successors.

And then we have a group of businesses where the fund raising is continuous. Think high yield, loans, our hedge fund business. So it's really going to be the case that I think we're going to have several products in the market at any given time.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay, that's helpful. And then maybe just to follow-up on realizations, any color in terms of how we should be thinking about maybe the trajectory of realized cash carry this year and into 2013, just given some of your comments around your public company holdings as well as the pickup in strategic sales?

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

Well, let me take that one. If you look at our portfolio today, as Scott mentioned, about 30% of our assets are in public securities. And we've done a primary and we've done secondaries. And to the extent that there is an opportunity to exit those positions, we will react accordingly.

Just to give you some color, in 2010, we actually distributed about $4 billion to our LPs. That number was up in 2011 to over $6 billion. So, we actually have the assets that are quite liquid.

As it relates to what the impact is on carry, and more importantly to your point, cash carry, all of our funds but Europe to accrue carry. And of the seven funds that we have, four of them are in cash carry mode. So, if we sold an investment in the European, Millennium, Asia or China Growth Fund to the extent that there would be a realization it would be cash carry to pay. 2006 as we mentioned on several calls is well above cost. But right now there are a couple of investments in that portfolio that below cost so that even if we sold an investment we actually wouldn't receive cash carry. But again, if you took the portfolio as a whole right now and sold it in its entirety you would receive cash carry.

EIII right now is more or less breakeven. It's as of December 31 just a little bit above cost. And then as I mentioned, EII is the only fund below cost, so that will give you some color. That is as we exit investments, will you see the opportunity to see cash carry.

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

The way I think to think about it, Michael, as you can see in the back of the press release we've seen a meaningful increase in realized cash carry year over year, Q4 over Q4. And so, as we continue to make progress in creating value in the funds and see future realizations, that should translate into incremental cash carry over time.

It's very hard to predict exactly when and how that's going to show up, however. So a lot of that is going to be dependent on the markets and then whether we have any of these larger strategic sales happen, than you could have some nice surprises. But it's very hard to predict quarter to quarter.

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

And just to drive home the point again on cash carry, from 2010 to 2011, cash carry distributed in 2010 was 19 and in 2011, it was 26. So that's up over 30%.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay, that's helpful. And then just finally to come back to the real estate business, I know it's still early days, but maybe if you could talk about some of the opportunities that you might be in a position to capitalize on today and then how you see that franchise developing over time.

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

Sure. Look I think what we're trying to do, Michael, is broaden our dialogue, back to your first question. We are now talking to CIOs and just institutional investors and high net worth investors about a variety of different ways that they can deploy capital and a lot of different ways we can help.

And really what we've been trying to do is target our efforts in the areas where we see the most severe dislocations and the most severe imbalance from a supply/demand standpoint. And, one of the reasons that we've started our real estate business is it looks like there's a significant supply/demand imbalance from a capital standpoint in the real estate markets that's going to persist for a long time. And a lot of the clients that we are trying to help are figuring out how to participate in that dislocation and benefit from moving their capital to it.

So, what we've done is we've brought on a team which has been with us the better part of a year now and have been looking at a variety of different transactions.

You know the statistic that I think is interesting is there's about $1 trillion of CMBS coming due between now and the end of 2014. We think probably half of that does not have a home. And so what that means is, there is a variety of different very interesting opportunities US, Europe and Asia.

And what we're finding is that there are still lenders to the very senior part of capital structures for real estate. So, life insurance companies in particular are prepared to lend to the senior 50% of a capital structure. But there are very few providers of capital to the bottom 50%. So the securitization markets have not recovered. And so what that means is that there is a significant capital need at that bottom half of the capital stack. And so where we're spending our time is both equity, so think about it as opportunistic equity, and we're also spending time in kind of more the mezzanine part of the capital stack -- think of the 30% to 50% tranche where we're finding very attractive returns.

And what the team is finding is the opportunities are very broad-based. We've never had a team come into the firm and get as busy as quickly as this team has. And there's just a variety of opportunities on a global basis, commercial, multifamily, US, Europe, Asia -- there's a variety of opportunities around the world.

So the way we are attacking it is a couple fold. One, we've got the real estate team integrated with and working with other investment teams in the firm. So, a lot of the work is going to kind of meld between real estate and distressed. And so our special situations team and our real estate team are working together on some projects and trying to get those done.

And we've also dedicated $300 million of capital off our own balance sheet. And the team is working with that $300 million of capital and is working on a variety of different transactions. And we will use our capital markets business to syndicate any excess that we want to keep. And so the idea is build our track record, do some deals with the firm's capital and through the syndication mechanism. And then over time we'll launch a fund, but what we don't want to do is miss any of the current opportunities which we think are pretty exciting.

Operator

Guy Moszkowski, Bank of America Merrill Lynch.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

It's actually Patrick. Guy had to run because the mortgage settlement came out.

So on the realized cash carry in the fourth quarter we had tried to account for some of the shale sales that you had; still came in a lot better than we expected. Could you kind of run through all of the components of that realized cash number that was distributed?

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

Patrick, this is Bill. Sure. We had already given you information last quarter, that approximately $0.06 was going to come through in the fourth quarter from the two shale plays. But during the quarter we also had a secondary sale of Legrand. And we also had a secondary of Dollar General. And that accounted for the additional $0.03 of cash carry during the quarter.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

I thought Dollar General was in the 2006 fund. Is it not?

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

It is. And it's a small amount, and thanks for pointing that out.

When we did Dollar General, not only did we make the investment through the fund but we also had co-invest vehicles which we were fortunate enough to have the opportunity to receive some carry on. And so when that transaction closed, in the 2006 Fund, our LPs received all of the capital and that went -- so it's filling the netting hole in 2006. But, those co-invest vehicles, we actually are entitled to receive cash carry. That amount of -- not to get too excited; the amount is $0.01 a share.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

Okay. I thought that you would recycle co-invest back into co-invest, or is that not the same as the principal portfolio when you say co-invest?

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

Oh, think of that as syndicating co-invest to third parties.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

Oh, okay, right. Okay, cool. So the new capital in private markets -- I assume that roughly $1 billion of that was Texas Teachers? Because there was $1.4 billion for the quarter I think. Am I looking at the year?

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

No, you're looking at the quarter. What ended up happening in that $1.4 billion is roughly about $700 million was from infrastructure and energy-related SMEs. And the other amount was from co-investments that we made where we were entitled to receive some carry.

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

So, to answer your question directly there was not $1 billion from TRS in the quarter. It was other capital raising.

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

Right. As a matter of fact, there was no Texas.

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

There was no Texas in Q4. There was some Texas in prior quarters but nothing in Q4.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

Okay, okay.

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

Right. The prior quarter was number -- just for clarity was $1 billion.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

But as the new money comes in from TRS it will show up in that line item?

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

Correct.

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

As they commit to the strategy and we close that particular fund it will show up in AUM if we pay in AUM, yes.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

Okay. All right. Finally, it looks like Capmark Financial disappeared from your principal activities kind of rundown. Could you explain that?

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

Sure. We have been carrying that at zero for the better part of a couple of years. We carried it on our balance sheet only for the fact that we still own the asset. Capmark emerged from bankruptcy and the equity that we held got canceled, and so we took it off our balance sheet.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

Right, okay. All right. Thanks a lot, guys.

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

No impact to earnings.

Patrick Davitt - *BofA Merrill Lynch - Analyst*

Right, right.

Operator

Matt Kelley, Morgan Stanley.

Matt Kelley - *Morgan Stanley - Analyst*

Hoping to drill down a little bit more on your LP base. If you talk about pensions, sovereign wealth and high net worth, among others, what are those -- what strategies are those investors by type looking for the most? I appreciate your color on real estate. So wondering where you're getting the most traction there, where in Europe, etc.

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

Sure. Hey, Matt, it's Scott. I think frankly it's fairly broad-based. What we're doing is, we're talking to investors about what they're trying to achieve. And, everybody we are talking to is just trying to figure out how to get return overall as the first priority. They've been looking at their historical results in long-only equities and high-grade fixed income for the last decade and they have generated low single digits at best. And so, that theme is very consistent.

Another theme we are hearing is that they are prepared to take some illiquidity in order to increase their returns. I think we are kind of out of the bunker fully now. And people understand that you're not going to be able to get 10%-plus returns without giving up some liquidity. And so that's been a great help as we've been launching new strategies and engaging in this dialogue.

Pension funds, in particular I would say are looking for a number of things. They want to figure out how to beat their 8% growth in their liabilities. And so they are rotating into a variety of longer-term alternatives, private equity amongst them. But there is also an interest on the part of pension funds increasingly in yielding strategies, the thought being if they can actually generate a yield of 8%-plus, then they've got their growth and their liabilities covered. And anything above that is kind of upside from there. So we are definitely hearing that theme from pension funds.

We're also hearing that being from high net worth, that there is absolutely an interest in that. So as you think about what we've been launching as a firm, all of our products except for private equity and our hedge fund have some kind of yield associated with it. And so, we're finding that those products are playing particularly well with those audiences. It's absolutely the case.

Insurance companies -- I would say it's a bit of a different flavor. Insurance companies, because they are more focused on GAAP bottom line are probably even more focused as a priority matter on yield. And so we're finding a lot of interest there more in the high yield area, mezzanine, distressed, anything that's going to have a current yield is attractive.

But the interest is broad-based and it's on a global basis. As we look at where the capital has been coming from recently it's where you're seeing capital formation happen. A lot of interest out of Asia, a lot of interest out of the Middle East. We are increasingly, though, seeing more activity in the US and in Europe. So I would say it's global. And the themes are they like return, they like yield, they like energy, they like Asia. And, we've got a lot of products that kind of fit within what they are trying to achieve.

Matt Kelley - *Morgan Stanley - Analyst*

That's really helpful. So as we're talking about returns and some of your investors more willing to tie up money for longer periods of time, what -- have return bogeys come down for them? Are their expectations reset lower?

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

I think most of our investors, Matt, look at it -- our returns relative to public indices. So I think what has happened is that their expectations for returns out of the public markets have come down and they are looking for a certain number of basis points of outperformance relative to those public markets. And so, that's why we tend to talk about it on that basis. I think they're looking at it on that basis.

So part of it is based on the individual investor you're talking to and what they think they can get out of the public markets. And the way they look at it is how much excess return do I need to basically forego the liquidity and give capital to you, KKR. And so that tends to be the basis on which the conversations happen and how they measure our performance.

And I think as a general matter expectations in terms of the overall markets have come down a bit. But having said that, everybody would still, especially in PE, like to get a 15%, 20%-plus return, so it kind of depends on who you're speaking with. But the way most of them are compensated and we are benchmarked is relative to the public markets.

Matt Kelley - *Morgan Stanley - Analyst*

Okay, very helpful. Just one follow-up from me. Any interest from your side on launching or getting into actively managed ETF's to distribute more to high net worth?

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

Not on the near-term game plan.

Operator

Robert Lee, KBW Securities.

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

Bill, just could we go way back to your comments about when the NAXI fund starts coming into the financials? I'm not sure I understood correctly. Is that Q4 2012 that that -- you will expect that to start rolling in? And that's when 06 I guess flips to its -- flips over?

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

Correct. We expect that to occur in the fourth quarter of 2012. And a subtlety here is remember in the 2006 Fund we still have $1.8 billion in capital that we are investing for those investors.

Our assumption is that those funds will be invested in the first half of the year. And the reason why I was specific about the fourth quarter is that since we have a contractual arrangement with our 2006 investors that we wouldn't actually start charging a fee on the NAXI fund but for the one-year anniversary of the last fee charged for the 2006 Fund. And so the 2006 Fund runs from September 2011 through September 2012, and that would be its last investment period. And so then, even if we started to deploy capital in the third quarter of 2012 for NAXI, the fee actually wouldn't turn on until the fourth quarter of 2012, at which point the 2006 Fund as I mentioned would start paying its post-investment period fee of 75 basis points.

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

Right. Now on the 2006 Fund when that fund flips do you kind of hold back from capital that stops earning fees or is it kind of all in?

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

Well right now we do have a reserve set up for that 2006 Fund. And, if by chance, and it would have to be based upon a fact pattern, if we ended up reserving a certain amount of capital and then started investing in NAXI and then we use those funds for a particular investment in the 2006 Fund, once it got invested we would start receiving a post-investment period fee on that capital.

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

Right. But until that point you wouldn't earn the fee on that reserved capital?

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

That is correct.

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

Right, okay. And --

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

And Rob, the only thing I'd -- two points to add on that is that there's no obligation to invest the reserve. And in thinking about that it's not allocated to -- it's a pool of money, so it's not as though there's something that those dollars are preallocated towards.

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

Okay, great. And then try to think about you know what it would take to move say 2006 and maybe some of the other funds to a cash carry position. Understanding if you liquidated the whole thing you generate cash carry, but is there any way to kind of quantify that -- and I know it's maybe somewhat of a moving target -- but you need I don't know, $400 million of cash realizations in order to get funds fixed to a cash carry position. How should we kind of think what it would take to kind of get that cash carry?

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

Well, you are right. It's a moving target. You know obviously each quarter we value our portfolio of companies in on some of these private portfolios. If the investment is marked below cost we don't have the ability to pay out cash carry. And we have to look at this quarter to quarter because if we are carrying an investment below cost, and then the company starts to perform if we write that investment up in a successive quarter, that netting hole actually shrinks. So it's really hard to give you any sort of guidance as when to expect cash carry other than I will tell you that as we get close we'll make sure that everyone knows that we are getting close.

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

Okay, that's great. That was actually it. Thanks for taking my questions.

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Hey, everybody. Marc Irizarry, Goldman. Scott, just on TRS again, can you walk through how willing you are to allocate -- like how big TRS could potentially be as a component of new strategies that you're seeding and how you're sort of going through where you're going to allocate their $3 billion? Thanks.

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

Sure. Marc, I think generally speaking the way to think about it is in three buckets. There is going to be a private equity component. There's going to be an energy infra- real assets component. And then there's going to be an alternative credit strategies and just opportunistic component. And roughly we'll see over time how that develops in conversations between us but you want to think about that as approximately a third each you'd be about right in terms of the thinking today. So we would expect that will change over time.

I think one of the things that we and they saw as part of this is an ability to work together to launch newer businesses for the firm. And so I expect it could be a source of capital for some of the new things that we do together. It's clearly not going to be a majority of the capital but it will be an attractive source of capital and that will be something that we develop in conversation with them. Just parenthetically, our oil and gas business, our KKR Natural Resources business was a business that we started with Texas Teachers. So it actually initially came out of a meeting where we were talking about a theme in the energy space and we and they decided to start that business together. So they are actually a meaningful source of capital for that business. And we've talked together about real estate as an example and other areas that could follow on for that.

But one of the other things that we saw as a benefit here, both they and us, is an ability to move quickly into market dislocations. And so there's a portion of the capital that's not even allocated to specific strategies. It's just when we together see interesting market opportunities we can rotate the capital there quickly because the traditional diligence effort of months and months of back and forth, sometimes the opportunity can go away. So we have an ability together to move very quickly to fill voids and take advantage of market opportunities with the capital as well.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then just a quick follow-on on that. Do you think as you bring on more of these deals or more of these LP relationships, does this at all alter the general partner to co-invest when you're thinking about new strategies?

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

No. I wouldn't think of it as changing that dynamic.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. Then just one more time on the 2006 fund. I don't know, Bill, if you can give us any color on are there individual investments that are above cost today that you could monetize that would put you in cash carry mode in 2006?

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

Yes. Again, I had mentioned earlier that if you took the entire 2006 Fund and sold it at today's cost, we would receive cash carry. So we have several positions in the 2006 Fund that are well above cost. Take for example HCA or Dollar General. So if there was a significant monetization in either one of those, that would certainly go well to filling the hole and getting us a lot closer to paying out cash carry.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Most of our questions have been asked. And you may not be able to answer with this fund, but is there a way to think about historically in the funds that you've raised is there a typical spread between the first close and the final close?

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

Chris, it's Scott. There's not a typical spread. It's really been all over the map. And frankly, given that this is really the first traditional fund we have raised since the credit crisis I would be loathe to give you any prediction or anything that you could work from. So no data to help on that front unfortunately.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

I figured that. But thanks anyway. And that's it for me.

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

It's a good question. We've certainly thought about it.

Operator

Roger Freeman, Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

Just had two follow-ups. One, just on the earlier discussion around LPs just wondering in your discussions with pension funds, do you get a sense that there's a lot of -- they are getting a lot of pressure on their end to lower their return assumptions? Are we at a catalyst point here? Is that part of why these discussions are picking up? Or do you perhaps bite that bullet or show near-term better return profiles?

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

I think that could be driving part of it, Roger, but I think it's just a bigger practical issue. The practical issue is that they've had 1% or 2% returns over the last decade. And their liabilities are growing 8%. They are underfunded now. And if they project that out using 1% or 2% or 5% or 6% they're going to be even more underfunded. And so I think part of it is what's the right return assumption for the long term, but I think there's just a bigger practical issue of where are they going to go to find return. And as a sub point, where do they get return that's not completely correlated with everything else they have.

And so I think it's part of it, but the bigger driving consideration, frankly is, they know that if 90% of their portfolio is generating low single digits, it's very hard to get anything into the 8%-plus on the overall portfolio unless you change allocations and you are more aggressive in terms of what you do with your capital.

Roger Freeman - *Barclays Capital - Analyst*

Yes, and meet allocations pretty aggressively too.

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

Right.

Roger Freeman - *Barclays Capital - Analyst*

Okay. And then the other thing -- I may have missed this. Have you said on the equity launch or strategy? I know you just launched it but where does that stand right now in terms of AUM and how much of that is your capital? And I think -- because I think you had said you had started raising third-party money back in the fall.

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

Yes. We've started. We are managing about $400 million or so today.

Roger Freeman - *Barclays Capital - Analyst*

Okay. Most of that still is yours?

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

Oh, no; we've now -- most of that is third-party at this point. We've just -- we've been out raising capital and picking up speed on that front.

Operator

That will conclude today's question-and-answer session. I will now turn the call back over to the speakers for any additional or

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Craig Larson - *KKR & Co. L.P. - IR*

Thanks, everybody. We really appreciate your time this afternoon. We look forward to talking with you next quarter.

Operator

That will conclude today's call. We thank you for your participation.

Editor

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