

KKR



**2018**  
**ANNUAL LETTER**

Connecting the Dots

# Connecting the Dots

**HENRY R. KRAVIS & GEORGE R. ROBERTS**

Every year we have an annual theme that is a phrase we use internally to help set the tone. We don't put it on a billboard or advertise it broadly, but we use it as a clarion call to set the pace and direction for our teams.

Sometimes the theme comes from a book that speaks to us. One year it was about essentialism based on Greg McKeown's book by the same name. As we were growing and evolving beyond private equity into a more diversified, multi-asset class investment firm, we wanted everyone to focus on and prioritize the most important attributes of their respective roles so that, collectively, KKR would remain laser-focused on the key drivers of growth and performance.

Two years ago, we focused on the need for our teams to be more "scrappy" because we want to remain entrepreneurial and encourage constructive debate. Nothing great comes from everyone thinking the same way and having the same point of view. Investing requires many vantage points. We wanted to push that further into the organization and promote a meritocratic culture where thoughtful and dissenting opinions are encouraged. This is why, when we are evaluating an investment and we come to a proverbial fork in the road, we often call on our most junior deal team members at Investment Committee. It is part of how we train and invest in our people and also help ensure that those who have been spending the most time studying all aspects of an investment have the opportunity to express their ideas. It is also why we're committed to enhancing diversity of background, experience, and thinking. In our experience, more diverse teams are more likely to embrace constructive dissent.

**\$58 BILLION**

of dry powder ready to invest  
and a sizable balance sheet<sup>1</sup>

“ This year, we are focused on "connecting the dots." This is about how we take the special culture of collaboration we already have in place and make sure it is working even better for all of our investors and the companies in which we invest.

<sup>1</sup> All figures are as of December 31, 2018 unless otherwise indicated

This year, we, along with Scott and Joe, are focused on “connecting the dots.” Far from a grade-school game, this is about how we take the special culture of collaboration we already have in place and make sure it is working even better for all of our investors and the companies in which we invest. Collaboration has always been one of the three pillars for an individual’s success at KKR. Our people are compensated based on their leadership, performance and skillset, and their adherence to our values, which include a high bar on accountability and connectivity to each other and, of course, to our investors. Here’s why.

We know that everyone who works at KKR has the right skills to do their job well, and we are proud of the team we have built. We also know that we have \$58 billion of dry powder ready to invest and express our views, and a sizable balance sheet. While challenging because they are unsteady, these volatile times can be a great opportunity to lean in and deploy capital aggressively. And, since we have different types of capital to invest, different capabilities or “dots” to connect, we have the flexibility to invest when markets dislocate. Now, more than ever, we want to be well-connected across the Firm to make sure we are not missing opportunities, hesitating or letting a lack of communication get in the way of a great investment.

KKR’s evolution, in the past ten years in particular, has been about laying the foundation for us to invest in a much more global, more diversified and more flexible manner. During the financial crisis in 2008, KKR looked very different than it does today in terms of our footprint, our capabilities and our potential for generating good outcomes for our investors in different environments. At that time, almost everything was for sale but we were only able to invest in a fraction of the opportunities we came across given our then private equity-centric model and capital base. Many of the changes that we’ve undertaken to grow new businesses like Credit, Real Estate, Energy, Infrastructure, Growth Equity, and Core, have been grounded in that experience and were done in an effort to make sure that the next time we see similar opportunities across the world and across markets, we have the ability to invest into more of them.

Today, two-thirds of our \$195 billion in assets under management are in non-private equity strategies, and we are at-the-ready to lean in and out of situations as the market and its volatility move. Given our growth and the expansion of our product suite and our global capital markets capabilities, we’re focused on how to connect the dots more broadly across these capabilities, and across all of the skill sets that we have as a firm - hence our 2019 theme.

### ASSETS UNDER MANAGEMENT GROWTH ACROSS ASSET CLASSES

(\$ in billions)



We have been laying the foundation to invest in a much more global, more diversified and more flexible manner.

## 2018 AND LOOKING AHEAD

2018 was a very strong year for the Firm, with progress made across many of the key metrics we track closely, including our top four: Assets Under Management, Management Fees, Book Value Per Adjusted Share, and After-Tax Distributable Earnings.

### ASSETS UNDER MANAGEMENT



### BOOK VALUE PER ADJUSTED SHARE



### MANAGEMENT FEES



### AFTER-TAX DISTRIBUTABLE EARNINGS



We had record annual management and transaction fees, highlighting our fundraising and capital markets activities, which in turn drove record fee-related earnings. We also took the next step in our evolution as a public company and became a corporation last July. This opened the door for new shareholders that are focused on the long-term opportunities we have to create equity value through earnings growth, asset growth and book value compounding. With this, we believe our investor base is increasingly aligned with how we think about our business and where we find value.

This year, to keep building on our momentum, we are focused on the continued expansion of our business in Asia. We have a strong track record of investing in private equity in Asia since 2005, and we are now focused on further growing our teams and resources to tackle opportunities in real estate, infrastructure and alternative credit. The opportunity – and frankly the need for capital – in these asset classes in Asia is significant, particularly given their relatively underdeveloped capital markets. Other key priorities are the scaling of our real estate platform more broadly, with additional pools of capital, both debt and equity, across the U.S., Europe and Asia. Additionally, we intend to grow our Impact investing business, which we've built based on the collective Environmental, Social and Governance efforts we've made over the last decade and on our history of investing in companies whose core business models seek to address global challenges.

Finally, as we reflect on last year and what we want our stakeholders to take away from it, we always return to our defining attribute: our culture and values. From the day we

founded KKR more than 40 years ago, our most important conversations have not been about what we do but how we do it. We've worked to build partnership, integrity, trust, and accountability into the DNA of KKR. These values, not unlike the Golden Rule, govern how everyone at KKR is expected to interact with each other as well as with the companies in which we invest, the communities in which these companies operate and other stakeholders impacted by our investments, our investors, and other key stakeholders.

As we continue to evolve as a firm, we remain true to our core values and believe they have been critical to our success. Having strong values and people who live by them has taken center stage – as has the need to have mission and purpose. Our mission has always been to perform for our investors, be good stewards of their capital and work hard to support their retirement and livelihoods. We do this by partnering with and providing capital to companies and management teams, helping them achieve – or exceed – their goals. In 2019, we will plan to be even more effective at this by connecting all the dots.

We think we've come a long way as a firm and we continue to strive – as we always have – to create positive change in the world, and generate strong returns for our stakeholders – two objectives we feel go hand-in-hand. None of this is possible without the support of all of our partners. Thank you for your partnership.

**Henry R. Kravis**

Co-Founder, Co-Chairman, Co-CEO

**George R. Roberts**

Co-Founder, Co-Chairman, Co-CEO

# KKR Today



Over 1,300 employees, consultants and senior advisors



Offices in 20 Cities, in 15 Countries, across 4 continents



740+ investment professionals and executives

**~50 million**

retirees and pensioners with exposure to KKR investments

KKR's portfolio companies employ a total global workforce of **~750,000** employees

**~40%** of KKR is owned or controlled by employees

**~\$17 billion** invested or committed by KKR's balance sheet and employees alongside our investors

## 2018 HIGHLIGHTS

**~\$1.1 BILLION**  
in Management Fees

**\$15.57** Book Value Per Adjusted Share  
**+10% year-over-year**

**~\$1.6 BILLION**  
After-tax Distributable Earnings, **+18% year-over-year**

**35 QUARTERS**  
of consecutive realized performance income

**200+** Transactions completed by KKR Capital Markets

**~\$195 BILLION**  
in Assets Under Management, **+16% year-over-year**

**Non-GAAP Measures**

This letter contains non-GAAP measures. GAAP Net Income (Loss) Attributable to KKR & Co. Inc. Class A Common Stockholders was \$1,097.7 million for the full year ended December 31, 2018. KKR & Co. Inc. Stockholders' Equity – Common Stockholders was \$15.27 per outstanding share of Class A common stock as of December 31, 2018. For a full reconciliation of GAAP to non-GAAP measures, please see KKR's Annual Report on Form 10-K for the year-ended December 31, 2018, available at:

<https://www.sec.gov/Archives/edgar/data/1404912/000140491219000006/kkr-2018123110xk.htm>

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