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KKR - Q3 2014 KKR & Co LP Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's third-quarter 2014 earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference call will be open for questions.

(Operator Instructions)

I would 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 of IR*

Thank you, Stephanie. Welcome to our third-quarter 2014 earnings call. Thank you for joining us. As usual, I'm joined by Bill Janetschek, our CFO, and Scott Nuttall, Global Head of Capital and asset management.

We would like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release. And this call will also contain forward-looking statements, which do not guarantee future events or performance. And finally, please refer to our SEC filings for cautionary factors related to these statements.

To begin, I would like to highlight a new table on page 2 of our press release, titled Key Metrics. These are summary statistics that track the financial performance of the Firm. We thought that having this information all in one place would be helpful as we discuss our performance every quarter.

Focusing first on our cash metrics, we had a strong quarter, with fees, realized cash carry, and net realized investment income all increasing nicely on a year-over-year basis, contributing to total distributable earnings of $505 million, up over 100% from the third quarter of last year. This translates into $0.59 of distributable earnings per unit net of taxes and $2.03 per unit year to date. These figures are 84% and 60% above the corresponding figures for 2013.

Turning to the distribution, we've announced a third-quarter distribution per unit of $0.45, up 96% year over year, bringing our year-to-date distributions to $1.55 per unit, which compares to the $0.92 distributed through the first nine months of last year. Focusing on economic net income, we reported third-quarter after-tax ENI of $419 million, which equates to $0.50 of after-tax ENI per unit.

Finally, we wanted to remind everyone that this is the first full quarter with KFN's results running through our financial statements, and the impact of the KFN acquisition is particularly evident in our cash flow metrics. Fee and yield earnings, so fee-related earnings, plus net interest and dividends, were $208 million for the quarter and $525 million for the first nine months of 2014, 98%, and 79% higher than the corresponding periods of 2013. These increases were driven by both a strong fee-related earnings performance this quarter, in addition to a full quarter of net interest and dividend contribution from KFN.

And from a distribution standpoint, of the $0.45 distribution, the after-tax fee and yield component, so the more recurring portion of our distribution, was $0.18 this quarter versus $0.10 in the third quarter of 2013. In talking about the KFN transaction, we've highlighted for some time how KFN would help the more recurring component of our cash-flow profile, and we've seen this flow through into our financial results this quarter, as KFN contributed $53 million, or $0.07 per share of cash earnings in the third quarter.

And with that, I'll turn it over to Bill to discuss our financial performance in more depth.

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

Thanks, Craig. As of September 30th, our assets under management were $96 billion, and fee-paying assets under management were $81 billion. Both figures were relatively flat quarter over quarter; however, our AUM and fee-paying AUM are up 7% and 11% from the same time last year. Keep in mind, these figures do not reflect $4.8 billion of committed capital that will be included in AUM once it's invested.

Turning to our segments, in private markets, our private equity portfolio appreciated 2.2% in the third quarter, outperforming the MSCI World, which was down 2.1%, and the S&P 500, which was up 1.1%. This was less than the 5% appreciation we had in the second quarter, which caused the decline in performance income quarter over quarter; however, this was offset by higher investment income, translating into ENI of $399 million, up 6% from the second quarter.

Moving to public markets, ENI in this segment was $48 million, down from $106 million last quarter, because of our mark-to-market investment performance was better in the second quarter than it was in the third. However, our net cash interest and dividend increased $20 million in the third quarter, because as Craig mentioned, this is our first full quarter with KFN running through our financials.

Also, this is the second time that public markets has contributed to our cash carry. And the $10 million of realized carry in public markets in third quarter contributed about $0.01 to the $0.18 of cash carry.

Touching on capital markets, we reported third-quarter ENI of $62 million, over three times the $20 million we reported in the second quarter. This jump was driven by increased transaction fees, largely from the First Data equity syndication.

2014 has been a record year so far for KCM, with year-to-date fees up over 75% to $184 million. Through September 30th, fee-related earnings were $125 million, 70% above last year's figure. Here, our diversification continues to drive the growth in this segment.

In 2014, 35% of our revenues are from outside the US, and our third-party business contributed over 25% to KCM's year-to-date revenue.

We reported a September 30th book value of $12.51 per unit, which is up 24% on a year-over-year basis. Our book value includes a 30% increase in unrealized carry, bringing that figure to $1.2 billion, with about $80 million of that coming from our public market segment. Additionally, our balance sheet continues to perform, generating an ROE of 25% and a cash ROE of 23% for the last 12 months, with no net leverage.

On the private equity exit front, in the third quarter alone, we realized investments across the US, Europe, and Asia, resulting in over 10 monetization events that returned $2 billion to our fund investors, including the sale of a 45% stake in Visma out of Europe, a final secondary of Modern Dairy in Asia, and the sale of Ipreo in the US. This activity helped drive our $0.45 distribution in the third quarter, $0.07 of which came from KFN. This $0.45 includes $0.18 of fee and yield earnings, $0.18 of realized carry, with the remainder coming from realized balance sheet gains.

Since June 30th, we've also announced exits in Versatel and Wild, both from our Europe 3 fund, and the second step of the Alliance Boots transaction, and we have pending exits in US food and Biomet in the US, all of which assuming September 30th valuations will lead to future cash carry, if and when they close.

Before I wrap up, I want to give you a peek at the fourth-quarter distribution based upon where we stand today. Since September 30th, we closed two of the strategic sales that I just mentioned, Versatel and Wild, and we estimate those two exits will contribute about $0.15 to the fourth-quarter distribution. $0.13 of that $0.15 will come from realized cash carry, and the other $0.02 will come from realized balance sheet gains.

And with that, I'll pass it over to Scott.

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

Thanks, Bill. Given the volatility over the last few weeks, I'm going to spend just a minute today on Q3, but spend most of my time with you today on how we're seeing the world. Regarding the quarter, the bottom line to me is 5 simple points: one, our businesses are performing and scaling well; two, our investment performance has been strong across all major asset classes, and if you dig into the numbers, recent vintage private equity deals are performing especially well. To give you a sense, investments made from 2009 through 2012 have a 27% IRR so far.

Three, we're finding interesting investment opportunities globally. Most of our activity in Q3 was outside the United States. In private equity, as an example, 70% of new deal activity in the quarter was in Europe and Asia.

Four, we are creating exits, especially strategic exits, which are driving our cash carry, which is up over 125% from the first nine months of 2014. And five, as a result of all this, our year-to-date total distributable earnings are up 75%, and our year-to-date distribution per unit is up 68%. So we had a good quarter.

Given the volatility you've seen in the market the last few weeks, let's talk about what the current environment means for our existing investments and businesses. We like investing in complex situations when other investors may be nervous, and we're hopeful this environment will lead to more of these opportunities. So if the world gets difficult, we'll be ready to capitalize.

Before we open it up to Q&A, we thought we would address two of your frequently asked questions directly. The first relates to energy: we manage about $8.7 billion of capital in our energy and infrastructure business across funds, separate accounts, and our balance sheet. Oil prices have dropped approximately 20% from their June highs, and equities within the energy complex have been under pressure.

So let's talk about $80 oil and what this means for our energy business. While falling oil prices can adversely impact some of our existing investments, we feel that our Firm's overall oil exposure is limited compared to the available opportunities. The capital needs within the energy complex are material, and if short-term commodity price swings creates supply/demand imbalances, that is generally good for our business. But let's get more detailed.

In terms of invested capital, I'm going to start with private equity. As of September 30, we had over $40 billion of fair value across our private equity funds. When you look through the numbers, you'll see that only 3% of that $40 billion was in direct energy investments. Looking more closely at our 2006 and NAXI funds, direct energy was also about 3% of those funds.

So energy is a very modest percentage of our Q3 fair value in private equity. This position was purposeful. It has been our view that over the past 18 months, valuations in energy PE were too high, and that there was too much capital chasing investments. So we expect a drop in values to make the market more sober, significantly broadening our opportunity set going forward.

So now let's turn to real assets: first, our infrastructure funds. Our infra business is not directly exposed to commodities by design and is currently invested across five sectors; renewables, water and waste water treatment, communications infrastructure, district heating and cooling, and parking. All of these are largely unaffected by changes in commodity prices.

Also, our investment in Colonial Pipeline is insulated from commodity price movements, given the nature of the underlying contracts. So we have no meaningful oil exposure in infrastructure.

Where we do have direct exposure is through our energy income and growth and natural resources funds. These products are purposely exposed to commodities, but let's look at the details.

In aggregate, there's about $3 billion of committed capital in these funds, and only $1 billion of the $3 billion is invested. Energy income and growth is a young strategy with a lot of dry powder and KKR natural resources is largely exposed to natural gas, and what oil exposure we do have is about 50% hedged. So even in these strategies, we have two-thirds of our relevant capital, or $2 billion, in dry powder ready to be deployed and little net exposure to oil prices today.

We also know a lot of you have questions about the recent volatility in the leveraged credit markets and what higher high yield spreads mean for our firm, so let's address that. While the leverage credit markets have rallied over the past week, high yield spreads are approximately 115 basis points wider in the US and Europe relative to their lows in June. This change is not expected to have a big impact on our business.

We're finding capital for new deals remains available at attractive all-in rates. We still believe we could raise $10 plus billion of financing in this environment at an all-in cost of capital around 6%. And we have aggressively refinanced our private equity portfolio company's debt over the last few years, so we don't feel at risk in the portfolio.

Also, remember spreads increase. That's overall a good thing for our credit business, which manages $26 billion of non-investment-grade credit and has been growing quickly. So overall, we view the latest pullback in markets and energy as a net positive for us, given our long-term locked-up capital and dry powder.

Let me just spend a minute on how we're seeing the world more broadly. Overall, we continue to see a slow recovery in the US and Europe. This recovery has been very bumpy, and if you think about the last few years, we've had the flash crash, the European contagion, China slowdown, and now an energy pullback and renewed concerns about Europe.

We view the last few weeks as the latest bump in an already bumpy road back from the credit crisis and great recession, and are optimistic we can take advantage of the anxiety again by investing into the uncertainty. As investors, slow-growth environments with periodic volatility and an overall improving economy has been a good environment in which to deploy capital and a good environment in which to monetize some of our mature investments.

And with that, let's open the line to answer more of your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Before we take our first question, Craig, is there anything you would like to add?

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

Thanks, Stephanie. We -- looks like we have actually a sizable number of people in the queue, so if you could please limit yourself to one initial question and then rejoin the queue, if necessary, we would appreciate it.

Operator

Thank you. Our first question comes from Michael Kim with Sandler O'Neill. Your line is open.

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

Hey, guys. Good morning. I guess my question is a bit more technical in nature, but if I look at the $207 million of total investment income in the third quarter, can you let us know how much of that was from KFN? Just trying to get a sense of how that stacks up against the $53 million of net realized investment income from KFN for the quarter.

And then, stepping back, how do you see that ratio holding going forward? I think in the second quarter it was something like two-thirds of KFN's investment income was realized. Thanks.

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

Hey, Michael. This is Bill. Thanks for the question.

As it relates to KFN, you are right in that we do provide some realized information, and so in the second quarter, we showed in the distribution that $36 million came from KFN, and in the third quarter that's $53 million. So roughly about $89 million year to date.

On a run rate basis, that's a realized return of about 9%. When you take into account unrealized returns, which is embedded in that 207, KFN right now is performing much better than we had expected.

That being said, KFN is a little complicated, because when we closed the transaction, some of the assets were public market investments, CLOs, et cetera, while others were private market investments, which would have been real estate and energy. The way we look at it is we look at this more holistically, because we put all of the results from KFN and KKR proper's balance sheet together. But the bottom line is from a modeling perspective, the realized income is on pace or a little higher than we have expected and KFN is performing rather well to date.

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

Got it. Okay. Thanks.

Operator

Our next question comes from Lee Cooperman with Omega Advisors. Your line is open.

Lee Cooperman - *Omega Advisors - Analyst*

Thank you. Congratulations on your great results and the wonderful Company you've built. You guys are probably sophisticated as any in valuing businesses. I'm curious as to how you value your business and at what price or point would it make sense for you to take some of that, it's $11.5 billion of cash and investments on your balance sheet, which is about 65% of your market cap, to basically buy back your own shares, if you thought they were misvalued? Or do you think they are misvalued?

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

Thanks, Lee. Appreciate the kind comments. It's Scott.

Look, I think it's a great question. I think to date, the markets have been working to figure out how to value our business and other businesses that are somewhat like ours.

In terms of how we've thought about it to date, Lee, what we've really been looking at is valuing ourselves the same way that we value companies that we invest in. We like cash flow, and we look at the return on capital and the return on equity overall. And as we've talked to our shareholders about how we think they should think about us, we have emphasized those metrics.

Our perspective has been that you can't eat AUM. You can spend cash flow. And so, we have been focused on making sure we're driving the total cash flow up, and we took you through the numbers. You can see total distributable earnings up 75% plus year to date. So we're making progress.

So far, what we've determined to do is to share that cash flow back with our investors through a high payout ratio. Year to date, it's been on the order of 76% of the cash flow we've paid out in the distribution, which has been also increasing rather significantly.

When we've looked at how to take these trade-off views before, what we've looked at is year to date and over the last few years, our ROE has been 25% plus. So when we've looked at opportunities to invest internally versus buying shares back, we've put it all in the mixer and said, all right, we can deploy our capital against opportunities we have and generate 25% plus returns on that capital. That's a pretty good return.

So while we think our stock does not properly reflect the cash flow we generate, we've found very attractive ways to deploy capital internally and have been, to date, returning capital to shareholders through a very high payout ratio and a very high dividend.

I think you're asking a good question. Is that the right approach for the long-term? And the answer is, this is the approach we've taken so far, but we'll continue to look at it.

Operator

Thank you. Our next question comes from Chris Kotowski with Oppenheimer. Your line is open.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Just two things. One is the, in the public markets, the unrealized investment losses, the $46 million that we see, is that primarily the mark to market on the CLOs in KFN? Because you could see they were marked slightly above cost in the second quarter and slightly below in the third.

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

That's absolutely right, Chris.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, and then bigger picture, I -- in the recent weeks, there were three un-KKR-like investments, smaller, more venture capital kind of investments, Magic Leap, Lemon Restaurants, Ping Identity, and things that I don't think of as down the center of the fairway for KKR. And can you discuss that strategy and where they fit in the grand scheme of things?

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

Yes, Chris, happy to. This is Scott. Look, I think we have found across a number of the different industries that we spend time in, Chris, that periodically, we've run across interesting smaller investment opportunities that are more growth equity in nature. Historically, we have passed on those, because it didn't fit into a private equity mandate or any of the other strategies that we manage, but we've found many of them to be quite interesting.

And so there are some sectors, technology, retail, healthcare have been those most active. We are now, with our balance sheet, we've taken the view that we can actually make some of those investments, which we're doing on balance sheet today. We'll see how the strategy evolves.

As you'll recall with our real estate strategy, that started as an on-balance sheet strategy that we dropped into a fund. We may do that with growth equity down the line; we may not. But think of these as opportunities sourced by our investment teams that historically we passed on and now we have a way to monetize.

Operator

Our next question comes from Patrick Davitt with Autonomous. Your line is open.

Patrick Davitt - *Autonomous Research - Analyst*

Hi. Good morning, guys. You talked a lot about the growth of your strategies that are moving into their second generation of funds. Can you give us an update on where each of those stand in terms of either raising that second generation or starting to raise that second generation?

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

Sure, Patrick. So let me just run through a number of different strategies, because this all feeds well into what we're doing from a fund-raising standpoint in the market. But if you go around the world and across the different businesses, as you know, we recently raised our Asia 2 fund for private equity; that was our private equity successor fund that was about $6 billion.

We have a number of fund 2 strategies that we're actually in market with now or will be shortly, including infrastructure, our direct lending platform, where we're raising fund 2, special situations, which is also in the market with fund 2. Mezzanine 2, or private credit 2 is also a strategy that we're going to be raising here shortly.

So a number of different strategies that we're in the market with fund 2 right now, and then there's others that you'll see coming, including real estate. So as you go across all the different strategies, I think there's seven or eight different vehicles that we've built where we had fund 1s, a number of those have already launched fund 2 and more are coming.

Operator

Our next question comes from Mark Irizarry from Goldman Sachs. Your line is open.

Marc Irizarry - *Goldman Sachs - Analyst*

Great, thanks. Scott, can you just address the environment, in terms of what you might expect from a strategic versus ECM exit outlook? I'm particularly curious how the recent volatility might play into maybe the mix of exits there.

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

Great. Happy to, Mark. Look, I think if you look year to date, it's interesting, we've talked about this a lot over the course of the last couple years, that we've been seeing more and more of our exit activity actually come from strategic exits or dividends, recaps, et cetera. And if you look at what's happened year to date, if you look at what's actually closed, secondaries have been about 40% of the cash that we've returned, with strategics and dividend recaps making up the other 60% or so.

But if you actually pro forma for a bunch of the strategic sales that we've had, and remember, we've had eight or so strategic sales announced over the course of this year. If you go back to Oriental Brewery, Sunrise, Avincis, Alliance Boots to Walgreen's, Biomet, US Food, Wild, Versatel, we've had a lot of strategic sales announced this year. If you've got five strategic exits, a couple of which have now closed, but three of which are still pending.

If you pro forma the value that we've returned to investors as a result of all of that, you would see about 80% of that is strategic sales or dividend recaps, and only 20% or so is actually from the equity capital markets. So we have a lot of optionality as to how we exit investments and are not dependent on the public markets, per se.

So what's been pleasing for us is we thought the strategic buyers would come back and we're starting to see that come through. As I said, it's now that and the leverage credit markets are 80% plus of what we're returning. So it's moving in the direction we had anticipated.

Operator

Our next question comes from Brian Bedell from Deutsche Bank. Your line is open.

Brian Bedell - *Deutsche Bank - Analyst*

Hi. Good morning, guys. Scott, appreciate the forward comments on the deployment opportunities. Maybe if you could just go into a little bit more detail of, we have obviously seen a little bit of a rebound in the markets here. But if you could talk a little bit about how aggressive you think you might be on deploying capital. And then elaborate -- over the next, say, one to two quarters and then into 2015. And then also a little bit more detail on some of the energy opportunities that you touched on. Thanks.

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

Sure. Happy to, Brian. Look, I would say in terms of deployment, I think it's important to keep in mind, we're a very global business. So probably over 50% of our investment teams are outside of the United States. As I mentioned, we have actually been very active, in particular, over the course of the last couple quarters in Asia and Europe, and as valuations we felt were a bit high in the US, we pulled back a bit, especially in private equity in the US.

But in terms of what we're seeing right now, I'd say, let me start with Asia. Active. We have deployed year to date nearly $2 billion in private equity. We've done our second deal in Japan this year, and so we're starting to see that market open up a bit. We bought a stake in a company in China called Haier, it's somewhere between three and four times EBITDA as that market was dislocating a little bit, so we were able to take advantage of that.

Also, if you look across Asia, we've been busy in special situations and in real estate, so we're finding a lot of different opportunities in Asia and are particularly upbeat about the special situations and a rescue opportunity in that market.

So I would say let's start there. I would say I would expect us to be quite active on the deployment front, as those capital markets continue to develop, and it's both special sits, direct lending, and the other areas that I mentioned.

Then I would go to Europe. The liquid markets had really started to run a bit in Europe. We've seen a bit of a pullback.

We did our first deal in Africa this year, so our Africa strategy is continuing to develop, but we're also continuing to see opportunities in private credit, special situations, direct lending. We have actually used all the capacity we have in our real estate fund for European investments, so we're going to be launching a real estate Europe strategy as a consequence of that, and we've been expanding. We opened an office in Madrid. We're adding talent, and we think direct-lending-type strategies are a great opportunity in Europe.

So where there's dislocation, I think you'll continue to see us be very active on the deployment front.

In the US, as I mentioned, we've been a bit more cautious as of late, probably more sellers than buyers in private equity, but we've continued to deploy capital in special situations: direct lending, real estate, and energy. So overall, where there's a little bit of fear, we get excited and find opportunity. And when valuations are a bit elevated, we have a big portfolio and the opportunity to access the markets.

And so, we actually are pleased with the current environment. I think we'll find things to do.

In terms of your question around energy in particular, look, as I mentioned, we've been pretty quiet in energy private equity for a long while, because valuations had gone up so much. There's some sectors in the energy market that have traded off in the public markets 30% to 50%. And that will create opportunities for us, hopefully going forward, and we are continuing to stay busy in infrastructure, energy-related and otherwise, and also in our drilling and royalty strategies, which are more private market strategies.

There's a little bit of color for you, but it's active.

Operator

Our next question comes from Chris Harris with Wells Fargo. Your line is open.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Thanks. Hi, guys. So quick one on the exits. Bill, you talked about First Data, US Foods and Biomet in the Q. Curious if you guys expect those to close in the fourth quarter. And then if you can help us out with a range of potential dividends that you would expect from those exits.

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

Hey, Chris. This is Bill. With regard to the three that you mentioned, I'll take them one by one. US Food, we still haven't gotten clearance yet. We were cautiously optimistic that that might close in the fourth quarter, but it could actually slip into the first quarter.

As far as BioMet is concerned, we're hoping that's going to close in January of 2015, and so that would be a first-quarter event. And lastly, on Boots, we're expecting that to take place in the first quarter of 2015 as well.

As far as giving any guidance on what the cash distribution would be, it's a little complicated, and we would much rather not give that type of guidance because each one of those transactions is part cash and part stock.

Operator

Thank you. Our next question comes from Patrick Davitt with Autonomous. Your line is open.

Patrick Davitt - *Autonomous Research - Analyst*

I have a follow-up on the question about the CLO marks. Some of the pushback I get on the story is around perceived credit risk from taking on the KFN portfolio. Just wanted to make sure that the marks that are occurring are purely market-driven and there isn't any credit deterioration going on in this portfolio.

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

And Patrick, it is Bill. You're absolutely right. The portfolios are performing fine, but when you have disruption in the credit market on a mark-to-market basis, the CLOs might be marked down, but the underlying performance is still there and nothing that we're worried about right now.

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

And I would say critically, Patrick, the cash flow coming off the CLOs and the overall credit platform is in line with or ahead of our expectations.

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

Which is why the results for KFN so far in the second quarter, for the two months and the full third quarter, have been a little better than we actually expected.

Operator

Our next question comes from Chris Harris with Wells Fargo. Your line is open.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

I guess I got back in the queue pretty quick. Scott, thanks for your comments about energy. That's very helpful. Just had another question about an area that seems to be slowing down, and that's China and Asia.

Are you guys seeing any stress at all in your portfolio companies as a result of things slowing down there? It appears no, but just any comments you can give us there would be great.

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

No, because we haven't really seen a slowdown that's noticeable. In fact, our revenue and EBITDA growth in our China portfolio has been good, and our overall Asia portfolio has been very good. So, remember, we're focused on investing in private companies in China that have exposure to the consumer, and so some of what you're seeing in the public markets is a bit disconnected from what we're experiencing in our private companies. So far, so good on the overall portfolio in Asia in particular, and we're viewing the dislocation and the slowdown as a buying opportunity for us.

Operator

Our next question comes from Devin Ryan with JMP Securities. Your line is open.

Devin Ryan - *JMP Securities - Analyst*

Hi, good morning. Appreciate the color on the capital deployment. Just a follow-up I guess on that topic. Maybe more on the private side, but clearly, you guys want to put money to work when there's dislocations in the markets. But has it been your experience that in volatile times, it becomes harder to actually get money deployed or to lock down terms when prices have significant fluctuations? Just curious if -- clearly, you want to get the money into the market, but does it actually become harder to do when the markets are volatile?

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

It's a great question, Devin. So the answer is, it depends on how much volatility there is, and it depends on the asset class. So, if it is extremely volatile and a lot of distress, then private equity, the buys are very attractive when you can make them, but only a few transactions happen if there's extreme distress, because you don't sell unless you absolutely have to, and there's not a lot of those opportunities out there.

But where you've got, what we've seen so far which is this kind of asynchronous recovery, where you've got bumps in the road from time to time, we have actually continued to see deal flow in that environment, because it's not such a severe dislocation. So this has been the dislocation where we're continuing to find the opportunities as opposed to the market shutting down.

But when you go to the other end of the spectrum, you go to our liquid businesses, market dislocation is a very attractive buying opportunity. As long as the markets remain somewhat liquid, when their price deterioration and a lot of participants in those markets have short-term capital and we have long-term capital. And in the case of the balance sheet and some of the vehicles we manage, we actually have permanent capital.

So we can take advantage of those dislocations on the liquids side, and that's actually a market where we find that we can make some great buys, if the high yield market, as an example, pulls back and becomes more attractive. And then you've got strategies that are in between. Think private credit, special situations, mezzanine, where if companies cannot access capital because of dislocation or a change in behavior from traditional lending institutions, that's a great environment for us.

So that's why this environment we've seen over the last few years of overlying improving economic fundamentals, but these periodic periods of volatility are allowing us to be active across a number of our strategies and deploying capital into what we think are some pretty interesting risk/reward opportunities.

Operator

Our next question comes from Lee Cooperman with Omega Advisors. Your line is open.

Lee Cooperman - *Omega Advisors - Analyst*

Hi, thanks. I don't know if this is an appropriate question, but you guys put a significant amount of additional capital into First Data. I was wondering if you felt it appropriate to discuss how the Company's doing and et. cetera.

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

Hi, Lee. It's Scott. I think what we'll probably do on that one, Lee, is leave it to the First Data management to talk about on their earnings call, but you're right. We did deploy significant incremental capital into that company. It's our largest investment. And I think it's fairly straightforward from our standpoint.

We're big believers in the management team and the strategy, and we wanted to have more exposure. But we'll leave to them to give you an update on how the business is doing.

Operator

Our next question comes from Mike Carrier with Bank of America Merrill Lynch. Your line is open.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Scott, maybe just on some of the investments that are going into Europe. When you think about the backdrop there and who knows how it plays out, but if the growth is on the slower side, how do you guys think about what you want to pay in terms of the valuation currently when you're modeling the outlook what the economic growth assumptions are?

Then if it does slow, what can the portfolio companies do to offset it, meaning are there more on the cost side, are there revenue synergies? How do you guys think about that, because there is somewhat of a level of uncertainty in the region.

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

Look, I think it's a great question. We have -- we start with the perspective that Europe is not a monolith. So you've got a variety of different views depending on the market. So we're finding the peripheries doing better; Ireland and the UK are doing well. France, Netherlands, Italy, slightly better than they were but still weak. Germany pulling back a bit.

So you look at the underlying fundamentals of that company and the markets that they are exposed to. And then what we've done is we've created in the middle of the firm, a global macro and asset allocation group that's working with the teams, so we have a view on how each of those underlying economies may perform over the course of our investment horizon.

We layer onto that, that we have very long-dated capital, so we're fortunate that we're in the long-dated option business. So we can create the option when we want, and we can choose to exercise the option when we think it's appropriate. So we'll have a view as to when the markets may recover, but we have several years for that to happen.

So it's really the way we look at it is to say what is the right way to capitalize this enterprise once we have a view as to that growth profile, given that underlying backdrop? What we're doing is capitalizing these companies conservatively from a debt-capital structure standpoint and really making sure that we've got levers to pull operationally.

The best run companies with the best management team in the industry and the highest margins, the returns probably aren't going to be there. So you need to have operational skills to actually invest in companies that you can make better.

So you mix all that together and develop a model as to what you think can happen over the long-term. And then we've got to make sure, even after you do all that, that we're compensated appropriately from a reward standpoint for the risk we're taking.

And that analysis we do for private equity, but we also do it across our special situations platform, where we're creating some equity upside in a lot of the investments we're making. And even in direct lending-type strategies, where we're more in the secure part of the capital structure, you have to think about the downside. So that gives you a bit of a sense for how we approach it, but it's very much market-based, grounds-up.

Operator

Thank you. That concludes the Q&A session. I will now turn the call back over to Craig Larson for closing remarks.

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

Thanks again, Stephanie. And thank you, everyone, for your interest. Happy to follow up directly with any other questions that you might have. Thanks again.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect, and everyone have a great day.

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