KKR
Q3 Earnings Call
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Presenters
Craig Larson - Head, IR
Robert Lewin - CFO
Scott Nuttall - Co-President, Co-COO

Q&A Participants
William Katz, Citi
Glenn Schorr, Evercore
Alex Blostein, Goldman Sachs
Jeremy Campbell, Barclays
Patrick Davitt, Autonomous Research
Michael Carrier, Bank of America
Gerry O'Hara, Jefferies
Christoph Kotowski, Oppenheimer
Christopher Harris, Wells Fargo
Robert Lee, KBW
Michael Cyprys, Morgan Stanley

Operator
Welcome to the KKR's Third 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 opened for questions. If you'd like to ask a question, please press star one 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. Good morning, everybody. Welcome to our third quarter 2020 earnings call. I'm joined this morning by Scott Nuttall, our Co-President and Co-COO, and also by Rob Lewin, our CFO. We'd like to remind everyone that we'll be 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, so please refer to our SEC filings for cautionary factors related to these statements. And 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.

We've all experienced volatility and disruption in many ways in 2020 across the globe, so we continue to hope that everyone is safe and healthy. But in terms of KKR, and our results this quarter, we've continued to see strong performance really across all of our metrics. Turning to page two of our supplement to begin, you can see that our key metrics are performing nicely.

Looking at the upper left hand part of the page, assets under management came in at $234 billion, representing a 12% increase from a year ago. And as fundraising and capital deployment momentum continued, our management fees over the past 12 months as you can see by the chart in the top right hand corner grew by 13% to $1.3 billion. Looking at the bottom left, you can see our book value per share saw a meaningful increase this quarter, lifted by strong investment performance. In the third quarter, book value per share grew from $17.73 as of 6/30 to $20.26, up 14%, and more broadly, is up 11% from $18.22 per share a year ago.

And finally, on the bottom right hand side, you see our after-tax distributable earnings. First, in terms of this quarter, DE came in at $410 million, or $0.48 on a per share basis. Both of these figures are up approximately 25% from our results last quarter. And looking over the last 12 months, despite all of the volatility we've endured, we reported $1.5 billion of after-tax DE, which is essentially flat compared to the figure from a year ago.

Moving on to our summary financials for the third quarter, please turn to page three of the supplement, and let's walk through the left hand part of that slide. Management fees increased to $360 million, up 14% to Q3 last year, driven most significantly by Asia IV, which entered its investment period in the quarter. Transaction fees totaled $301 million. We had a strong quarter within capital markets with transaction fees here coming in at $158 million given the breadth of deployment and monetization activities we saw over the course of the quarter. Realized performance income came in at $234 million, and with $260 million of realized investment income, total revenues were $1.1 billion this quarter, up 11% from the same quarter a year ago. Notable monetization activity in the quarter included the IPO of Hut Group, a British e-commerce firm, a dividend recapitalization of Epicor, which is a software firm in our North America Fund XI, which we subsequently sold, as well as the secondary at Fiserv. And on a blended basis, our exits this quarter were done at over 3x cost.

Turning to our expenses for the quarter, compensation expenses were $427 million, which brings our total compensation margin, including equity based comp, to 40%. Non-compensation operating expenses were $90 million. Our operating margin increased to 52%, with after-tax distributable earnings then of the $410 million or $0.48 per share. And with that, I'd like to turn it over to Rob.

Robert Lewin
Thanks a lot, Craig, and good morning, everyone. Similar to last quarter, I want to start off by focusing on our year-to-date performance. We've clearly experienced some market volatility in 2020, and we believe our results over the past nine months highlight both the resilience of our business model and the high level of execution by our global teams. I'm going to start with the right hand side of page three, focusing initially on three major drivers of our revenue. First, our management fees are up 13% this year. Our ability to realize carry through different market environments also remained strong, bringing our realized performance fees to just under $1 billion year-to-date. And finally, our balance sheet has continued to perform, with realized investment income up 8%, continuing to demonstrate the important contribution of this

revenue stream towards our overall financial performance. In aggregate, our revenues are up 7% through the first nine months of the year.

Moving to our expenses, compensation margin has remained at 40% through the year. In terms of non-compensation related expenses, we have been deliberately prudent with expense management in 2020 and have obviously benefited from the limited amount of travel and office related expenses this year. Year-to-date, our other operating expenses, together with occupancy, are down 4% compared to this period last year, despite making some very meaningful investments across our platform. As a result, our distributable operating margins are up 100 basis points, while our total operating earnings are up 9%.

In addition, our after tax DE per share of $1.28 for the nine months ended September 2020, compares favorably to $1.23 for the same period in 2019. It is important to note here that we have completed our financing related to Global Atlantic in Q3, which has already started to burden our after-tax DE per share in advance of generating the revenue associated with the acquisition. Switching to capital raising. On a year-to-date basis, we have raised 80% more capital than we raised in the same period in 2019, which really does set us up nicely for future growth.

Moving to investment performance on page four, which has largely been a real strength for us this year. Our flagship private equity funds returned 27% over the past 12 months, and our real estate and infrastructure strategies returned 10% and 7% respectively over that same period. In credit, we had a very positive quarter. Leveraged credit, which is the largest of our credit businesses by AUM was up 5% in Q3, and is up 3% over the LTM period. Alternative credit was up 6% in the quarter, and down 7% LTM. Our alternative credit numbers are a combination of our private performing credit strategies, which had solid performance, and our distressed portfolio, which has taken some marks LTM.

Turning to page five, we thought it was worth spending a minute specifically discussing our benchmark PE performance. As you can see, really across all geographies, our flagship private equity funds are meaningfully outperforming their benchmark indices on a since inception basis. This performance is in part generated by our portfolio construction, especially in a bifurcated market like the one we have seen in 2020. We are underweight some of the harder hit sectors while also importantly choosing to have a large exposure to technology, with a focus on investments in data, ecommerce, and digitalization. Our relative weighting to Asia has also benefited our performance.

Page six provides some additional detail on our balance sheet. Consistent with the performance across the firm, our book value per share increased to $20.26, representing a 14% increase from June 30th. Our balance sheet investment portfolio returned 11% in the quarter, and our net accrued carry balance increased 44% from Q2, providing additional visibility for future carry. Also, as it relates to our balance sheet, it's worth highlighting our buyback activity this year. Since January, we've used $324 million under our buyback program. The majority of this

activity occurred in the first four months of the year, as we leaned into the volatility and repurchased stock at a weighted average price of just over $24 per share. In total now, since we announced our first buyback program at the end of 2015, we've used $1.4 billion to retire shares at an average price of just under $19 per share. With our book value today in excess of $20 and the stock price where it is, we feel good about our activity levels here.

Turning to fundraising. New capital raised totaled $8.7 billion in the quarter driven by fund raises across private markets in our U.S. real estate strategy, as well as across three strategies in Asia: real estate, infrastructure, and private equity. Additionally, we raised capital related to leveraged and private credit. New capital raised from a fee paying AUM standpoint was a record $19 billion this quarter, with $12 billion of that attributed to Asia IV as it entered its investment period in July. We now have over $13 billion of capital in Asia IV and will provide further updates on the fundraise as it continues to progress.

The $32 billion of capital raised year-to-date importantly sets us up with $67 billion of dry powder, which is a high point for us. As we have discussed on prior calls, we really did lean in when the market was dislocated, so this dry powder is particularly noteworthy given the level of capital investment we have made year-to-date. Now focusing on this deployment more specifically, our private markets business had a record investment quarter with $6.2 billion deployed, which was largely in transactions that were entered into during the more heightened market dislocation in the spring and early summer. In Europe, two previously announced core PE investments closed. Our infrastructure team continued to find compelling opportunities across various sectors in Europe and Asia, and a number of Asia PE investments closed, including our investment in Jio.

And finally, an update on a couple of items related to Global Atlantic. We completed two financings in the quarter, the proceeds of which will be used to fund the acquisition. In August, we issued $1.15 billion of mandatory convertible preferred stock. You will see in our earnings release on a distributable earning basis that this offering is reported on an as-if-converted basis. And subsequent to the mandatory convertible offering, we also issued $750 million of 30-year senior notes with a 3.5% coupon.

Behind the scenes, the GA team has been hard at work ahead of closing. Following KKR’s announcement of the acquisition in July, GA completed two block reinsurance transactions, adding an incremental $8 billion of assets. Notably, GA's pipeline for similar transactions is quite active, and we have confidence in the team's ability to execute. We continue to see really strong opportunities here for both organic and inorganic growth. And with that, let me hand it over to Scott.

Scott Nuttall

Thank you, Rob, and thank you, everyone, for joining our call today. All of us at KKR hope you and your families are happy, safe, and healthy. Our numbers speak for themselves this quarter, so I'm going to be brief. From my seat, there are a handful of things I thought I would highlight.

First, we have invested and committed $42 billion so far this year around the world and across strategies. We were prepared to lean into dislocation coming into the spring, and our preparedness has paid off. Second, investment performance has been strong, and we see more upside in the portfolio from here. Third, fundraising momentum has continued. In the first three quarters, we have raised $32 billion, and we have three more flagship funds and over 20 other strategies in or coming to market over the next 18 months.Fourth, our model is working. With our combination of AUM, capital markets, and balance sheet, we have multiple ways to win. We have always felt our model is resilient. One silver lining of this year has been an opportunity for that resilience to shine through. And fifth, the Global Atlantic acquisition is on track. And as you heard from Rob, GA is winning in the marketplace and will be larger at closing than we had anticipated, with multiple ways to grow from here.

It has been a busy year, but we have a lot more ahead of us. And with that, we're happy to take your questions.

Operator
Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, pleas press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. If at any time you wish to remove your question from the queue, please press star two. We ask that you limit your questions to one so that others may have an opportunity to ask questions. You may re-enter the queue by pressing star one. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Our first question is from William Katz with Citi.

William Katz
Thank you very much for taking the question. I think you guys answer a little bit of it in some of your prepared commentary. But, Scott, just sort of wondering, or, Rob, if you guys want to maybe to sort of step back and update us around just the management fee walk up as you see it with another sort of quarter under your belt, just given sort of the outsized economics this quarter and your commentary on the Global Atlantic transaction?

Robert Lewin
Sure. Thanks a lot, Bill. So, nothing has changed in our view on management fee growth from here. We communicated a little bit while back that our expectation is that we'll be able to generate 50% plus management fee growth. On top of that, we believe there is an additional $200 plus million of net management fee that we would expect to generate from Global Atlantic. And so, I'd say we continue to be convicted on being able to achieve that.

William Katz
Okay. And just a follow-up a big picture, maybe a little bit unanswerable today. But just, to the extent that there will be any kind of shift in carried interest taxation, how might that impact the DE economics of the franchise either bottom line or from a sort of a comp perspective? And

then the harder part is, to the extent there is any kind of sort of administrative change next week, how might that influence institutional allocations and or the relative appeal of alternatives, more broadly?

Robert Lewin
Sure. So, as it relates to any changes or around carried interest taxation, that won't have an impact on distributable earnings. For us, all forms of our income are taxed the same, and so it's the statutory rate. And, as you know, we benefit from a little bit of a tax step up that we had achieved at our C-Corp conversion. But other than that, any kind of new revenue that comes into the firm is taxed at the statutory rate all the same.

Scott Nuttall
And, Bill, just on the other parts of your question—it's Scott. So, no impact on the DE, no impact on compensation, or how we think about it. And with respect to fundraising, we do not expect any change in the tax code to have an impact. Remember, a lot of the people that invest with us are tax exempts. And, regardless of what happens from a tax code standpoint, we believe the interest in alternatives will continue to grow.

William Katz
Thank you.

Scott Nuttall
Thank you.

Operator
Our next question is from Glenn Schorr with Evercore.

Glenn Schorr
Hi. Thanks very much. Wonder if you could talk a little bit more about alternative credit. You mentioned the performance. And the stress is not the biggest piece, but I'm curious on what you see as temporary versus permanent impairments in that book and the outlook, more importantly, for distress, because we keep thinking there's a good outlook, but every time it happens, more stimulus comes. And maybe you could tie in the dislocation fund towards what's going on in the distressed landscape? Thanks so much.

Robert Lewin
Yeah, thanks a lot for the question, Glenn. This is Rob. I'll start, and I'm sure Scott will have some views here, as well. I think the punch line is we continue to view a number of assets in our distressed portfolio that have taken some marks on an LTM basis quite favorably. And, as you also know—and you hit on this. We've shifted a number of our distressed oriented resources to our dislocation opportunity strategy, and in an eight week period in the spring, we raised a $2.8 billion fund. We have north of $4 billion of capital committed to that strategy, and, already, through the first several months of that fund strategy, we either deployed or committed a little

bit north of 40% of that fund already. And so, it's a big opportunity, we think, for us, and that's why we've diverted some of the team to be focused on those activities.

Scott Nuttall
Yeah, just to add on a couple of thoughts, Glenn. So, first, we feel good about the underlying portfolio. We think a bunch of those marks are going to come back. Secondly, when you look at the page in the deck that shows kind of the LTM period, it's important to keep in mind that the convention in terms of how that page is put together means that, what's dragging that number down is our Special Sits II fund, which is all of $2.1 billion of fair value in a $73 billion credit business. So our perspective is that a lot of that is going to come back over time, and it's a very small part of the overall business and credit as a whole continues to perform.

I think, perhaps to your market opportunity question, we do think that there is going to continue to be an interesting opportunity, but what it's going to require is to be really nimble and kind of flexible as to how you deploy capital, and that's why, to your point, we raised a dislocation vehicle and vehicles. They have the ability to invest across asset classes. So, we're investing not only in traditional distressed, but traded markets, real estate credit, corporate credit. You got to be able to move quickly. And actually, some of the early investments we've made there, we've already monetized. So, I think you should expect us to continue to scale that dislocation platform over time, but that's how we're thinking about it. It's less controlled distress then it is just being able to move quickly.

Operator
Thank you. Our next question is from Alex Blostein with Goldman Sachs.

Alex Blostein
Great. Thanks. Good morning, everybody. Thanks for the question. I was hoping you could talk a little bit about deployment dynamics and the implications that might have on both the fundraising and the capital markets business. So, from what we could see, you guys have been quite active, and the pipeline of deployment, just I guess and some of the public data looks really strong coming up. So, I guess what does it mean for sort of timing of North America XIII, the next Infra fund or the next European fund in terms of both kind of fundraising and when those fees could ultimately come online? And then, I guess, secondly, the outlook for the transaction revenues albeit I guess kind of lumpy and hard to predict, but just from a trajectory perspective, given the strong deployment pipeline, how should we think about that over the next 12 months? Thanks.

Craig Larson
Hey, Alex. It's Craig. Why don't I give a beginning part answer there as it relates to deployment, and then—as well as fundraising, and then Scott and Rob may want to add on. I think you're right as it relates to deployment. It's been a really busy period for us, as you heard from Rob. Private markets, in particular in the third quarter, was a really healthy figure for us. I think that reflects a number of things.

One, the overall growing platforms for us certainly also reflects the decisions that we had to lean into dislocation earlier in the year. As Rob had mentioned, the activity that closed in Q3 largely reflects transactions that were announced in the spring. And I think the third thing you see reflects the geographic breadth that we have in our presence in Asia. Asia within private equity was the business' busiest geography for us deployment wise in PE in the quarter, as well as year-to-date. And as you'll remember, we do run a very localized model in Asia. So, I think as it—that approach is very helpful for us as it relates to sourcing and executing opportunities. I do think, as it relates to fundraising, the main dynamic is that things are on track. So, as it relates to the three additional flagship funds for us in addition to the fundraising continued for our Asia private equity strategy, and then when you layer on the 20 plus additional strategies, as we look forward, I think everything is on pace for us.

And important in that is, only 25% of those strategies that we see coming to market are first time for us. So, I think we have predecessors that are performing and real benefits as it relates to maturation. I do think, as it relates to that overall deployment dynamic, one of the things that is correct that, as it relates to accelerated deployment finding attractive risk reward, if anything, that can move the overall timing as we try and think things more forward. But the overall message is, one, that we're on pace.

Robert Lewin
Alex, it's Rob. Maybe a couple of points to add on. In terms of the geographic breadth of our deployment, as we look at where we're likely to wind up in the year from a private equity perspective, it's actually close to a third, a third, a third, Americas, Europe, and Asia in terms of deployment. And so, that's really—that geographic breadth and diversification has really helped us be able to lean into different opportunities on a global basis. Then, as it relates to the second part of your question, in terms of the impact this can have on transaction fees, our pipeline remains healthy for investment the remainder of the year. Of course, we got a couple months left in 2020. And some of the deals in our pipeline might slip to Q1. So, it's a little bit hard to predict our transaction fees for the quarter, but certainly our deployment levels have helped those figures on a year-to-date basis. And if our deployment continues to be robust over the coming quarters, then you should see a similar level of transaction fees play out.

Operator
Thank you. Our next question is from Jeremy Campbell with Barclays.

Jeremy Campbell
Hey. Thanks. Just quick point of clarification before I ask the question. Relative to the $200 million plus fee revenue opportunity from Global Atlantic you guys highlighted back in the summertime, just curious if these recent block deals were baked into that or incremental to that?

Scott Nuttall

The short answer, Jeremy, is they're incremental to that.

Jeremy Campbell
Great. And then, I guess bigger picture on Global Atlantic, can you remind us what the typical organic growth looks like? I think the summer slide deck said something like $9 billion. And then maybe how you envision the growth algorithm going forward between organic flow and inorganic blocks?

Scott Nuttall
Yeah, sure, Jeremy. It’s Scott. I'll take that. So, I think the way to think about it is Global Atlantic, in our view, has just multiple ways to grow. So, there’s the retail business where they have relationships with over 200 banks and broker dealers. There’s the institutional business, and it's really, although it could be thought of as organic or inorganic I suppose, there’s a lot of aspects of that that are fairly recurring and somewhat predictable. For example, they have flow reinsurance arrangements with a number of counterparties. They’re in the pension risk transfer business. And then, on top of that, you've got these reinsurance blocks that you referenced, that although they are transaction-like, there has actually been a very steady stream and a very consistent flow for the business over the last several years. So, there’s opportunities to grow from what they've done—group that together, what we call the institutional business. And then, third, there is potential acquisitions of other companies, which is truly the inorganic.

As you can see from the slide deck from July, the company has, by virtue, really that retail and institutional approach grown quite significantly and a very steady pace over time. I think, with the addition of, hopefully, our help in terms of access to capital and investment returns, our expectation is that we can continue to see attractive growth. We're not going to put out a forecast per se, but we're happy to share with you what we're seeing over time. And, as you've noted, we do expect to be larger at closing than we had expected, partially because the organic growth, frankly, has been better than we thought on the retail channel so far, and the blocks are on top of that. But we'll keep you updated along the way.

Jeremy Campbell
Great. Thanks so much.

Scott Nuttall
Thank you.

Operator
Our next question is from Patrick Davitt with Autonomous Research.

Patrick Davitt
Hey. Good morning. You mentioned the Epicor sale, which looks fairly punchy. So, could you just give us an update on kind of the announced pipeline of carry and investment income as it sits right now?

Robert Lewin
Yeah, sure. Hey, Patrick. It’s Rob. And just to clarify, that was—that Craig mentioned was a dividend for Epicor in Q3. The announced sale closed in Q4, which is a good lead-in to your question. So, as it relates to Q4 revenue, as of now, we have more than $250 million of performance and balance sheet revenue that we've got line of sight on. And so, this is from deals that are already closed or have been signed up and we expect to close, as well as from booked incentive fee that have already been crystallized. And so, we're only one month into the quarter. And hopefully, we'll have some things break in our direction, November and December to elevate that number, but our line of sight is about $250, a little bit north of $250 right now, which is similar to where we were at this point last quarter.

Patrick Davitt
Thank you.

Operator
Our next question is from Mike Carrier with Bank of America.

Michael Carrier
Good morning. Thanks for taking the question. Just given the strength in private equity on the performance side, just wanted to get maybe some color on what you're seeing maybe across some of the different industries, regions, because it was obviously pretty broad based. But when we look at obviously the economic activity, it's a pretty kind of stark difference. So, just any color in terms of what the drivers and—is this as broad based as it looks? Thanks.

Craig Larson
Hey, Mike. It’s Craig. Why don't I start, and Scott may add in. I think the answers are really situation specific. So, businesses that are in troubled sectors or have seen real impacts from COVID, obviously you see that. I think on the flip side, we have seen real strength in companies focused in areas that have been given tailwinds from COVID. So, that's ecommerce, gaming, mobile gaming, software, housing related themes, health and wellness, and the like. And I think, given the conviction that we've had around several of those themes, we were better positioned as a result of that. And so, that's really what you see across the performance statistics for the year. And I think it is worth mentioning Asia, again, as part of that, as you know we have a large business in Asia, and our geographic focus again has helped—it helped us learn in the spring, as these economies recovered first. And currently, it should help as most Asian economies haven't seen the recent spike in COVID trends that we've seen across several states in the U.S. and European countries.

Scott Nuttall
Yeah, Mike, the only thing I'd add, just to put some numbers around that—so, just to give you a sense, the—it really is about portfolio construction. And the fact that we've been focused, to Craig's point, on a number of investment themes for the last several years that we think have

long-term durability and that actually the pandemic has probably accelerated the development of those themes. So, big part of the answer to your question, why you're seeing the performance is, we've been meaningfully underweight, the sector's most dramatically impacted. So, if you aggregate hotels and leisure, retail, and energy, it's a sum total of about 8% of our total exposure. Even within real estate, it's a very small piece on the hotel side.

So, we've had very little exposure to the most impacted sectors. And we always can tell from the markets, it's a really bifurcated story. Where we have been more exposed has been tech, media, telecom. To Craig's point, that's been 25% from where we've had our exposure, and then Asia has been about a third of our total PE portfolio, 30% or so. So, the answer really is around portfolio construction and leaning into these themes that we think are really just being accelerated.

Michael Carrier
Got it. Thanks.

Operator
Our next question is from Gerry O'Hara with Jefferies.

Gerry O'Hara
Great. Thanks. My question is sort of around balance sheet and the allocations there. So, clearly that the allocation is certainly set to kind of change with the addition of Global Atlantic. I think in the past, you talked about kind of diversifying the exposure across asset classes. But perhaps you can give us an update on how you're thinking about that post the insurance assets coming into the mix, or if that's even really a focus right now?

Robert Lewin
Hey, Gerry. It's Rob. Thanks for the question. And so, Global Atlantic certainly being the largest single investment on our balance sheet. It's not going to show up in our investment table, per se, since it's really going to be a consolidated operating asset of KKR's like our other operating businesses. In terms of diversification of our balance sheet holdings, you look at the chart in our earnings release, and while it does show about 70% exposure to private equity, inside of that, we've got meaningful exposure to core private equity. It's about 20% of our portfolio, a little bit north of that today and a growing exposureto growth equity. And so, we do certainly want to have a greater exposure to these types of assets on our balance sheet, and I wouldn't expect dramatic changes from here around how we've allocated our balance sheet to-date.

Gerry O'Hara
Great. Thank you.

Robert Lewin
Thank you.

Operator
Our next question is from Chris Kotowski with Oppenheimer.

Chris Kotowski
Yeah, good morning. Thank you. I know these numbers bounce around quite a bit, but normally your realized carry is like four or five times the level of realized balance sheet gains. And this quarter, they were almost equal. And I'm just wondering, is that—did that—I was trying to figure out where that came from, and why that is? And should we expect to see a kind of shift towards more realizations in the coming quarters?

Robert Lewin
Hey, Chris. Thanks for the question. No, I don't think that's a fundamental shift. I think that's just looking one quarter at a time. We had meaningful balance sheet realization through our stake in the Hut Group, and while that was invested across our broader platform, it was certainly weighted towards our balance sheet. And so, I would not expect this to be necessarily a trend on a go forward basis, at least in the near term as our balance sheet continues the evolution into one that is going to be compounding in nature. At some point in time in the future, as we've completed, I would say, that evolution of moving from a balance sheet that is generating cash to one that is compounding over time, that compounded balance sheet will mature to the point where it's generating meaningfully more cash. But that's sort of in the next stage of our growth profile here. For the foreseeable future, I think the expectation would continue to be carried—elevated gains to balance sheet income.

Chris Kotowski
Okay, great.

Craig Larson
Hey Chris, this is Craig, if I may add, it's always felt to me like we have multiple ways to win, and this was a quarter where I think you're right, investment income and balance sheet performance contributed to DE while we still saw significant book value compounding. And capital markets in addition had a very strong quarter. So, it's always—we've talked about how we think the business model is really wonderfully resilient. And I think, this quarter, those items were both great examples.

Chris Kotowski
Yeah. And then, I was also curious if you can discuss it. Just why the odd kind of like two part exit from Epicor with first the dividend recap and then a sale process. Is that tax driven, or—if you are going to sell something, why would one to do a dividend recap immediately in front of that?

Robert Lewin
Chris, it was not tax driven. And without commenting too much on any specific situation, we were able to get something done that drove liquidity back to the firm with a capital structure

that was portable for a new buyer, and it just so happened that we were able to exit it a couple months later on. So, there is nothing that was specifically unusual about that transaction.

Chris Kotowski
Okay. Alright. That's it for me. Thank you.

Robert Lewin
Thank you, Chris.

Operator
Our next question is from Chris Harris with Wells Fargo.

Chris Harris
Thanks a lot, guys. So, with the news out there that Ares is bidding for AMP, I was hoping you could give us your updated thoughts on how you guys are thinking about M&A at this point. Are you open to deals? Are you looking at deals, or is the main focus right now primarily Global Atlantic?

Scott Nuttall
Hey, Chris. It's Scott. Thanks for the question. We do have a lot of work to do on the Global Atlantic front, but the answer to your question is we continue to look for new opportunities. The bar remains very high, but we continue to focus on some of the areas we talked about in the past, growth areas for us like real estate, some of the other kind of adjacent parts of the space around whether it's secondaries or co-invest. And then, over time, you should continue to expect us to be thinking about through and with Global Atlantic whether there's more things to do in insurance. So, we're continuing to look, and we'll keep you posted, but we're definitely still out there.

Operator
Our next question is from Robert Lee with KBW.

Robert Lee
Good morning, everyone. Thanks for taking my questions and your patience. I'm just curious—actually, I had a question on Marshall Wace. I know there is a slide in your Investor deck from September that shows pretty phenomenal growth. Can you maybe just update us on maybe what its contribution was this quarter? And is there still—kind of how you're working with them. And then maybe is there still an opportunity for you to increase your stake in Marshall Wace?

Robert Lewin
Hey, Rob. I'll take the first part of that, and I think Scott's going to take how we're working together. So, our punch line is, the business is performing very well, north of $45 billion of AUM today. We have a 40% share in that, and you're seeing that flow through our financial results in

a couple of ways. Through most of the year, you're seeing it flow through on our pro rata share of management fees. What you'll see—and a little bit of incentive fees along the way. Their performance year end is the end of September. And so, what you'll see in our financials in Q4 is an elevated level of incentive fees, which is our pro rata share of Marshall Wace's incentive fees. And that was in the $250 plus million number that I gave earlier on this call around our pipeline of visibility.

Scott Nuttall
The only thing I would add, Rob, is—and thanks for the comment. I think the Marshall Wace management team has done a fantastic job growing the business, navigating this environment, and continuing to grow the firm. We have continued to work together on a number of different fronts. But it's just been a great partnership, and it's been satisfying in terms of the discussions we have about markets and continue to explore ways to do more strategically together. But it's also been a partnership through which it's had a very nice economic return for the investment that we've made off the balance sheet. In terms of the question about raising the stake, the initial phase of the transaction was for us to invest 24.9% that as scheduled went up to where we are now, which is about 40%. There's no near term plan to change that. That may always change over time.

Robert Lee
Great. And then maybe just a follow-up question. Can't have a conference call without ESG coming up I guess. But thinking about it, you had the announcement today about in India the renewables platform and then you have your impact fund. But just more broadly, how do you think of the firm's positioning to whether it's—or how are you incorporating some of the principles within kind of within your strategies? And on the private investment side, private equity side, do you feel like it's more important or similar to what you're seeing on the public investment side in terms of LPs really focusing on those capabilities and how you're incorporating into your process?

Craig Larson
Hey, Rob. It's Craig. I think there are two things to understand. First, we as a firm have been focused on ESG since 2008. So, at this point, we have over a decade of experience in driving and protecting value through ESG management, and we believe we've established ourselves as a clear leader in these areas. And what it means at this point is, within our firm—look, ESG considerations are integrated within the decision making that's taking place every day within our deal teams and our investment committees on a global basis.

So, these are one off items, one off projects. It's part of the mindset of our teams as we evaluate opportunities and look to execute and create value. And I think the second point is really, as a result of all of this work, we were finding good investment opportunities through the work that everyone was doing, but there were cases when we didn't have a home for these investments. So, you're right. We've created a business around this. That's our impact business.

That's a strategy that's focused on opportunities to generate private equity like returns while driving positive impact at the same time. That's the opportunity.

Though, earlier this year, we held our final close, I think it was February, on our Impact fund, and we're off to a very good start. And I think as it relates to trends and dynamics from a public shareholder standpoint, from an LP standpoint, et cetera, all these considerations and dynamics are only increasing, I think, in importance and increasing in terms of focus from third party constituents consistent with what I expect you're hearing from others.

Robert Lee
Great. Thanks, Craig, and thanks for taking my questions.

Operator
Our next question is from Mike Cyprys with Morgan Stanley.

Mike Cyprys
Hey. Good morning. Thank you for taking the questions. I wanted to follow-up on the strong investment returns that you guys posted today and touched on earlier. I was just hoping you could elaborate a bit more on your views on the investment return outlook on both the existing investments there that are in the ground and also the new capital that you're putting to work today in terms of what sort of returns are you expecting to generate across the different types of strategies that you're managing. And how is the attribution of those returns evolving?

Scott Nuttall
Hey, Mike. It's Scott. Thanks for question. Look, I think the short answer to the first part of the question is that, we continue to see a lot of upside in the portfolio. And as you can tell from the amount of deployment we've had this year $42 billion in total in terms of closed and announced transactions, we've been deploying more capital into those investment themes that we think have a lot of legs. So, the opportunity to continue to generate attractive returns from here, we think, is very attractive.

We believe that it's going to continue to be driven by having the exposures to the parts of the economy globally where we see those long-term trends playing out, and we think our globality is going to help. The fact, to Rob's point, that the deployment has been about a third, a third, a third, U.S., Europe, Asia, we think also will help the returns on a go forward basis. And most investors, I think, look at us and how we're performing relative to the public markets when they look at our private markets returns, and that's—I think our expectation is we can continue to outperform nicely and hopefully meet and beat their hurdles.

And in terms of the go forward opportunity, we continue to stay focused on a number of those themes and continue to involve them all the time. And at kind of the meta level, there's the investment themes, but the other thing we probably should talk about more on these calls is our growing real assets businesses where we are seeing real opportunities to invest in real

assets with yield. And that's part of the reason you're seeing such growth in our infrastructure and real estate businesses in particular.

Mike Cyprys
Great. Thank you.

Scott Nuttall
Thank you.

Operator
Our next question is a follow-up from Patrick Davitt with Autonomous Research.

Patrick Davitt
Hey. Thanks for the follow-up. I have a quick follow-up on the tax question. I think, obviously, as public shareholders the changes— sort of the change in the corporate rate that impacts us. But as you think about a potential change in the capital gains tax rate, would that cause any kind of rethink of how the balance sheet growth strategy works for you kind of internally or not?

Robert Lewin
No change in how we would—short answer, no change in how we'd evaluate opportunities in our balance sheet strategy.

Patrick Davitt
Okay. Thanks.

Operator
And we have a follow-up question for Mike Cyprys with Morgan Stanley.

Mike Cyprys
Thanks for taking the follow-up. I just wanted to ask about the balance sheet, if you guys gave or are able to share with us the amount of capital that was deployed off the balance sheet in the quarter and also how much was monetized from the balance sheet? Thanks.

Robert Lewin
Yeah, sure. No problem. In the quarter, we deployed a little bit more than $800 million of capital to balance sheet, and we realized about $360 million of capital, Mike.

Mike Cyprys
Great. Thanks so much.

Rebert Lewin
Yeah, of course.

Operator
Ladies and gentlemen, we've reached the end of the question-and-answer session. I would like to turn the call back to Craig Larson for closing remarks.

Craig Larson
Just would like to thank everybody for joining us. If you have any follow-ups, we look forward to following up with you directly. Please reach out directly. And thank you once again. Bye, bye.

Operator
Thank you. This concludes today's conference. Thank you for your participation. You may disconnect your lines at this time.

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