KKR
Second Quarter 2020 Earnings Conference Call
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Presenters
Craig Larson, Head of Investor Relations
Scott Nuttall, Co-President and Chief Operating Officer
Rob Lewin, Chief Financial Officer

Q&A Participants
Alex Blostein - Goldman Sachs
Glenn Schorr - Evercore
Robert Lee - KBW
Bill Katz - Citi
Mike Carrier - Bank of America
Patrick Davitt - Autonomous Research
Devin Ryan - JMP Securities
Jerry O'Hara - Jefferies
Brian Bedell - Deutsche Bank
Chris Harris - Wells Fargo
Michael Cyprys - Morgan Stanley
Chris Kotowski - Oppenheimer

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's second quarter 2020 earnings conference call. During today's presentation, all parties will be in a listen only mode. Following management's prepared remarks, the conference will be open for questions. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. I will now hand the call over to Craig Larson, head of investor relations for KKR. Craig, please go ahead.

Craig Larson
Thank you, operator. Welcome to our second quarter 2020 earnings call. As usual, I'm joined this morning by Scott Nuttall, our co-president and co-COO, and by Rob Lewin, our CFO. 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, which is available on the investor center section at KKR.com.

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. Like previous quarters, we've also posted a supplementary deck on our website that we'll be

referring to over the course of the call. And we hope that you and your families, of course, are safe and healthy.

To begin, as a reminder, in early July, KKR signed a definitive agreement to acquire Global Atlantic Financial Group, or GA. The acquisition is subject to regulatory approvals and closing conditions and isn't expected to close until early 2021. So, while Scott's going to touch on GA in a few minutes, the quarterly results we're going to discuss on this call exclude the results of Global Atlantic. The presentation and transcript from our investor call that introduces GA and all of the opportunities that we see resulting from the acquisition are both available on the investor center section of our website.

Also of note in the quarter, before I turn to the supplement, on June 26th, we were pleased to be added to the Russell Index family, including the benchmark Russell 1000 and 3000 indices. This is just the most recent step in the evolution of our structure and our shareholder base. Since we announced our conversion from a partnership to a traditional corporation in May 2018, we've seen a meaningful increase in our mutual fund and index ownership, and our stock is up over 70 percent on a total return basis over this timeframe compared to negative seven percent for the S&P 500 financials index. Alongside our fundamental performance, the changes we've made to our structure and reporting have played an important part in this, and we continue to meet with new potential investors who haven't evaluated our sector or KKR before.

Let's turn to page two of the supplement to go over our key metrics. Looking at the top half of the page, you can see AUM this quarter grew to $222 billion. With global equity indices up modestly over the last 12 months and high yield and leveraged loan indices down over this period, our AUM has increased eight percent year over year. Alongside investment performance in Q2, we had a strong fundraising quarter with $16 billion of new capital raised. Driven by fundraising and capital deployed, management fees over the last 12 months were $1.3 billion, up 13 percent.

Looking at the bottom half of the page, our book value per share this quarter came in at $17.73 per share. This is up seven percent from the $16.52 we reported last quarter. And, as you can see, even amid significant volatility over the last 12 months, our book values remain relatively steady compared to the $17.81 per share reported a year ago.

And finally, our after tax distributable earnings came in at $326 million for the quarter or $0.39 on an adjusted per share basis, flat from Q2 last year. That brings us to $0.80 per share for the first half of the year, up five percent compared to the first half of 2019 and over $1.4 billion of after tax DE over the last 12 months.

And one additional point, when you look at the bottom right hand chart--the top part of the bars, the lighter shaded portion, reflects realized balance sheet gains which can be more episodic in nature as we're also going to look to compound value on the balance sheet. So,

where we see more consistent growth is reflected in the bottom darker portion of the bars, our fees and carry in addition to interest income and dividends.

Turning to our summary financial results, please look at page three of the supplement. Focusing on our results for the second quarter 2020, management fees were $333 million, up ten percent compared to the second quarter 2019. Our realized performance income totaled $355 million. Despite all of the volatility, it was a good realized carried interest quarter for us with carry generated across the firm. Over 90 percent of the carry came from investments outside the U.S., with over half coming from non-private equity strategies. The largest exits in the quarter were accomplished in a blended multiple of approximately three and a half times our cost. With $90 million of realized investment income, our total revenues were $892 million this quarter.

Now looking at our expenses, compensation, including equity based comp, totaled $357 million, with our comp ratio, once again, this quarter, coming at 40 percent. We noted last quarter that, even with market volatility and an uncertain monetization backdrop, that we would maintain our expected comp ratio, low forties as a percentage of total revenues, for the remainder of 2020. So, this quarter is at the low end of that guidance.

Non compensation expense totaled $86 million in the quarter, which is down from the $99 million reported in the second quarter of 2019, due to prudent cost management. All of these results lead us to an operating margin of 50 percent and after tax distributable earnings of $326 million, which again, translates to that $0.39 per share figure.

And with that, I'd like to turn it over to Rob.

Rob Lewin
Thanks a lot, Craig, and hello, everyone. I'm going to begin with some thoughts on our financial performance over the first half of 2020, and then, we'll spend some time on our investment performance before reviewing our fundraising and deployment activities.

To start, please take a look at the right hand side of page three of the deck. We've all clearly experienced significant market volatility year to date. Recognizing that dynamic, I think the resiliency of our business model is best highlighted by our results in the first half of 2020, compared to 2019.

One of the key financial metrics that we utilize as a management team and we know is a critical focus for our investors is after tax distributable earnings per share. We were flat in Q2, and, for the first half of 2020, our after tax DE per share is up five percent, relative to the same period last year. To be up five percent in such an important profitability metric does represent, we believe, differentiated performance relative to a broad set of comparables and speaks to the resilience of our model.

I thought it'd be helpful to spend a minute on this call walking through some of the drivers of our performance. Let's start with revenues, which totaled $1.8 billion for the first half of the year and are up four percent year over year. Our revenue contributions have really been broad based. Our most stable form of revenue, management fees, are up 12 percent over the first six months of the year. Our carried interest has also been a meaningful contributor this year as we have benefited from both strong investment performance and monetization in several funds. Importantly, this is (inaudible) different geographies and products, which has resulted in over $700 million of realized performance revenue year to date. That is up 25 percent relative to last year. And finally, our balance sheet continues to be a meaningful source of realized revenue, contributing $235 million in the first half of 2020.

As it relates to our expense base, as Craig mentioned, last quarter on this same call, we committed to run KKR at a low 40 percent variable comp margin, even through the volatility. Given our performance year to date, we are accruing total compensation, which includes equity based comp, at a 40 percent margin, roughly flat to the same period last year.

Moving to our non-compensation related expense, like many corporates, we have benefited from the reduced operating spend of having most of our employees working remotely. In addition, our management team has been very focused on trying to reduce our cost footprint wherever we are able to do so responsibly and without jeopardizing future growth. While you can see this reduced operating cost on a year to date basis, it's most pronounced in Q2 where our operating expenses are down approximately 13 percent.

As a result of both our revenue and cost performance, our distributable operating margin has increased by approximately 100 basis points year to date and is tracking right around 50 percent. All of this results in after tax DE per share of $0.80 for the first six months of 2020, compared to $0.77 cents for the same period in 2019. So, our revenues are up, our margins have improved, and most importantly, our distributable earnings per share are up five percent.

In addition to some of the P&L metrics, fundraising has also meaningfully accelerated through the first half of the year. Our new capital raised is up almost two times in 2020, relative to the same period in 2019. Looking at our results in full, our model is proving that it can hold up quite well during periods of market uncertainty.

Turning to investment performance, please take a look at page four of the supplement. Generally, we tend to focus on the trailing 12 months. But, on this page, you'll also see we have included performance figures for the quarter, given how volatile markets have been.

Our private equity flagship funds returned 14 percent over the trailing 12 months. That compares to the total return for the S&P 500 and MSCI World indices of seven percent and three percent. Our flagship real estate and infrastructure strategies return 13 percent and 30

percent, respectively, over the last 12 months. The sale of Deutsche Glasfaser closed in the quarter, which was a very meaningful monetization for our infra business and is a big driver of our LTM performance.

In credit, we had a very positive quarter. Leveraged credit, the largest of our credit business by AUM, was up 11 percent in Q2 and flat over the LTM period. Alternative credit was up two percent in the quarter and down ten percent LTM. Alternative credit is a combination of our private performing credit strategies, which had good relative performance, and our distressed portfolio, which took some marks LTM. This all compared to the LSTA index over the 12 months, which declined by about two percent.

In terms of our balance sheet, our investment portfolio appreciated eight percent this quarter, driving the increase in our book value per share to $17.73. Of note, our net accrued carry balance increased 27 percent in the quarter.

Turning to fundraising, please flip to page five of the supplement. As mentioned earlier, we're finding this a good environment to raise capital. On this page, we show the quarterly capital raised over the past five years, where we have averaged around $7.3 billion per quarter. This compares to the $16 billion plus we raised in Q2, which is a record quarter for us as a public company in both private and public markets.

In the bar on the far right, you can see how this $16 billion breaks down. The largest component is the capital raised so far for our Asia private equity strategy, one of our flagship raises. Including capital from initial closings through July, our Asia IV fund is currently at approximately $11 billion, which is already 20 percent larger than its previous vintage and the largest Panasian private equity fund in the world. We will provide further updates on the fundraise as it continues to progress.

The second component, $4.2 billion, encompasses first time funds and adjacent strategies. As we have talked previously about increasing our management fees by at least 50 percent over the coming three years, flagship funds are definitely important. But, scaling up these newer strategies are also critical to achieving that goal. We're now starting to see the impact, as new capital is raised in areas like Asia infra, which now totals $2.5 billion, as well as Asia real estate, core plus real estate, and our dislocation strategy.

And finally, in the quarter, we raised capital within leverage credit, we issued two European CLOs, earned our pro rata portion of inflows at Marshall Wace, all of which show up in the additional component.

Turning to page six--I wanted to spend a few minutes on one aspect of our business that we believe is very differentiated. We've spoken frequently about the significant growth opportunities we have ahead. Maybe our biggest is in Asia. Over the past 15 years, we've

created the leading private equity franchise in the region. In addition, for a number of years now, we've been hiring local talent and building integrated teams across many non-private equity strategies.

As a result, we are starting to see our asset management footprint across Asia really start to scale. We are the clear leader in private equity, and we're benefiting from the direct expansion of some of our non-PE strategies, the capital raised in infrastructure and real estate, with more to come over time in areas like alternative credit and growth equity. As you can see on the page, over the past 12 months, AUM has increased from $19 billion to $30 billion, with a lot of running room still ahead of us.

Looking at the right hand side of the page, you see the current run rate pro forma management fee impact of this new capital raised. With Asia IV now turning on in July, the net impact of this collective fundraising has added approximately $100 million of run rate management fees. Between the continued economic growth in Asia, secular tailwinds for the alternative space in the region, and our differentiated track record as well as best in class local team, we really believe our Asia business can be as big as our North America franchise in the coming years.

Finally, turning to deployment on page seven, last quarter, we talked about the global financial crisis and how it was formative for our firm and drove us to meaningfully expand our business in the post crisis years. We wanted to better position ourselves to play offense during periods of dislocation. And we've done just that, having really been on our front foot from the deployment perspective.

As you can see on this page, we've invested or committed approximately $30 billion so far this year. This has been evenly split between public and private markets. Our public markets activity includes our traded credit as well as our alternative credit deployment. Mid-February through April was an exceptionally active period for this business when the market saw significant dislocation. Given our recent fundraising, we now have over $4 billion of AUM for our dislocation strategy. Approximately 30 percent of this capital has already been invested or committed.

Focusing on private markets, which includes closed as well as pending investment activity, deployment has been across a wide range of strategies and geographies and is reasonably split between U.S., Europe, and Asia. Our global infrastructure team has also been active, with approximately 10 percent of our investment activity coming from this asset class.

And with that, let me hand it over to Scott.

Scott Nuttall
Thank you, Rob. And thank you, everyone, for not only joining the call today, but also for joining our call on the Global Atlantic acquisition in July. Before I start, let me first say that I

hope you and your families are all safe and healthy and that you are all doing well during these continuing strange times.

To pick up where Rob left off, perhaps the best example of us playing offense year to date is our recently announced acquisition of GA. This transaction is highly strategic for KKR. As a reminder, concurrent with the closing of the acquisition and pending regulatory approvals, we expect to become GA's investment manager. If you look at slide eight of the deck, you can see what this will do for some of our important metrics upon closing.

Taking a look at the top half of the slide, you can see the AUM impact. As a result of the deal, our AUM increases over $70 billion or 33 percent. And all of these assets will immediately hit our fee paying AUM, resulting in a 44 percent increase in that figure, from $160 billion to approximately $233 billion. And the assets we manage on behalf of insurance companies will increase by more than three and a half times to over $100 billion.

On the bottom half of the page, you'll see the transaction increases our perpetual capital by 4.9 times, from $19 billion to $91 billion. And pro forma for the transaction--we will have 40 percent of our AUM, either perpetual or with the multi decade recycling provisions. And 84 percent of our capital overall will have a contractual life of over eight years at inception. The transaction will provide more scale and do it in a permanent way, meaningfully advancing several important strategic initiatives for us simultaneously.

But, it's not just about the numbers and the immediate impact. This transaction brings us a fantastic management team as a partner that we believe is well positioned to grow GA materially from here. And the transaction provides us access to important underlying trends we have been looking to gain more exposure to and provide an ability to grow faster overall as a firm.

Please turn to slide nine. One of the critical strategic areas of focus for us has been what's happening in retirement and wealth trends globally. The retirement end market continues to grow, with an aging population creating demographic tailwinds. And importantly, more retirement wealth is being managed by the individuals themselves. We have been looking to gain more access to these trends. Hence our discussions with you over the last few years about our focus on areas like insurance, high net worth, and retail.

GA sells annuities and life insurance largely to individuals in their fifties and sixties managing their own retirement wealth or managing it with the help of a bank, wealth advisor, or broker dealer. So, GA gets us in the way of trends we have been looking for, across both insurance and retail. And GA is well positioned to grow from here, both organically and inorganically. And as GA grows, KKR grows. So, the transaction will have a large, immediate impact on us. But, we think the growth from here over time will be even more powerful.

Page ten shows the financial impact of GA. Notably, we expect annual net management fees to increase by at least $200 million over the next couple of years, as we ramp up our work together. And our current expectation is that this transaction will add north of $500 million of run rate, annual, after tax, distributable earnings by the end of our first year of ownership. That reflects incremental management fees as well as our share of GA's operating earnings. And overall, the transaction will be accretive to all our key financial metrics and increases their quality, stability, and visibility.

Taking a step back, I want to take a minute to reflect on the year thus far. We have felt for some time that our business model provides us with a lot of ways to win and is more resilient than people understand. We also felt that it would take some volatility to really prove this out. Well, volatility has been the theme for some time now, and through it all, our model has proven to be quite resilient.

If you step back and think about it, year to date, we've grown our revenues and TDE, increased our margins, scaled our businesses organically, raising record amounts of capital, invested or committed over $30 billion, and announced an important strategic acquisition, using our balance sheet as a strategic weapon, giving us yet another way to win. And the last seven months give us even more confidence in our ability to further increase our margins in the near term.

Putting it all together, we have increased the scale and earnings power of our firm and the stability and visibility of those earnings during this period. And we see more growth and opportunity ahead.

And with that, we're happy to take your questions.

Operator
Thank you. At this time, we will be conducting the question and answer session. We ask that you please limit yourself to one question, and then, requeue for anything additional. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we pull for questions.

Thank you. Our first question comes from Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Great, thanks. Good morning. Thanks for taking the question. So, the first question is around fundraising. Now that we've been in this more challenging environment for a couple months

now, what are some of the key lessons learned that we can extrapolate from with respect to KKR's ability to raise capital in this backdrop? And I guess how does this inform your prospects of management growth over the next 12 months?

Scott Nuttall
Great. Thanks for the question, Alex. It's Scott. I'll take that. Look, I think we have learned a lot during this period of time. As I think we mentioned a bit last quarter, we've really picked up our dialogue with our investors and prospects during this period. So, lot of discussions, lot of outreach, easily 2X or 3X what would be typical in the pre COVID environment. And a lot of that's been comparing notes on what we're seeing, talking about what we're doing in terms of playing offense, a little bit on what we're doing to play defense. And so, I think one of the big lessons for us is that communication and that transparency has really, we think, been beneficial to enhancing those relationships.

And we're seeing it come through in the numbers. And Rob took you through some of the fundraising stats. But, it's really coming through. It's institutions. It's high net worth. It's retail. It's insurance. It's really broad based. And so, I think, overall, a big lesson for us is keep going with communication and transparency.

And the other thing I think we're finding in this period of time is that brand is powerful, and having a global presence is very meaningful. And so, we've also found that having incumbency in brand--you can have an advantage during a period of time like this. So, those are a couple of things we've taken away.

And I think in terms of what it means for the growth--Rob had mentioned that we had shared a couple quarters ago that we felt good that we could grow our management fees 50 plus percent organically over the next three plus years. That's before the Global Atlantic acquisition, and that's--well, it's hard to be precise. I'd say this period of time gives us even more confidence in that path.

Operator
Thank you. Our next question comes from Glenn Schorr with Evercore. Please proceed with your question.

Glenn Schorr
Hi. Thanks very much. So, you've made some hires on the retail front lately, and you're clearly seeing some progress, as displayed in a couple of the fundraises that you just mentioned. I'm just curious where you think you're at in the retail build out and which products might be better suited there. Meaning, do you have everything you need, or are you still on that innovation and roll out front?

Scott Nuttall

Hey, Glenn. Scott. Thanks for the question. You're right. We have been hiring into that team and continuing to build up that effort. We're by no means done. I think there's more to do on the hiring front. We have been continuing to gain traction in the retail space in the high net worth. We've got a direct team. We have a platforms team. We have a number of partnerships that we've developed around the world. I think there's a lot more for us to do. So, call it maybe second inning, bottom of the second, if you will. So, we've got a long way to go and a lot of opportunity, we think, ahead.

In terms of the products, it's pretty broad based. So, we've seen it across--the retail channel be very effective in terms of raising capital for us across credit, certainly, but also across private equity, growth equity, infrastructure. It's been very broad based in terms of the different products that we've found that the retail channel is receptive to, particular interest, as of late in anything with yield. And one of the themes we're focused on is real assets with yields. So, I think you'll see even more in areas like that instead of the real estate, infrastructure, in particular. So, a lot of different ways to grow there, we think.

Craig Larson
And I think--Glenn, it's Craig. The one stat I'd add on top of that, as it relates to the quarter, retail again, typically represents a teens percentage of new capital raise in any given quarter. And in terms of the $16 billion raised this quarter, again, it was a high teens percentage. So, it was, again, nice to see that follow through in terms of the results from this quarter as well.

Operator
Thank you. Our next question comes from Robert Lee with KBW. Please proceed with your question.

Robert Lee
Great, thanks. I hope everyone is doing well, and thanks for taking my question. Scott, maybe just sticking with fundraising theme--certainly last quarter, understandably, kind of a little more--still positive, but more muted about maybe the timing and pace of fundraising given everything. You seem, in some ways, a little bit more enthusiastic about it now just in terms of--maybe it's not going to be as delayed or as pushed out. Is that a fair assessment at this point?

Scott Nuttall
Hey, Rob. Thanks for the question. I hope you're doing well too. Yeah, I think--last quarter, I would say, we--you're right. We did share that three year kind of perspective in terms of our ability to grow our management fee line again by 50 percent. We mentioned last quarter that the best we could tell at that moment, we might push that out a few quarters. We were more in the peak of COVID at the time.

But, I do think we do feel a bit more optimistic today. To be candid, it's hard to be entirely precise given the dynamism of the environment. But, I do feel like we're a bit more optimistic

today with a quarter like the one we just had behind us and the deployment that we've seen across a number of our different strategies globally. So, some of the fundraises that we expected might be kind of 24 to 36 months from now--some of those are looking like they could be more like 12 to 24 months from now.

And so, we're seeing some of those pulled in a bit. So, we're not going to get precise in terms of which quarter precisely. But, you're right. I think we're a bit more optimistic today. And I'd say, overall, our confidence in being able to grow 50 plus percent is higher than it was last quarter within that time frame, just by virtue of what we're seeing.

I'd also say that, as a reminder, all of that is before the Global Atlantic acquisition. So, if you think about what we've said today, we're expecting $200 million plus of run rate management fees a year, a couple years out. That's on top of that 50 percent growth which would obviously bring us to something more like 60 or 70 percent growth if you combine the two.

Operator
Thank you. Our next question comes from Bill Katz with Citi. Please proceed with your question.

Bill Katz
Okay. Thank you very much. Good morning. Thank you for taking the questions. So, just coming back to margins for a moment--I just wanted to understand how much is a sort of tactical versus structural. You mentioned, on one hand, that you feel like you have an opportunity to move the margins higher. It sounds like that both in the scaling of the business as well as transaction.

But, you've also alluded to sort of running at the low forties for the comp ratio, and yet, you're accruing at a 40 percent rate. So, is the 40 percent rate the right baseline to be thinking about the legacy company? And will that improve subsequent to the GA transaction?

Rob Lewin
Hey, Bill. It's Rob. Thanks a lot for the question. So, let's start with GA. I think that's the easiest piece. And then, we can build up. So, we expect the revenue that's associated with transactions to flow through at a very high level. So--but, let's take that in two buckets. The first is GA's distributable earnings. They're going to flow into KKR's distributable earnings. And just for clarity, we're not expecting any additional comp load on those earnings.

And then, while our expectation, as GA's asset manager, is that we'll need to add some additional resources, we do have most of our teams well built out. And so, the incremental management fees and carry over time, we think, should flow through out to our P&L at a very high level.

And then, Scott mentioned earlier some of our more organic scaling that we think we have across the firm, and we think we should be able to drive real margin expansion there as well. And so, while we don't have any specific guidance on this call, I think there's a lot of things that point to a positive direction in terms of our margins over the next couple of years.

Operator
Thank you. Our next question comes from Mike Carrier with Bank of America. Please proceed with your question.

Mike Carrier
Good morning. And thanks for taking the question. Rob, I didn't hear if you gave an update on just kind of realization activity or the pipeline. Sometimes you guys do. And it's fair if you didn't, just given the environment. But, any update on that front. And even from just the portfolio, how are you guys feeling on sort of the realization or the performance, particularly on the private side of some of the companies, and not necessarily for the quarter, but just over the next 12 to 18 months? Thanks.

Rob Lewin
Thanks a lot, Mike, for the question. And that's a good one. As it relates to our Q3 revenue, we do have some forward-looking guidance there. We expect $250 million of carry in balance sheet gains that are from deals that are already closed or have been signed up and that we expect to close. And so, we're only a month into the quarter, and we've got a couple months to go. So, hopefully, we can take that $250 million up a bit. But, that's what we have locked in today from those two buckets for the remainder of Q3.

Scott Nuttall
And then, Mike, I'll pick up on the second part of the question. In terms of the portfolio, I think the first thing to understand--portfolio construction really matters, especially at a time like this. And so, our portfolio has been performing pretty well. And I think it's due to a few different things. One is we have just been underweight, the hardest hit parts of the global economy. So, direct energy is about two percent of our AUM. Hotels and leisure are two percent, retail, about three percent. So, if you aggregate all three of those, you get to about seven percent of our AUM. So, we've just been underweight those sectors.

On the flip side, we have our largest exposure in technology. And so, 25 percent of our portfolio overall, give or take, is in TMT. And so, our investments in data and ecommerce are doing particularly well, as an example. And then, on top of that, we have a heavierweighting toward Asia, about 30 percent of our private equity portfolio. And Asia is kind of further along in the recovery.

So, when you put all that together, we've actually been quite encouraged by the data we're seeing. We've seen a snap back in numbers since the last time we talked. Asia is coming back.

Europe's coming back. And number of different sectors in the U.S.--we've seen the numbers bounce as well. But, I think, overall, a lot of that's driven by how we've constructed the portfolios.

Operator
Thank you. Our next question comes from the line of Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt
Hey. Good morning, guys. Thanks. It looks like you have some chunkier new investments in the pipeline in terms of putting money to work. So, through that lens, do you have a view that that could translate into a more constructive capital markets outlook than you've had in previous calls?

Rob Lewin
Yeah. Hey, Patrick. It's Rob. Good question. The short answer is we do. And when we look at the first half of 2020, we've actually been quite pleased with the performance of our capital markets business, generating $130 million of revenue in what was a pretty challenging overall market, especially the leveraged finance markets where we spend a lot of our time. But, as we look at the second half of the year, our pipeline's a lot healthier, and our expectation is that we'll certainly improve on that first half number in the second half.

Operator
Thank you. Our next question comes from the line of Devin Ryan with JMP Securities. Please proceed with your question.

Devin Ryan
Great. Good morning, everyone. Just want to follow up on some of the retail opportunity commentary and maybe just talk a little bit more about the connection with Global Atlantic's footprint and their retail brokerage network. And I'm really just trying to get a little bit better sense on framing the opportunity in terms of how important it'll be in accelerating the overall effort. Are there new products that will make sense to launch once that closes? And just whether leveraging this network is really an initial focus, once the deal closes, or more of a long term kind of just ancillary benefit. Really just trying to get a framing of the opportunity and sizing.

Scott Nuttall
Thanks for the question, Devin. You've hit on a couple important things. You're right. As a reminder for everybody, Global Atlantic has particular strength in their distribution through banks and broker dealers, over 200 relationships of that type. And today, they are kind of distributing annuities and life insurance through those types of relationships.

We do think there is a potential opportunity for us to work together with the GA team to distribute KKR product through that channel. To be clear, that's an upside lever. It's not embedded in any of the numbers that we've shared with you today around last month's call. But, it is something that we've talked about from time to time as an opportunity for us to pursue together, either just an outright KKR product form or, to your point, creating new products together with Global Atlantic that kind of marries their capabilities in terms of risk taking and investment management, frankly, because they have a very talented team on the investment side in their own right, with our capabilities around investment management as well.

So, we have talked about creating new products together for those channels and using their distribution to distribute them. So, again, neither of those opportunities, whether it's KKR product or new products we create together are in any of these numbers. But, it something that we've thought about as an upside level over time.

Operator
Thank you. Our next question comes from Jerry O'Hara with Jefferies. Please proceed with your question.

Jerry O'Hara
Great. Thanks for taking my question this morning. As it looks--you note in the deck that the GA deal take perpetual capital up to, I think, roughly 40 percent of total AUM. Scott, perhaps you can give us some thoughts on sort of how you see that long dated and perpetual capital as a percent of total ramping as you kind of grow the business moving forward, either through--as you note, organic, inorganic insurance deals, or perhaps just other types of longer data capital that you might be looking to raise. Thank you.

Scott Nuttall
Great. Thanks for the question, Jerry. So, you're right. And just to clarify--so, the bottom right of page eight on the supplemental deck--what we're saying there is the perpetual capital technically is 31 percent of our AUM pro forma. And then, the way you get from the 31 to the 40 percent that you referenced, is we're also including our strategic investor partnerships. And those are the relationships that we have with big institutions around the world where we are recycling capital plus a percentage of profits for an extended period of time. And so, most of those have a total life of somewhere between 20 and 30 years. So, that--it's the sum of the two that gets you to the 40, and it's 31 and nine.

And so, to your question, to be clear, we think there's opportunities to continue to grow both. Just as a reminder, GA in its own right, without KKR as a partner, had about $17 billion of total assets in May of 2013 and is now, in terms of total GAAP assets over $90 billion. So, they've been able to grow organically themselves and inorganically without a partner like KKR. So, we think that's going to be part one of how we continue to grow our perpetual capital is just

working with the great team at GA and figuring out how to continue and hopefully enhance that growth trajectory organically.

There are also going to be inorganic opportunities, we think, working with Global Atlantic, whether it be docs, things we can do together in terms of just the flow they're seeing, which is significant right now, or additional acquisitions that we can make together that would expand the $72 billion or so of invested assets we would pick up upon closing. So, there's the organic and the inorganic through GA, would be kind of the first part of the answer to your question.

And then, the second part would be the strategic investor partnerships that we haven't talked about in a while, but we continue to find that we're getting good traction. And think of these as really, as I mentioned, multi decade. But, they're quite customized. They tend to be large scale, in the multiple billions of dollars each. And they compound by virtue of their terms. So, we think there's opportunities to grow all of what I just talked about on top of maybe thinking about other things that we can do organically for KKR in this space. And inorganically, we have our BBC platform. We have our (inaudible) platform. We have a number of different vehicles that we've been building away from GA and strategic partnerships that we can continue to scale. And we're looking to create new ones.

And so, all a long way of saying that we expect $91 billion of perpetual capital to continue to grow and that 40 percent figure, we think, can continue to grow over time as well.

Operator
Thank you. Our next question comes from the line of Brian Bedell with Deutsche Bank. Please proceed with your question.

Brian Bedell
Thanks--good morning, folks--for taking my question. I just want--maybe Scott, if we could just dive into Asia a little bit more, looking at slide five, and noting your points on scaling that business up at that $30 billion level right now. Maybe if you could just give us a little bit more color on the geographic distribution within Asia, which areas you're focused on and which areas you see geographically longer term growth opportunities. And then, you mentioned this could eventually become as big as the North American franchise. When you're saying that, say, over the next two or three years, what kind of AUM are you envisioning, I guess, for both?

Scott Nuttall
Thanks for the question, Brian. I'll take a stab, and maybe Rob can jump in with anything I missed. But, in the first instance, you're right. We do have--just to be clear, we have a Panasian approach. So, just as a reminder, eight of our offices KKR are actually in Asia. So, we have a presence throughout the region, and we have a very local model. So, tend--we have country teams. We do local sourcing. And we have those teams working initially across PE, but now, as Rob mentioned, we've been expanding and bringing really the rest of KKR to Asia.

So, when you look at that slide six in the deck, what you see is you've got the growth of Asia private equity, but also these other bars starting to show up, infrastructure, real estate. We're also working on private credit in Asia and growth tech in Asia as well. So, we're bringing, if you will, the rest of the KKR product suite to that part of the world and leveraging this footprint that we've already built and adding specific talents in each market as well to be able to execute on all those.

And I think what Rob's getting at is we're just starting to see the benefits of that growth trajectory. And you can see how powerful it is on slide six just with respect to what we've seen over the course of the last 12 months or so. And a lot of this is Asian infrastructure getting raised, Asian real estate starting to get raised. And you can see how powerful that is, just that plus the next Asia fund adds $100 million in management fees.

And so, our focus is quite broad. It's north Asia, south Asia, developed Asia, and emerging Asia. And we've been active in all markets and increasingly across real assets, private equity, growth equity, and now, in credit as well. And so, if retail--we're in this second inning--I'd say the expansion of Asia is probably a bit even earlier than that, and we see a lot of opportunity ahead.

We're not going to give you a forecast in terms of what that means for management fees. But, suffice it to say we've just added, we think, $100 million run rate with just what we've started to do, and this is just the beginning. So, we do see a significant amount of growth opportunity ahead from here. And the investing that we're doing in Asia is consistent with a bunch of the investment themes that we've been focused on the world. And so, when you think about a lot of what we've done has been in some of the themes around digitization, telecom, cloud. There's a lot--a lot of what we're doing across the region in that whole tech space in addition to a number of other areas around healthcare, wellness, and a variety of other investment themes that we're excited about.

Rob Lewin
I think that's a really good summary, Scott. The only thing that I'd add on is we have a lot of tailwinds at our back in that part of the world. Clearly, you're going to look at it over the next decade plus, in terms of global growth, you'd bet on that part of the world continuing to grow at a higher level than more western markets.

We think alternatives, as a percentage of the pie, are going to continue to clearly grow in Asia, really through all markets in Asia Pacific. And then, most importantly, we've got a best in class brand in the region and, I think, really unique access to bring on great local talent. And that's what we've been able to do, especially as we've built up private equity over the years, and we start to really scale our efforts in some non-private equity strategies. We've been able to bring in what we think is the best talent in the region to be able to do that.

Operator
Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question at this time, please press star one on your telephone keypad. Our next question comes from the line of Chris Harris with Wells Fargo. Please proceed with your question.

Chris Harris
Thanks, guys. So, we're seeing sales of annuity products across the industry drop pretty materially, and the culprit seems to be ultra low interest rates. Can you guys talk a bit about why you don't necessarily think this is going to be a meaningful headwind to the organic growth at Global Atlantic?

Scott Nuttall
Hey, thanks for that question. I'd say we've seen the same as well. I think it's a little bit hard to separate, especially over the course of the last handful of month, how much of what we see in terms of decline in sales is low rates versus just a little bit of a dynamic of the pandemic and perhaps it's been harder for some advisors to get to their clients or perhaps it hasn't been top of mind for some of the clients to focus on how they're managing their wealth as they get through this period. But, time will tell.

But, our view is that, if anything, this low rate environment is going to drive demand for savings products that have tax deferral. And really, that's what an annuity product is, and we believe, by working with the Global Atlantic team and leveraging their distribution and our ability to invest well together, we can create a very competitive product in terms of what they've already done but also then hopefully create some new products that can really satisfy the appetite that people are going to have for yield and tax deferral in this environment.

So, we don't--we're not of the view that the last few months is a long term trend. Our view is that it's a bit of a moment in time. And we believe that we'll continue to see organic growth by virtue of that need for yield. And I'd say, on top of that, the inorganic opportunity is probably even more exciting by virtue of the fact that we're seeing a number of life companies and annuity companies that are looking to sell blocks of the full business and use proceeds to do things like share buybacks. And so, we are particularly active with the GA team looking at their pipeline of new opportunities.

But, GA hasn't put out its numbers yet. So, that's probably as much as we should say on the topic. But, that's a little bit of background for you.

Operator
Thank you. Our next question comes from Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Hey, good morning. Thanks for taking the question. I'm just hoping you could talk a little bit about your approach to product and strategy level profitability. How do you approach that and think about that? And given the number of strategies that you're likely to raise in the next couple of years, which strategies do you think will make the most progress in terms of improving their profitability, and which ones do you think would probably have to wait out a little bit further to maybe another fundraise down three plus, five years down the road?

Scott Nuttall
Hey, Michael. It's Scott. Thanks for the question. It's a really good one. We do have, as you know, a number of businesses that we've been kind of scaling over the course of the last decade. I think it's something like 18 of our 24 investing strategies are less than ten years old. And I would say if you'd asked that question five to seven years ago, my answer would have been quite different than it is today. Besides the seven years ago--we had a number of businesses that--frankly, a majority of our businesses that were kind of in that fund one, fund two just starting to earn their way to run rate margins kind of level.

But now, as we sit here today, we have a majority of our activity actually getting into that inflection part of the curve where we're starting to see that scale. And we talked a little bit about, on page six, what that means just for an Asia IV PE fund, as an example. So, if you think about what's going on across infrastructure with us, we're getting into closer to our third round of funds for some of our real estate strategies so that those two areas, kind of that whole real assets area of the firm, I think we're going to really begin to see significant upside and opportunity in terms of scaling. And we'll share slides like slide six with you over time as we continue to see that. But, those are the couple areas I would point to.

I do think we also have a variety of other areas, like our growth strategies, which we don't talk about a lot. But, healthcare growth, tech growth, and now Asia tech growth, as I mentioned--we're continuing to expanding the growth area, and we're starting to get into fund two and fund three. So, the weight of the overall activity is now getting to that kind of fund three, four, five. Whereas before, it was one, two, three.

And so, it's really--that's a lot of what's behind our statement, both Rob's and mine, that we see opportunities for margin expansion. And that's away from GA. It's because we're seeing the scaling of all these different types of strategies that we've started. And we are creating new ones like impact. But, relative to the quantum of capital that is getting to that scale level, it's a relatively small percentage whereas five years ago plus, it would have been a much bigger percentage. And it's really that shifting of the weight of the activity that gives us even more confidence in our ability to increase our margins.

Rob Lewin

Michael, it's Rob. Just to briefly add on--as we do our analysis, we go business by business, even at the very micro level. There really isn't a lot of our business today where we're looking at things that need to scale in order to turn to profitability. And even some of our newer products that we are launching that are on fund ones, they are really leveraging a lot of the existing team and infrastructure that we have at KKR today. And so, they're adding, effectively additional scale and revenue to a cost basis largely built down. So, as Scott said, there's really not a lot there where we need to wait for that scaling to achieve profitability.

Scott Nuttall
Yeah. The best example, Michael, is probably core, which is a strategy where we manage $10 billion plus now. And it's really just leveraging deal flow and work that was already inside the firm. We literally did not hire a single person to raise that $10 billion. It was just monetizing what was already here.

Operator
Thank you. Our next question comes from the line of Chris Kotowski with Oppenheimer. Please proceed with your question.

Chris Kotowski
Good morning, and thank you. A couple of questions around Asia III and IV. One is just to confirm--you said that Asia IV turned on for fees in July. And the reason why I'm wondering is--I mean, you still have roughly like $4.2 billion or 47 percent of the committed capital left in Asia III. So, I was wondering--has a lot of that been spoken for already, or are you going to just have a lot--or are the two funds going to be investing concurrently? And then, I guess, given that you've raised Asia IV with almost half of Asia III still uncommitted, America's 12 is roughly at the same kind of level. So, should we expect also kind of that to follow on for the next America's flagship fund?

Rob Lewin
Hey, Chris. It's Rob. I'll take that. It's a really good question. The chart you're looking at in our press release, our capital deployed or our investment vehicle summary on page 13, I'm sure--that's based on deployed capital and not on committed capital. And so, what you don't see flowing through there is deals where that capital is already spoken for and committed. And so, we'll have a normal type reserve for our Asia III fund. But, over the coming quarters, you'll see that deployed number for Asia III naturally pick up based on the transactions that have already been committed to.

And you're right. Asia IV turned on in July. And so, you'll see that flip from AUM into fee-paying AUM in our Q3 numbers. And then, as it relates to our America's 12 fund, you're right, the capital deployed in that fund has been strong. And I'm sure we'll have more news around potential raises for that strategy over the coming quarters.

Operator
Thank you. It appears we have no further questions at this time. So, I'd like to pass the floor over to Mr. Larson for any additional concluding comments.

Craig Larson
Jessie, thanks for your help and everybody on the call, thank you, for course, for your continued support. Please follow up with us directly if you have any questions further on in the quarter. Otherwise, we'll speak to you in 90 days.

Operator
Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. And you may disconnect your lines at this time.

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