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KKR - Q4 2012 KKR & Co. L.P. Earnings Conference Call

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Bill Katz *Citigroup - Analyst*

Matt Kelley *Morgan Stanley - Analyst*

Patrick Davitt *Autonomous Research - Analyst*

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

Howard Chen *Credit Suisse - Analyst*

Michael Carrier *BofA Merrill Lynch - Analyst*

Roger Freeman *Barclays Capital - Analyst*

Chris Kotowski *Oppenheimer & Co. - Analyst*

Marc Irizarry *Goldman Sachs - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth-quarter 2012 earnings conference call. During today's presentation all participants will be in a listen-only mode. Following management's prepared remarks the conference will be open for questions. (Operator Instructions).

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

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

Thank you, Sean. Welcome to our fourth-quarter 2012 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.

We would 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 this call, which are reconciled to GAAP figures in our press release.

This morning, we reported our fourth-quarter and full year 2012 results. A few highlights. For the quarter, economic net income was $348 million which translates into $0.48 of quarterly after-tax economic net income per unit 45% higher than the $0.33 per unit reported in the fourth quarter for 2011. For all of 2012, we generated $2.1 billion of ENI or $2.90 of after-tax economic net income per unit, almost 4 times the $0.73 per unit we reported for 2011.

These strong results were driven by the performance of our private equity funds which appreciated 4% this quarter ahead of the public market indices.

In 2012, our private equity funds were up 24%, meaningfully ahead of both the S&P 500 and the MSCI World indices which increased 16% and 16.5%, respectively. Our private equity portfolio beat those yearly returns by over 700 basis points.

This was also an active quarter for us on the realization front so I want to emphasize some of our cash metrics. We reported a record $546 million of total distributable earnings this quarter which included record contributions from both cash carry as well as gains off the balance sheet. As a result, our fourth-quarter distribution per unit, $0.70, is also the highest quarterly figure we have ever reported. Our 2012 total distribution per unit is $1.22, up 65% from the $0.74 distribution for 2011.

Before we move on, I would like to bring your attention to an upcoming event. On May 23, we will host our second investor day in New York featuring presentations and a Q&A session with our senior business leaders. We will be sending out formal invitations in the coming week so if you would like to attend, please follow-up with Sara or with me after the call. Additionally we will put out a press release in the coming months (technical difficulty) information on the live webcast. We hope you will be able to join us.

And with that I will now turn it over to Bill to discuss our performance in depth and also give you an update on netting, and then Scott will walk you through what we have been focused on across our segments.

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

Thanks, Craig. When we look at our financial results for the fourth quarter and the full year of 2012, and compare those results with the fourth quarter and full year of 2011, there are four important trends to remember.

First, our funds and our balance sheet performed well in 2012 which drove greater economic net income. Second, our level of monetization activity was greater causing significant growth in our total distributable earnings and our distribution. Third, although the fourth quarter was our most active investing quarter in 2012, we invested less in 2012 than in 2011, which resulted in a decline in transaction fees and fee-related earnings. And fourth, our public market business now includes Prisma in its segment results.

These four trends will broadly explain the underlying movement in our numbers that we reported this morning. More specifically, we reported total distributable earnings of $1.4 billion for the full year 2012, up over 80% for the same time last year and our full-year distribution per unit of $1.22 was helped by the $0.70 we recorded in the fourth quarter.

Fee-related earnings were $86 million in the quarter and $320 million for the full year. Our lower level of investment activity in 2012 led to a decrease in transaction and monitoring fees, driving the year-over-year decline. However, the 24% write up in our private equity portfolio more than outweighed lower fee-related earnings this year resulting in ENI of over $2 billion, nearly three times our 2011 reported ENI.

We ended the fourth quarter with record assets under management of $76 billion and fee paying assets under management of $61 billion, up 28% and 31% from the same time last year. This increase is in part attributed to the $8.5 billion from Prisma, the hedge fund of funds manager that we acquired in the fourth quarter which is now included in our public market segment.

These figures also benefited from the $11 billion of new capital we raised in 2012. And please remember these numbers do not factor in an additional $8 billion of committed capital. $4 billion from Asia II raised to date, $1 billion of the Texas Teachers mandate and about $3 billion of capital in other vehicles that will be included in AUM once it is invested.

Turning to our segments. In private markets, fee-related earnings were $32 million, down from the fourth quarter of 2011 as a result of lower transaction fees. ENI was $178 million for the quarter, up from the same time last year, given the increase in private equity valuations we discussed earlier. The full year showed essentially the same trends for both the related earnings and ENI in this segment.

Touching on public markets, fee-related earnings were $29 million, up 26% from last quarter and more than double the fee-related earnings year over year. The 80% increase in management fees largely offset lower incentive fees this quarter, leading to sizable fee-related earnings growth.

Public markets' ENI for the quarter was $37 million, up slightly from $35 million last quarter and up meaningfully from $12 million a year ago. For the year, this segment earned over $100 million of ENI. A 78% increase over 2011.

As we continue to grow in scale, the capital in our carry eligible funds, we expect the carry potential of the public market segment to continue to increase.

Moving on to capital markets and principal activities. Fee-related earnings were $24 million for the quarter, up from last quarter but down from the fourth quarter of 2011 when our capital market team syndicated almost $1.2 billion of capital. Fourth quarter ENI in the segment was $133 million driven by 2% appreciation in our balance sheet investments.

Turning to our balance sheet, our book value per unit increased 19% last year to $9.87 as of December 31. This growth is attributed to the increase in carrying value of our balance sheet investments which were up 24% in 2012. As I mentioned earlier, our distribution for the fourth quarter was $0.70 and this is now the 11th consecutive quarter we have seen cash carry in the distributions.

We know that the timing of cash carry remains the topic of interest so I wanted to provide an update on netting holes. For the last few quarters, we have disclosed the size in the netting holes in both the '06 fund and Europe II. The goal is to inform our unitholders of the size of these holes and to provide more clarity around our path to filling them. We made significant progress since the end of 2011 and this is especially important, given the size of our '06 fund. Once the domestic netting hole is filled in '06 our carry eligible AUM will increase substantially and subsequent '06 fund realizations can be distributed to all of us as unitholders.

Today the domestic portion of the '06 fund netting hole has been reduced to approximately $275 million. Additionally, the 2006 fund overseas partnership netting hole has been filled and we are paying cash carry on that $6 billion of AUM. Our ability to reduce these netting positions was tied to the significant realization activities we had in 2012.

On our second-quarter earnings call in July of last year, we also disclosed the size of the netting hole in Europe II. Today Europe II is market 1.2 times cost and the netting hole is about $500 million, down from $1.3 billion at June 30, 2012. That is $800 million of progress in just the last six months. And except for NAXI, all of our active private equity funds are not subject to a preferred return. So we get carry from dollar one of gain.

We feel good about the improvements we are making with respect to netting and we will remain focused on increasing the percentage of our assets that are in a position to generate cash carry.

Before I move on, I want to touch one other recent announcement. A few weeks ago, we priced a $500 million, 30-year senior note offering from KKR with a coupon of 5.5%. This is our second senior notes offering following the $500 million 10-year deal we completed in September 2010. Both Fitch and S&P indicated that their ratings for KKR A and A minus respectively remain unchanged with a stable outlook. We believe this is a highly attractive financing for the firm. The 30-year term on the debt in addition to the low cost of funding will allow us to maintain a long-term focus on investing in our business.

With that I will pass it over to Scott.

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

Thanks, Bill. We have been pursuing six overarching goals. As we look back on our performance last year, we thought we would give you an update on the progress we are making against each.

The first goal we laid out was creating value for our clients. Here, I am going to let the numbers speak for themselves.

As Craig mentioned, our private equity portfolio is up 24% in just the last 12 months or over $8 billion. The breadth of the performance is interesting. Our public investments were up 20% and our privates were up 26%. Outpacing the MSCI World by 300 and 900 basis points respectively. We also feel good about some of the specifics. In particular our European private equity portfolio where, despite the uncertain macro backdrop, our funds appreciated by nearly 50% in 2012.

Additionally, we are pleased with the outperformance in the balance sheet which increased 24% last year and generated over $1.1 billion of investment income.

The second goal was monetizing investment when it is sensible to do so. And our private equity teams have been very effective in generating distributions. Last year, we participated in over 20 liquidity events, returning over $9 billion of cash to our fund investors and in the fourth quarter alone we had over $3 billion over realizations in our private equity portfolio.

We continue to focus on filling netting holes and increasing the cash earnings of the firm.

The third goal, sourcing attractive new investments. We completed $7 billion of private markets transactions in 2012 and invested over $3 billion of equity from our funds and co-invest vehicles. While below 2011 levels, if you contrast capital deployed with the amount of capital we have returned in 2012, we distributed in excess of $6 billion of net positive cash back to our fund investors.

The fourth goal was monetizing more of the content we generate. And over the last year, we have built out adjacent capabilities that allow us to do this. We are pursuing this strategy both organically and through acquisitions.

On the organic front, last summer, we announced the formation of a capital market's joint venture with Stone Point, now called MerchCap Solutions, which is focused on servicing midmarket and sponsor-backed companies. We recently announced the addition of the Canada Pension Plan Investment Board as a joint venture partner.

In addition to the $300 million of capital previously committed by Stone Point and KKR, CPPIB credit will commit an additional $50 million of equity to MerchCap to support its business. And has initially earmarked up to $2 billion of sidecar investment capital.

The expansion of our retail platform is another example of our organic growth efforts. From the launch of our '40 Act Funds at the end of 2012; to CCT or BDC that is approaching $1 billion of capital we have continued to increase the avenues through which we can partner with our clients and invest behind our ideas.

In addition, we have begun pursuing strategic acquisitions and investments. On that front our hedge fund business has been the initial focus. As Bill mentioned, we have integrated Prisma into our organization and their results are now included in our financials. We also recently announced the acquisition of a 25% stake in Nephila, a leading investment manager specializing in reinsurance risk.

Our balance sheet affords us the flexibility to pursue these inorganic growth opportunities which we view as a good way to deploy capital at a high return.

The fifth goal was earning the trust of new investors. We made a meaningful investment in distribution around the world for our client and partner group and while we still have room for growth, we are pleased with the increase in our LP base last year. At the end of 2011, we had approximately 380 limited partners. As of December 31, that number was over 450, an increase of about 20% in just 12 months time. And these figures exclude an additional 110 relationships coming from Prisma.

The diversification of our investor base has also positively impacted our fund raising. We raised $11 billion of new capital for our investment vehicles in 2012 across a variety of strategies.

Regarding our fundraise for Asia II, we have documentation in hand on over $5 billion of commitments and are confident we will achieve the hard cap of $6 billion with a final close in the next 30 to 60 days. However, we won't see the impact of Asia II in our financial statements and our AUM figures until we finish investing Asia I and actually turn on the Asia II fund.

We also have good news on NAXI. We have now closed on or will have hard-circled approximately $7.5 billion of capital and we have also extended the fund-raising period for NAXI to the second half of 2013.

We said last quarter that we ultimately think the fund will be between $7 billion and $8 billion. Given the extended fund raising timeline and the line of sight we have today, we feel very comfortable about hitting the high end of that range.

The sixth goal was creating more scale in the newer businesses we have created. When we reflect on last year, there are a few key examples of the progress we have made on this front. The Asia II fund raise that I just mentioned is one of them. The AUM associated with this fund is currently excluded from our financials and when this capital comes online, it will nearly double the AUM in our Asian private equity business.

A similar trend is also true of our nonprivate equity businesses in aggregate where we have grown from managing $18 billion of AUM at the end of 2011 to $30 billion at the end of 2012. The increased scale in our newer businesses helped drive record AUM and feepaying AUM.

So how do we track this collective progress for all of us as shareholders? Ultimately, the distribution to unitholders should reflect our firm's success. When you look at the growth of this metric for us over the last year, it tells a good story. Our distribution increased 65% in 2012 to $1.22 per share.

We also think about the return on capital we are generating as another measure of how we're doing. We generated $1 billion of fee and carry earnings in 2012. In addition, our balance sheet generated $1.1 billion of earnings or a 24% return, including $900 million of realized gains.

In total, this is $2.1 billion of earnings on an average $6.3 billion of book value or a 34% return on average equity for the year.

In summary, when we look at our business today, our portfolio is performing, our cash distributions are starting to flow, and our balance sheet is generating attractive returns, all of which help create equity value for our investors and fellow shareholders. We appreciate your joining our call and we are happy to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Thank you very much and thank you for that very concise update. Really appreciate the efficiency.

When you look at Prisma it has only been for a short percent of time and, Scott, you mentioned you still have another 110 million -- 110 LP relationships if you will. Could you talk specifically about the opportunities set that you see in front of you for that and then the broader question on this topic is as you look at the $8 billion of capital still to be invested between Asia 2 and a few of the other funds, how do you think about the timing of that roll-through if you will?

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

On the first -- I think we are very excited about the Prisma transaction closing. As you know it closed at the beginning of October. The team has done a great job generating investment performance, had a very strong year last year and a particularly strong fourth quarter that has allowed them to scale capital. So although they were only part of the KKR family for the fourth quarter for the year in total, they increased their overall assets quite meaningfully from about $7.3 billion to about $8.5 billion and had very good flows in Q4.

In terms of the opportunity set we see, I think there's several different ways to win here.

One is just continuing to grow organically. And what we are doing is working very closely with the Prisma team and introducing them to the KKR LPs and trying to make sure that we can broaden their investor base which it hopefully will allow us to attract new capital in the businesses they are already in.

The second thing we are doing is thinking about new products that we could launch together and we have a variety of initiatives in the works on that front.

And then the third is thinking about adjacent businesses that we can go into together and thinking about different ways to build out the hedge fund platform whether that is buying stakes or thinking about the (technical difficulty) business. A lot of those ideas are in the formative stages, but we do think by putting what they do and their intellectual capabilities together with ours there's lots of interesting ways to grow the platform.

So we are quite excited about where we can take the business.

And in terms of your second question and capital coming online, Bill, do you want to take that?

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

Sure. It is probably easiest if you go to page 19 which it lays out our fund table. And so just real quickly going through the fund table when you are talking about uncalled commitments, obviously we just closed the NAXI Fund and that went live on October 1. And so as of December 31, where we are talking about only $6.3 billion being raised, that's not taking into account any capital that will be raised in between the $6.3 billion and the $8 billion that Scott mentioned earlier, that $6 billion which is going to be invested over a six-year period.

China growth, we have until the end of 2016 to invest. Europe III, we have until March of next year to invest that. And so after we review the final fundraising for NAXI, we will turn our attention at the end of this year or really into the second half of this year to Europe IV.

And then Asia, we have got about $800 million and that is pre any sort of reserve we would set up and we expect that Asia will roll off the investment period and this is the post-investment period either in the second quarter or for sure in the third quarter when the Asia investment period ends on June 30.

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

Yes and I think just to add on to that if you think about the $8 billion of capital Bill mentioned that has kind of been raised but not yet turned on, the biggest piece of that is going to be Asia II which, to Bill's comment, I would expect to turn on later this year. And then the other pieces of it it really varies across different strategies and so I think it is fair to say some of those will be [there] this year some may go into next. But think about it in the next couple of years as the likely timeframe.

Bill Katz - *Citigroup - Analyst*

One final question for me. Given the debt raise and given the return profile coming off the balance sheet, where are you in terms of having seeded some of the new businesses within the public and capital markets businesses such that as you continue to monetize anything on the balance sheet that that could amplify the distribution story?

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

I think we have actually seen quite a few new businesses, as you know, and the way that we think about the overall balance sheet today so we ended the quarter with about $1.5 billion of cash give or take. And then we did the debt deal on top of that. But we are also making as we just laid out quite a large distribution. So if you think about $0.70 for the fourth quarter, that is the better part of $500 million of distribution that will get paid out here in the near term.

So as we think about the overall amount of cash we generated and paid out to shareholders last year, if you translate that $1.22 into actual dollars out the door, it is about $850 million of cash distributions that we paid for 2012. So we are actually paying out quite a bit of capital. But, as you know, we are also committed to several of our existing strategies. And if you look at the funds we are committed to and the strategy that we have committed to, like real estate, our energy business, et cetera, that is about $1.25 billion of commitments that we have in aggregate across those strategies.

So while I don't think that there is anything like a real estate $300 million type commitment coming in the near term, we do see lots of ways to put this balance sheet to work as we have been seeding more liquid funds and thinking about ways to grow these other businesses, I think we will keep using the balance sheet opportunistically. But the way I think about it is, we actually paid out about 60% of our distributable earnings in 2012. And then on top of that we did the Prisma transaction. We have announced the Nephila transaction which has just closed.

So we are using the balance sheet not only to grow things organically, but also inorganically. So we are going to continue to think about the way we talked about in the pass is, where can we get the most attractive return on capital for the balance sheet. And so far we liked what we have been able to do with it. If that answer changes we will revisit it.

Bill Katz - *Citigroup - Analyst*

Thanks. Appreciate the -- taking on my questions.

Operator

Matt Kelley, Morgan Stanley.

Matt Kelley - *Morgan Stanley - Analyst*

Good morning. Just wanted to follow up on the recent deals for Prisma and Nephila and following up on what Bill was asking. As you think about redeploying the investments on your balance sheet over time, should we be thinking broadly that you are looking to grow the fee side of that business with also an attractive return profile? But is this along the lines of what you are thinking longer term, that the hedge funds platform is one that you want to build significantly from here?

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

I think the quick answer is yes. We do like the hedge fund platform. As you know, we have been investing pretty meaningfully in that area and I think it is going to be in a few different manners.

One is building out direct hedge fund businesses like we have with the [KES team]. Two is our fund of fund platforms which I just talked about in the answer to Bill's question with Prisma where we see a lot of opportunities to scale it, and I think we can use balance sheet to create new products there and continue to build that business. And then, three, are going to be things like Nephila where we could take stakes in existing hedge funds, plug them in part into our relationships and hopefully help them scale.

So I think there's lots of different ways to grow that business and we will do it both organically and inorganically.

The other thing that that we are doing is looking not just in the hedge fund space, we are looking across our different businesses at potential acquisition opportunities and we will see. If we are going to be opportunistic hard to find a good fit, but we are looking at building these businesses both organically and inorganically and so we have a concerted effort on that front. It is just hard to predict if anything is going to happen and when and where.

But we, in addition to all those uses of capital, we are also using our balance sheet to scale our capital markets business. I mentioned in the remarks about our joint venture with Stone Point and CPP and we see opportunities to scale there as well in the balance sheet to do that.

So the answer to the hedge fund growth question is yes but it is also much broader than just the hedge fund business.

Matt Kelley - *Morgan Stanley - Analyst*

Great. And then, Scott, last quarter you gave some good color on the fundraising dynamics and LP demand for your Asian fund and NAXI. So just given the comments of Asian Fund over $5 billion, NAXI, you are going to hit the upper end of your prior quarter guidance. Has anything changed versus last quarter in terms of what LPs are demanding? Are you seeing now that Asian Fund has crossed that $5 billion number, are you seeing more LPs wanting the NAXI Fund as a result and that plays into your decision to extend the fundraising timetable?

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

I think, overall, there is more of a stable backdrop and there is just generally more momentum around fundraising. If you think about what we said as it relates to private equity, the funds were up 24% last year and we gave back $9 billion in cash. And if you are an investor in that asset class, both of those are good numbers. And so I think that overall performance is helping quite a bit.

So I think sure, wrapping up the Asia Fund raise will help us a bit on the NAXI front, but if you look at the numbers and get more granular, our 2006 fund which is the predecessor to NAXI was up 23% last year. So we have had good performance, very good performance in our North American Private Equity business which I think in its own right is having to drive more interest in that fund. And that is what we see in the capital scales since our last call and, yes, our hope is that will allow us to continue to grow the Fund from here.

Matt Kelley - *Morgan Stanley - Analyst*

Last one for me and then I will jump back in. Just on the Asian Fund opportunities you are seeing for capital deployment over there, I am assuming broad-based, but anything -- any few specifics you can point to where you see really attractive opportunities? Thanks, guys.

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

Sure. I think it is pretty broad-based. You said it well. We are seeing opportunities in markets like Vietnam where we just made an add-on investment in our Masan consumer business. We are looking at opportunities in Japan, Korea, and Australia on more than control buyout front and then we continued to be active looking at minority and more growth equity investments in markets like India and China. So it is pretty broad-based.

Operator

Patrick Davitt, Autonomous Research.

Patrick Davitt - *Autonomous Research - Analyst*

Good morning. There have been a lot of reports about the difficulty of both investing and exiting in China and, given your position of strength there, can you speak to what you are expressing from that standpoint? Particularly as you just talked about the opportunities for investing in places outside of there.

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

Sure. I will take it. In terms of investing in -- we have actually made a number of investments in China in a variety of different types of businesses. And our focus continues to be the same, which is investing in businesses that really benefit from the growth of the consumer and the rise of the middle class. And so, that continues to be the case. And we made, I think, something like 14 investments in that market. So it has been a very active market for us.

And we have also been able to monetize. We have taken companies like Modern Dairy and Far Eastern Leasing public and have been able to actually access the Public Markets and start to sell down our position. It is a very local market. And so we have a large team of folks that grew up in China, that local expertise, we have a team in Beijing on the ground is absolutely critical to getting us right.

So to us that is the real secret to the success is people with those local relationships know with whom the partner, know whom to avoid and if you can do that well, you can also create a path to exit. And so that has really been our success in China. And, frankly, we are applying the same formula across the region. We now have seven offices in Asia including a newly opened office in Singapore and we think that that approach of marrying the local talent with the broader KKR capabilities works well in that region.

Patrick Davitt - *Autonomous Research - Analyst*

And then on Prisma, you mentioned they had net flows in the fourth quarter which is good to hear. But it is widely known the traditional hedge fund to fund business has generally been posting outflows in weakness. Could you speak a little bit about how Prisma differentiates itself from more traditional hedge fund of funds that have been in decline over the last few years?

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

Sure. I think you are right. I think the fund to fund market is in a period of change. When we did our work on the industry, we found something like 1,900 fund (technical difficulty) -- I mean that is a very large number. About $350 million of AUM on average and that industry is going to continue to consolidate. And we think there's going to be a few winners and, frankly, a reasonably large number of losers.

What we really like about the Prisma approach is we think it fits well with what investors want. And really Prisma built its business by focusing on specialized custom accounts with institutional investors in the first instance. And we find that CIOs want to have more of a separate account approach. They want to have an investment in a specialized manager as opposed to going into multistrat. And so I think that was really the beginning of Prisma's success is they identified a need in the market and then they created a business focused on the specialized managers in separate accounts.

And then really, frankly, what happened from there is they had very strong performance. And so the combination of the offering that was attractive to the market plus the performance has allowed them to scale. And as we look at plugging them now into our broader relationships that we think is resonating well (technical difficulty) KKR's historic investors which is one of the reasons that we are optimistic that we can continue to grow from here and frankly take share in a market that is in flux.

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

And when you think about it, take for example a family office. They really don't have the capability to identify and collect 15, 20 GPs. And by going through Prisma although there is a reduction in performance because of the double layer of fees, what they end up doing is do quite a good job picking the right managers and from a risk perspective they monitor these GPs on a weekly basis. So you are actually able to raise a halfway decent amount of capital from people that want to invest in this space, but don't really have the capability to oversee that investment.

Operator

Michael Kim, Sandler O'Neill.

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

Good morning. First, can you talk a bit more about what you are seeing in terms of exit opportunities? More specifically across IPOs and strategic sales, secondary offerings and dividends as well? Maybe where you see the biggest opportunities for realizations going forward?

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

When you talk about exits, really, and you hit the three major ones, the secondaries, IPOs and strategics, when you think about what we did in 2012, we had significant portfolio that had already gone public and so we entered into several secondary transactions with positions that we already held to. It would be like HCA , Dollar General, et cetera.

What was quite a bit surprising to us is the activity in the strategic area. It has been pretty quiet. However when you think about what happened with KKR in 2012, we were able to actually exit several investments through the strategic route. One. in particular, was the Boots transaction.

As it relates to the IPO arena, as you probably know we haven't taken a company public of size in the past year or so. However as the capital markets arena picks up, there's always going be an opportunity for us to take companies public.

As you probably know, there is a wide breadth of private portfolio companies in that they number in excess of 80 companies and there will be an opportunity at certain times to take those companies public.

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

Another thing I would add to that is with the capital markets, the debt capital markets as receptive as they are, we also did a dividend deal for Academy not that long ago. So there has been some activity on across all the different funds that you mention, but as Bill said, a lot of what we have been doing is just selling down our big public positions and that has been complemented by a couple of big strategic opportunities as well.

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

And then second can you walk through the different moving parts as it relates to the AUM change in the public market segment, so excluding Prisma can you talk about the impacts from maybe the special situations fund as well on the ongoing fund redemptions? Were those primarily a function of rebalancing and where you think you are in that cycle? Thanks.

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

You are referring to page 18. So in Public Markets we actually raised $1.8 billion during this quarter alone and that came from a combination of various platforms. So, we actually raised $400 million CLO for KFN of which we are entitled to be on a portion of that and so that is why you'll see that the fee pay AUM is a little less than the AUM.

We also raised a few hundred million dollars for separately managed accounts. You mentioned Prisma in there from acquisition and so the end of the year Prisma was able to raise about $400 million. CCT that Scott mentioned earlier, BDC raised about $200 million and then we had a closing on lending partners and also a first close on special situations which amounted to about $500 million. So that total is $1.8 billion that you are referring to.

On the distribution side, we did have some redemptions of $150 million from Prisma and to be honest with you the biggest number there is really the reduction in the CLOs which amounted to about $250 million.

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

There's nothing really to report there. I would just call it CLO rundowns plus some rebalancing from a couple of investors.

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

Got it. Best to all. Thanks for taking my questions.

Operator

Howard Chen, Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Good morning, everyone. Following up on that last question or two ago, you have been really extremely active on the realization front for your LPs, but if you take a step back, Scott, and you look across your entire portfolio of investments, can you give us some thoughts on maybe how you think about the next leg of what is getting closer to harvest period?

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

Sure. I'd say, first, the best line of sight we can provide are the companies that are already public. So about 25% of our investments in our underlying Private Equity Funds are liquid. And so we still hold big stakes in a number of the large companies where we have been exiting investments so far. And that was a lot of activity in the second, in the latter half of last year in particular.

So big companies like HCA, Dollar General, Nielsen, and NXP. We continue to have meaningful positions. And we have been just systematically selling down those positions so that was where a lot of that came from. And in terms of near term, I think that's a place we could give best visibility, but we also really think there's value to be created in those companies.

So just to give you an example, in January our public portfolio was up 11%, kind of, well in excess of the public markets. So there are still performing well. So the combination of continued to benefit from the performance and selling those down.

The strategic exit front is, it is very hard to predict. When it happens it tends to be sizable, but it is going to be lumpy and hard to predict quarter to quarter. Frankly, one of the things we look at is that the portfolio matures and you know that a lot of our portfolio is really starting to get into the more mature phase. We get in a position where we felt like the value creation job has been largely done in terms of what want to do with the business. It gets closer to being in a position where we have an opportunity to consider a strategic sale. And as the portfolio overall matures, we think we are getting closer to a period of time where we can do that.

Other than that, we are going to be pretty opportunistic. We will do dividend deals from time to time, and we will consider other ways to monetize portions of businesses, but the big two I would point you to are the selldown of the publics and then strategic.

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

And Howard, just to put some numbers on that, as Scott mentioned about 25% of our portfolio in private equity is public. That is about $9 billion worth of value that we could exit in the near future. And in addition, you might have noticed that we actually did do a secondary sale in the first quarter of 2013 via NXP and there we sold down approximately 20% of our remaining positions.

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

And Howard, it is Craig, the one other follow-up on that which ties into that is the performance of the portfolio. We have at times given the performance, within the portfolio that number has actually remained pretty consistent. So as we looked over the four quarters of this year, first quarter from an EBITDA standpoint, trailing EBITDA growth it was up 8%, second quarter 9%, third quarter 9% and this quarter, again, at about 8%. So it has frankly been helpful to see a consistent trend, if you will, from that standpoint.

Howard Chen - *Credit Suisse - Analyst*

Great. Thanks for that comprehensive answer. Scott, you noted last quarter that if the firm was active in monetizing investments, you might see some of those funds come back to you, with respect to NAXI or Asia has been -- both are -- as they finish up.

Where are you in those follow-up conversations and how are they going?

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

I would say it is going well. Part of the reason that Asia frankly has moved as quickly as it has is performance of the portfolio and some of the cash we have been given back in that portfolio and also, frankly, we have seen a bit of a acceleration on the NAXI fundraising front since our last quarter call as well. And it is hard to pinpoint precisely why, Howard, but I will tell you that it really helps when your funds are up 24 plus percent and you are giving back a lot of cash. And that certainly lends credence to our overall outlook for cash that we can give back from those funds and our overall predicted outcome in terms of multiple investment capital and IRR that we are discussing with these LPs.

And I think all of that just creates a backdrop in which LPs potentially are going to give us more capital for the vehicle.

And also as I mentioned we are now at approximately 7.5 and we have got a little bit more time here to raise money and, frankly, I think if you had asked me a quarter ago I wouldn't have predicted we would be as far along as we are today.

Howard Chen - *Credit Suisse - Analyst*

Thanks. And then finally for me, in 2012 I think your deployment levels were half that of 2011. So when you look at this backdrop of rallying equity market, continued tight credit spreads, how are you thinking about overall deployment in 2013? And are there any incremental areas of focus or less focus? Thanks.

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

I would say you really can't look at it year to year or quarter to quarter. So if you look at 2011 and 2012 together, I think we did something like $36 billion worth of transactions across the private markets and the more opportunistic credit accounts. So that is a reasonably large number in ebb and flow a little bit.

In terms of the Private Equity environment, I would say we are seeing more general stability in the economies globally. The credit markets are wide open and financing is quite low cost today. And the real constraint on deals is how much equity you can raise for a transaction.

It is hard to predict how much is going to happen in 2013. What I can give you from a color standpoint is that our Investment Committees and our Private Equity business are actually quite busy. And, frankly, we are seeing a level of dialogue in activity that has increased pretty meaningfully over the course of the last two to three months. And so, that leads us to be more optimistic that there will be some interesting opportunities for deployment this year.

In our other businesses, whether it is our real assets businesses or mezzanine direct lending, special situations, I would say the answer is a little bit different business-to-business and opportunistic credit, given the strength of the credit markets in the US, we are frankly more busy across mezz and special sits and direct lending in Europe than we are in the US today but we are seeing some good activity in that part of the world. Our real assets businesses continue to be quite busy from a pipeline standpoint as does our real estate effort where we are continuing to look at a variety of different opportunities.

So overall, I would say we are pretty constructive on deployment for this year. The good news is when there is stability as a backdrop, companies are more likely to want to do something. And so that, I think, helps overall and I mentioned that there is just a matter of finding some interesting things to invest in.

Howard Chen - *Credit Suisse - Analyst*

Great. Thanks for taking all the questions.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

You gave some color on Prisma and just how you guys look at it, the fund to funds industry and the environment. Just when you look at Nephila, it seems like the reinsurance business there is a lot of interest particularly on the [alt] side and I assume the demand is coming from the institutional side, but when you guys look at that market or that opportunity, like, what is changing there? What is taking place where you see that as a newer opportunity for KKR and, obviously, for Nephila?

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

Sure. Just by way of backgrounds, we've known the Nephila team for about 15 years. It was actually Willis Asset Management when we owned a company called Willis Corroon, which is a deal we did in 1998. We have known them for a long time and have followed their success over a long period of time.

And I will tell you that they have really been the pioneers in marrying the opportunities in the reinsurance market with investment management product that is appealing for institutional investors. And I tell you, what we see going on there is that what they have been able to do is create a product that is, in effect, it is like the one- to three-year lockup hedge fund type product that institutional investors can invest in, that critically generates returns that are not correlated with the public market. And as we all have seen in the last few years, just about every investment product has to be correlated with each other, especially as we went through the downturn. And if you look at the correlation of their results with those of the Public Markets, it is virtually nil. And the reason for that, obviously, is where the wind blows and the earth shakes doesn't have anything to do what the S&P does that week.

And so, what they have been able to do is create an investment product that is pretty unique. That is not correlated and that is meeting a need that the market is quite interested in. And we think that will continue and they are continuing to evolve the offering so that they can scale their business.

The other thing that is going on, however, is we have also seen a compression in the trading values of the traditional insurance and reinsurance players. And so from an access to capital standpoint, we think it will provide an opportunity for players like Nephila to fill a need when there are interesting underwriting opportunities. And so what they do they don't actually rely on a rating like a normal insurance or reinsurance company because they are cash collateralizing the risk.

And so that allows them to go places that the larger kind of rating agency-constrained insurers and reinsurers cannot. And so that is allowing them to create a broader market and find interesting risk award because the supply demand dynamic there is pretty attractive.

So happy to spend more time on it but maybe that gives you some top of the waves answers. They have done a very good job growing the business and we are hopeful that we can help accelerate that growth.

Michael Carrier - *BofA Merrill Lynch - Analyst*

That was helpful. And then, two markets. There's some news on your front and then also just what is going on in the country. But in Brazil, any update there? And in Japan I think in the past Henry said that it tends to be a market where there could be good potential, but a lot of things would have to change. Seems like over the last 3 to 6 months, at least the market is hopeful, that things are changing. We will see how it plays out. But any change in thought or any renewed interest on either market?

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

Well in Brazil, I think our interest is quite high. We have opened an office in Sao Paulo. We are beginning to step up that office and we have brought on a senior adviser. We hired someone to head up our South American effort and then we have moved an existing KKR executive down. So we are starting to build the presence. It is relatively nascent, but what we are also doing is rotating some of our Private Equity teams through the region to look for opportunities and partner with the local team.

So it is a little bit early to give you too much commentary. But we are pretty excited about what we can build in South America over time.

In Japan, look, I would say we are ever optimistic because we see a significant amount of opportunity there. We continue to have a meaningful presence in Tokyo, and a team on the ground, looking at opportunities. I would say we are starting to see things change. I would say that they aren't completely changing, but we have got more interesting opportunities that we are looking at. Our first investment there that we made not that long ago is performing quite well. I would say that market is increasingly receptive to the types of investments that we've made.

And so we are optimistic. I don't think it is going to meaningfully change the deployment rate for 2013, but we are big believers that over time there's going to be a lot of interesting things to do in Japan.

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

And as it relates to South America, we have the ability on our NAXI fund to deploy capital out of that fund into South America and in that region. But we are building up a team as Scott mentioned and so we will have four people down there full-time over the next month or so. And the whole idea is that, over time, we are optimistic that we are going to be able to raise capital dedicated just to that particular region.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks. That's helpful. And just last one, Scott, you mentioned just when you get the question on the balance sheet and you know whether to hold on to that capital and continue to deploy it or pay it out in distribution. You mentioned the return and a 30% plus return in equity seems pretty attractive in this environment.

When you look longer term, where does that hurdle have to be, meaning at some point in your balance you get so big you build out and then you might, okay, the return is less than 12%, less than 15%, that option of your distributing some of that is going to start to pick up. Just wanted to get your thoughts on that.

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

Well, as Scott mentioned, this is Bill, the return off the balance sheet was quite good in 2012. We don't have a very specific target as to what we need to earn on our balance sheet. However it would be probably somewhere in the 20% ZIP code. But keep in mind that we, as KKR executives, still own about 65% of the underlying securities of KKR. And so we have got just as much of a vested interest in making sure that that balance sheet is working hard for all of us as our unitholders.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks, guys.

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

The only other comment I would make if you actually look at it, I think there's a little bit of a misunderstanding about how the balance sheet is working for all of us. Because as I mentioned, we actually made a meaningful distribution off the balance sheet last year. And as you go through it, we did pay out close to 40% of the overall income the balance sheet generated in our current distribution policy.

So I think there is a kind of a belief that we don't pay any of that out. A big chunk of that $850 million of distributions for 2012 that I referenced actually came from the balance sheet earnings.

But I agree with Bill, we are very focused on this. We track the return on every dollar that we deploy off the balance sheet. And the good news is as we sit here today we see a lot of opportunities to generate attractive returns on that capital.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys.

Operator

Roger Freeman, Barclays.

Roger Freeman - *Barclays Capital - Analyst*

Good morning. When you went through your new clients you've taken on over the last year, it's a nice pretty impressive number. It looks like about 120 over 1/3.

Can you classify a little bit what types of clients those are? I'm wondering how many of those came into new products, new funds or that you didn't have the year before as opposed to ramped up sales efforts that you also mentioned.

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

Sure. To give you a few statistics that might be helpful. I'd say that where they are coming from is pretty broad-based. So there's state pension plans. There are insurance companies, sovereign wealth funds, and family offices and high net worth individuals. So if you look kind of at where they are coming from, it is a fairly broad-based answer to the first part of your question.

In terms of what they are investing in, that is also pretty broad-based. And just to give you a little bit of color, so for our Asian Fund in terms of the capital that we closed on to date, 42% of the LPs in that fund are actually new investors to KKR. And for the North American Fund, the NAXI fund so far it's 24% of the LPs are new investors to the firm.

But also we are attracting new investors to our direct lending platform, to our energy businesses, to our hedge fund businesses. So it is pretty broad-gauged, which is great to see and obviously what we are doing is we are out talking with our marketing team at CPG, is we are out talking to them about everything KKR is doing. And so, the nice thing is that now that we have a broader product set to talk to them about we have different ways for people to start to trust us.

And then as we have discussed, we are focused on then building a relationship where we develop the trust to sell them different things and that is why we talk about the cross sell statistics which continue to trend nicely.

Roger Freeman - *Barclays Capital - Analyst*

That's helpful. Thanks. And then, I guess, on retail can you just remind me sort of longer term what the aspirations there are in terms of relative size importance within KKR? And whether -- how you plan to or think you need to attack distribution? Is there ever a point where you need to look at acquiring a platform? Do you have a traditional manager that has us got a wide distribution arm?

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

Good question. I think the quick answer on retail is we are relatively new to the effort, but let me just walk you through how we think about it. So as you know, we started with an institutional effort and we have been building that up and growing that team pretty meaningfully over the last few years. And then, probably a couple of years ago, we started a high net worth direct calling effort which, with a very few number of people, we have been able to actually generate a meaningful amount of capital and new relationships to the firm.

So that has worked well. And the retail effort is the newest of the three. And, really, our retail effort to date has broken down into a couple of different areas.

The first is that the BDC that I mentioned, Corporate Capital Trust or CCT where we have a partnership with CNL, where we are actually placing this BDC privately, that has been the first foray into the individual investor market for us and that has been a good experience to date. I mentioned in the prepared remarks that is about $1 billion of fee paying assets so far and it continues to grow. And that is really for our, over time, our direct lending and our mezzanine businesses and help fund those businesses on a long-term basis.

The two new more recent efforts have been our high-yield fund and then, our more liquid Special Situations fund which we initially launched with Schwab. It is very early days and hard to predict exactly what that is going to be. We are keeping expectations internally pretty low as we are still learning this market and just building relationships in this RIA space.

And in terms of your question about distribution and how we think about it, I think the goal is probably to partner as opposed to acquire, combine with a traditional manager at least in the near-term. And so we are looking to partner with others maybe access their distribution to be able to scale those businesses as opposed to building a very large team or certainly going to acquire a very large retail platform. That is the initial focus.

But our expectations for this year is to get these products established and learn this market and I don't think it is going to be a big part of where we raise capital in 2013.

Roger Freeman - *Barclays Capital - Analyst*

And maybe lastly, on the long and short equity fund, just wondering with sort of the improved market environment and seemingly greater interest in hedge funds, whether that may -- you bring, actually bring that to the market this year?

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

I think we will. I think that -- a very good end of 2012 and a strong 2012, overall, and we are off to a very strong start in 2013 and so the quick answer is that we are going to be out talking to investors again over the course of the first half and talking to them about the track record now that we have got 18 months of results.

Roger Freeman - *Barclays Capital - Analyst*

Great. Thanks a lot.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Good morning. I wanted to square the circle between you said there was $8 billion committed that would flow into AUM, four from Asia, one from Texas and three from other. And then subsequently you said that you thought Asia would comp that $6 billion. So -- and that NAXI would close at $8 billion versus the $6.3 billion that it is currently at.

So presumably, if all that worked out as you'd expect, then the total inflow to feepaying AUM would not be $8 billion, it would be $11.7 billion or thereabouts.

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

That is absolutely right, Chris. And so right now we have got signed documents for Asia II at $4 billion and so when I quoted the $8 billion that is the only number I mentioned. However, we are very optimistic that we will go up to that $6 billion and, obviously, once that fund turns on you'll see that full $6 billion go up in feepaying AUM.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

The next question I had was on the distribution. It was my understanding that that like the $119 million, I'm looking at page 25 of the press release. It was my understanding that that was primarily thought of as a tax distribution to offset or to help pay for the gains that would flow through on folks' K-1s as they came in. And then Scott just said it wasn't. So I was confused on that.

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

I am not sure what Scott said, but that number is very specific to taxes that may be paid to investors that are taxable investors. And so, when you can look at what the earnings are on a balance sheet you figure out what the taxability of that is and ballpark we distribute out about 30% of that number. And so one could look at it, you are a taxable investor, that a good portion of that is going to go to you and you are going to actually have to use those funds to pay taxes.

However if you are tax-exempt, you could look at that as just being a full distribution off the balance sheet, paid directly to you as a unitholder.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Right. Got it. And then, lastly, I was just wondering on a more philosophical plane, one of KKR's hallmarks has been the megadeals going all the way back to RJR, but certainly also HCA and First Data. And I am wondering does the smaller size of this fund constrain that strategy?

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

Just, I think, in terms of level setting, we have done some large transactions in our history, but -- and they tend to get quite a bit of media attention, but they have actually been less than 10% of the transactions that we have done. They have kind of been in excess of $5 billion. But quickly what I would tell you is as we've talked about in the past, the build out of our capital markets business was really started in parts, so that we could speak for more equity than that which we could put into our funds or onto our balance sheet. So that we could syndicate excess equity to third parties.

And that has worked quite well and we built that business up quite a bit over the course of the last several years. So, when we find an investment opportunity that we like that requires more capital than that which we can speak for, we will partner with our capital markets colleagues and place that capital with third parties. So we do have an ability to speak for more. So if there is a large transaction, we think we can still do it, despite NAXI being smaller than the 2006 fund.

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

One thing to keep in mind is the size of the fund really doesn't dictate investment pace. We are going to see investments come in and we are going to jump on the opportunity if it is there.

The one thing to keep in mind is that the 2006 fund was a bigger fund, but that investment period was over a six-year period. If, in fact, we see the opportunities in NAXI, it could very well be that we invest all of that capital in three or four years and then we are out raising our next North America fund sooner than historically.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Fair enough. And as a follow-up to that, like for the Texas Teachers program and the syndicated funds, would we tend to see that when those are deployed? I am looking at page 24 of your press release. Would we see that come up under the coinvestment vehicles?

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

When the Texas Teachers' $1 billion that I mentioned actually gets dedicated to a particular fund or strategy, at that moment in time, it will come on line in AUM and feepaying AUM because we will be collecting a fee and then, we will be entitled to carry generation on that asset.

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

But I think the answer is it depends on where the capital goes. So if it gets committed to an energy strategy, it would show up in the energy line. If it gets coinvested alongside a fund it would show up in the coinvest line. And then in terms of the non-Texas Teachers money that gets turned on when it is actually invested, that really varies. There's some of that in our energy strategies, there's some in our credit strategies.

And so that will more likely show up in specific line items for those businesses.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

All right so it will be all over the place. We can't track it really. All right. Thank it. That is it for me.

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Scott, if we could just go back to the balance sheet for a second. When you are thinking about acquisitions outside of the hedge fund space, what are some of the areas where we should be thinking that you are most interested in?

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

I think the couple that I would point you to, Mark, one, if you think about that $30 billion or so of nonprivate equity AUM that I referenced. The vast, vast majority of that is in North America today. And as we have built our nonprivate equity businesses we really started in North America. But as you know we have quite a global footprint as a firm. And so one thing that we are thinking about and looking at are different ways to grow--now that we created track records and scales here, are there opportunities to scale through acquisition in Europe and Asia, and South America. We are thinking through those types of questions and that could be across a variety of the different nonprivate equity businesses that we have been building. As number one.

As number two, and there are, as you know, we have been building an energy business, a real estate business, hedge funds, credit. I think we are continuing to be open-minded and opportunistic about how we can grow those businesses. I would say historically our go-to answer has been entirely organic with Prisma and now Nephila and, frankly, a balance sheet that gives us the ability to do this more aggressively.

We are looking across different strategies at different ways to grow, including through acquisition across all those different platforms. But where I would caution you is it took us two plus years to get the Prisma transaction done.

These things may happen, but you spend a lot of time, frankly, diligencing opportunities that don't actually occur and the most important thing that we focus on is whether there is a good cultural fit with us. And so it takes a lot of diligence. It is a bit of a needle in a haystack type of strategy, but we are looking both to grow geographically and to expand the current platforms we have both abroad and here.

Marc Irizarry - *Goldman Sachs - Analyst*

And is there a limit in terms of how much you would want to be direct in strategies versus indirect, i.e., owning the strategies and having them branded KKR versus having them non-KKR brand?

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

There's no set number. I think really what we are focused on is taking share, whether it is 100% part of KKR or like Nephila, 25%, that we have just got best in class investment capabilities, best in class results and probably most critically best in class people that fit culturally.

And so that, to us, is really what drives the thinking as opposed to the specific percent ownership or direct or indirect.

Marc Irizarry - *Goldman Sachs - Analyst*

Thanks.

Operator

I am not showing any other questions in the queue. I would like to turn it back over to Craig Larson for closing comments.

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

Thank you, Sean. Thank you, everyone, for joining us.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the conference. You may now disconnect. Good day.

Editor

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