KKR & Co.
Q2 2021 Results - Earnings
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Presenters
Craig Larson, Head-Investor Relations
Rob Lewin, Chief Financial Officer
Scott Nuttall, Co-President and Co-Chief Operating Officer

Q&A Participants
Alex Blostein – Goldman Sachs
Glenn Schorr – Evercore ISI
William Katz – Citi
Robert Lee – KBW
Patrick Davitt – Autonomous Research
Chris Kotowski – Oppenheimer
Arnaud Giblat – Exane BNP
Michael Cyprys – Morgan Stanley

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's Second Quarter, 2021, 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 your questions.

If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

I would now like to hand the call over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson
Thank you, operator. Good morning, everyone, and welcome to our Second Quarter 2021 Earnings Call. 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.

The call will contain forward-looking statements, which do not guarantee future events or performance. Please refer to our earnings release, as well as our SEC filings for cautionary factors related to these statements.

Turning to our results. This quarter really was an exceptional quarter with record fundraising, deployment and monetization activity, alongside continued strong investment performance.

Fee-related earnings per share, as well as after tax distributable earnings per share, were both record quarterly figures for us coming in at $0.53 and $1.05, respectively.

Management fees increased over 40% year-over-year to $480 million, helping drive the 68% increase you see in fee related earnings. And our monetization activities drove the after-tax DE figure, which is two and a half times the number we reported in the second quarter of last year.

Our assets under management are now $429 billion, up over 9% from one year ago and up 17%, just since last quarter. This reflects both record fundraising in the quarter, as well as strong portfolio appreciation.

And our book value per share, which is mark-to-market every quarter is now $27.03. Net accrued carry on the balance sheet increased 13% since March 31st, strong growth even after all of Q2's realization activity and net cash and investments totaled $17 per share, compared to $12 one year ago.

So, in terms of today's call, I will kick things off with an overview of our fundraising activity, before turning things over to Rob, to walk through this quarter's results. And Scott will provide a few closing remarks, before we head into Q&A.

So, turning to fundraising. We had an exceptionally strong quarter with $59 billion of new capital raised on an organic basis. To help put this into perspective, this compares to $44 billion of new capital raised for all of 2020, which itself was a record year for KKR.

Differentiated investment performance on behalf of our limited partners, continued scaling across our businesses and creativity and innovation all contributed to the fundraising results you're seeing, which exceeded our expectations.

A few highlights. First, we held initial closes across the next vintages of our North America Private Equity, Global Infrastructure and Core Private Equity strategies, raising over $40 billion, collectively, in the quarter. Let me give a few more details, here.

With the $14.3 billion first close North America XIII is already larger than its predecessor, and together with our Asia and Europe Private Equity funds, total committed capital across our three active PE funds on a global basis now exceeds $35 billion.

In Infra, with just the first close already totaling $14.2 billion, Infrastructure IV is almost twice the size of its predecessor fund and together with the success we've had in Asia Infra and Core Infra over the last 12 months, total AUM across the infrastructure platform now stands at $38 billion and that $38 billion compares to $14.5 billion, a year ago.

And in terms of Core Private Equity, we held the first close on our most recent flagship at $12 billion, including $8 billion of third-party capital. AUM in Core Private Equity is now $28 billion and that $28 billion compares to $12 billion, a year ago.

The second fundraising highlight is the continued progress we've seen in perpetual capital with activity in this quarter across infrastructure, real estate, as well as credit. This quarter, we raised an incremental $5 billion in our open-ended core infrastructure strategy, bringing AUM here to $7 billion.

We launched KREST, a 40 Act vehicle with REIT taxation that's focused on individual investors. In credit, our two publicly traded BDCs, FSK and FSKR, completed their merger to form one of the two largest BDC platforms with $16 billion of AUM. And in July, Global Atlantic announced two reinsurance block transactions. We expect these two transactions to add, approximately, $10.5 billion of perpetual AUM in the third quarter and the pipeline here continues to be strong.

Perpetual capital is now 30% of AUM and inclusive of long dated strategic partnerships and that includes a new multi-asset class partnership we closed this quarter; that figure is 43%. And remember, we have $21 billion of cash and investments on our balance sheet.

The third fundraising highlight is our real estate platform's continued scaling. Focusing first on our opportunistic funds. We held a final close at REPE II our second European fund in the quarter.

At $2.1 billion, REPE II is three times the size of REPE I and with continued fundraising at our third Americas fund, REPA III is now at $3 billion, more than 50% larger than REPA II, and we have yet to hold a final close. With these closes, we are now a clear top five opportunistic real estate manager, when you aggregate our three regional funds.

Looking at the real estate platform more broadly. We now have 10 strategies focused across equity and credit, on a global basis, in a variety of different fund structures, targeting both institutional and retail clients.

Real estate AUM, in total, is now $32 billion, and that $32 billion compares to $11 billion 12 months ago with tremendous room for continued growth.

And finally, as you think about your models and future management fees, we now have $42 billion of committed capital with a weighted average management fee rate of just over 100 basis points that becomes payable when the capital is invested or enters its investment period. Last quarter, that amount was a little over $20 billion.

So, all in all, we had an excellent quarter and importantly, as we look forward over the next 12 months, we continue to have a robust fundraising pipeline across strategies as well as across geographies.

So, with that, let me turn it over to Rob.

Rob Lewin
Thanks a lot, Craig. I'll start off with our segment financial results for the quarter. Management fees came in at $480 million. That's up 9% from Q1 and up over 40% from this time last year.

The investment periods for Americas VIII and Infra IV both commenced in the quarter. So, you saw partial quarter's impact from these funds.

Health Care Growth II and European real estate were also additive to management fees in the quarter. Our capital markets business had an excellent quarter with $219 million in fees. Transaction activity here was really diversified. We actually only had one fee event that was larger than $20 million, and 50% of our revenues came from activity outside of the U.S.

It was also a strong quarter for our third-party capital markets business with $61 million of revenues. We continue to get really good traction in this part of our business.

Fee related compensation came in at $170 million, a 22.5% compensation ratio. And our Other Operating Expenses were $115 million, modestly elevated with almost $20 million of placement fees recognized this quarter, given all of our fundraising activities.

All of this brings us to record fee related earnings of $470 million, or $0.53 per share, for the quarter. That is up 68% year-over-year, and also represents a 62% margin.

Turning to realizations, carried interest came in at just over $600 million, while realized investment income was approximately $370 million, bringing total realization activity to just under $1 billion for the quarter. Realizations spanned multiple funds, products and geographies. The diversification of our model really contributes to this broad based performance.

In terms of our expenses, realized performance comp was $413 million and realized investment comp was $55 million. And on a year-to-date basis, our total compensation margin within our asset management segment, including equity-based comp, is currently 36%.

Moving on to our insurance segment, this quarter was the first full quarter of operating earnings from Global Atlantic, which totaled $128 million, largely driven by strong core operating performance, as well as the sale of a strategic equity investment that helped bolster net investment income, by $47 million.

ROE for the quarter was 17% or 14% excluding this variable investment income. Putting it all together, our after-tax distributable earnings came in at $926 million, or $1.05 per share.

On a year-to-date basis, our after-tax DE is $1.80 per share. These results are up 143% and 98% from the same time last year, really highlighting the momentum that we are seeing across the firm today.

Our book value per share came in at $27.03, this quarter. The embedded gains in our balance sheet are currently $6.6 billion, as of June 30th, which is up, approximately, $1 billion from Q1 and up over $5 billion from the same point last year, despite our high levels of realization activity over the corresponding periods. And our net cash and investments per share increased 12% from March 31st to $17 per share.

Turning to our investment performance, which continues to be a real differentiator for us. We saw strong results again this quarter. Our PE portfolio appreciated 9%, while our mature flagships appreciated 13%. Real estate continued to show strength, increasing by 10% for the quarter.

Our infrastructure business was relatively flat for the quarter but continues to perform well, overall, up 21% over the last 12 months. And our credit funds are, similarly, performing well. Leveraged credit and alternative credit were up 2% and 6% in the quarter, respectively.

Shifting to deployment, we had an extremely active quarter with total capital invested of, approximately, $19 billion. In private markets, deployment was diversified with $7 billion invested quite equally across private equity, infrastructure and real estate, with the remaining billion in growth and core strategies.

And in public markets, we deployed over $10 billion across our private credit, dislocation and direct lending strategies. Despite this record level of deployment, dry powder now stands at $112 billion, which is up 63% from last quarter.

And before I hand it off to Scott, I wanted to spend just a minute on our fundraising in Q2. While Craig mentioned that this is a record quarter for us, I think just as important is the quality of the capital that we raised.

To give you a few stats, 98% of the capital we raised in Q2 has a contractual life of over eight years. Once turned on, the fee paying capital has a blended fee rate of just under 100 basis points. And finally, 88% of the capital is either carry or incentive fee eligible.

So what we have accomplished over the last few months is going to have a very meaningful impact on our financial results, for several years to come.

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

Scott Nuttall
Thank you, Rob, and thank you, everyone, for joining our call. As Rob and Craig just explained, we had an exceptional quarter. Investment performance and capital raising are at record levels and broad based across strategies and geographies.

Capital Markets had its second-best quarter ever, with significant activity across KKR and in third-party business.

On the insurance front, the Global Atlantic integration is proceeding well. And we continue to win new blocks alongside organic growth.

And on top of all of this, we continue to launch new efforts and expand our product offerings, including in the retail market, providing even greater growth opportunities down the road.

This quarter shows in outcomes what we discussed at our April Investor Day. We are at an inflection point in a number of our businesses and see multiple ways for the firm to continue to grow AUM, revenues and profits. Let me highlight two examples from this quarter.

First, we raised $8 billion of third-party capital for Core PE, bringing AUM in that strategy to $28 billion. As a reminder, this business was created less than five years ago.

And second, we've raised $7 billion for Core Infrastructure, a strategy that was launched less than a year ago. We are off to a great start here and on our way to being a market leader in this large and growing space.

These are just two examples of how we are innovating and creating adjacent strategies to further scale our businesses in a highly efficient fashion. So, there's a lot of good to talk about this quarter.

Within all the good, we are particularly proud of our investment performance. Our flagship private equity funds are up 86% over the last 12 months. Real assets are up 21%, and alternative credit is up 30%.

The combination of this broad-based and strong investment performance, a growing client base across channels and multiple maturing businesses, plus the launching of new strategies and raising more permanent capital and Global Atlantic and capital markets scaling significantly is incredibly powerful. You saw this power in our Q2 results.

The firm is executing at a high level, and we have a lot of road ahead of us.

With that, we're happy to take your questions.

Operator
Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. If you would like to ask a question, you may press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" 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 start key.

We ask that you limit yourself to one question, so we may get to everyone's questions.

Our first question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Great. Good morning. Thanks everybody, for taking the question. So, maybe starting with a bit of an obvious of fundraising and a management fee question here, clearly very impressive start to the fundraising cycle, as you mentioned with $59 billion in the second quarter, and really, I guess more than halfway to your 2021-2022 investor day targets.

So, it's helping with so much momentum in the business. Can you give us an update on how much larger you expect the flagship fundraises to be, relative to the first close figures that you mentioned and how should we, ultimately, think about the $100 billion plus target from here and really maybe trying to break down the plus a little bit more. Thanks.

Rob Lewin
Good morning, Alex. It's Rob. Thanks for the question. We can't get into fundraising sizes due to private placement rules but let me just spend a minute on your question as it relates to how we're thinking about fundraising.

Maybe take a step back, and as a reminder, in February of this past year, we had introduced FRE per share guidance. We said, at the time, that we saw a clear path to comfortably exceeding $2 per share of FRE next year.

Now at our Investor Day in April, you referenced $100 plus billion figure. We thought it would be helpful for our investors to understand some of the building blocks behind that FRE growth.

So, we noted that we expected to raise north of $100 billion of capital, over the next couple of years.

Part of the reason why we decided to give that statistic was that 2020 in itself was a record fundraising year at $44 billion. And so, what we wanted to ensure people took away is that we didn't think that that was a peak result for us.

As it relates to this quarter, the fundraising that we announced exceeded our expectations and what we saw, this quarter, was more than just the pulling forward, I think, of fundraising I expect in our future quarters. Across several strategies, we really have exceeded the expectations that we set for ourselves at the beginning of the year.

So, I think it is fair to say that we feel a lot better about our outlook for new capital raised over the next couple of years. And that we'll be, certainly, north of that $100 billion plus number that we put out there, a couple of months ago.

And I also think it's fair to say that we feel even better about achieving or exceeding the FRE targets that we put out at the beginning of this year, given all of the momentum that we have across our business, today.

Operator
Our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed with your question.

Glenn Schorr
Hi, thanks very much. I'm curious with all the growth across both core PE and Core Infra that you just noted. I wonder what you could tell us about the LP base and how much overlap there is with your opportunistic funds, meaning are the same clients that buy into the opportunistic funds buying into Core PE, or is this an expanding client base?

Craig Larson
Hey Glenn, it's Craig, why don't I start on that? And I think you're right. It is interesting on the topic of Core more broadly. When you look at Core PE, Core infra, Core Real Estate, we now have around $37 billion of AUM across these strategies, and we're seeing real interest, longer dated, lower risk reward profile compared to opportunistic and, importantly, those that have a yield that's attached.

So, we think the end markets are massive, really are for these core strategies huge opportunity for us, really pleased with the first steps that you've seen. I think in terms of those first steps, we have seen the bigger investors who I'd say- sovereign wealth funds, pension plans, insurance companies- they've been particularly active, as the long-dated nature of the investments in these strategies is in line with their long-dated liabilities.

And I think, importantly, on the last part of your question, they view these strategies as a complement to the regular way opportunistic strategies and not in lieu of these strategies. And I think in the long-term, or I should not even say the long-term, look, you should expect us to explore the best ways for us to package and bring these types of products also to the retail market, as again, the end markets here are massive.

Scott Nuttall
I think, the only thing I'd add, Glenn--it's Scott--is if you look at by dollars into your question, there is not that much overlap between core and our opportunistic vehicles. There's some, but we're finding that these strategies are allowing us to expand our investor base.

Operator
Our next question comes from the line of William Katz with Citi. Please proceed with your question.

William Katz
Okay. Thank you very much. Yeah, so I'll try to squeeze a two-part question in, so I'm sorry to cheat the rules a little bit. First, just sort of tying back to the FRE discussion? You've also sort of laid out that you felt like you could get the $4 to $5 of DE somewhere between '23 and '24.

Obviously, if you analyze this quarter, you're already there. So, just sort of question, how to think about that from here. And then secondly, a broader question for you, it seems like there is a very fast land grab going on in the retail channel. You seem to have terrific momentum.

Is there any risk of or opportunity here where scale will win out quicker, such that if I'm a retail distributor they may only be willing to work with five or 10 players, including KKR and so, the branded players? So, wondering how the dialogue's going on that score. Thank you.

Rob Lewin
Hey Bill, it's Rob, I'll take the first part of the question around the DE guidance that we put out a couple of months ago. So, we don't have any updated guidance for this call and, obviously, we'll consider providing updated guidance in the future, but not for today. I would say that I think it's very fair to acknowledge that we are ahead of where we thought we would be.

We are well ahead of expectation, across most of our fundraising activity. The assets that we manage on behalf of Global Atlantic are ahead of expectations. The momentum in our capital markets business is really good right now, maybe as good as it's ever been.

And we've got a lot of momentum, across our performance, which has generated a lot of embedded gains that sit across our carried interest and our balance sheet.

And so, we feel really good about the potential to drive meaningful additional revenue growth from here, as well as profitability growth.

The one other thing I would say, Bill, which is tangential, I suppose to your question that we often get is where we are from a monetization perspective in Q3. We already have really good visibility here into meaningful revenue and monetization activity.

As of right now, we have line of sight of, approximately, $650 plus million of performance and investment income. As a reminder, this is from deals that are already closed or have been signed up and we expect to close in the third quarter.

In terms of the split, which I know is important from a comp ratio perspective, probably around 50% carry right now, and 50% weighted towards investment income. The last thing I'd say here is that I'd underscore that all of these are really approximations, at this stage. But this is our best view, right now, from all the identified deal activity we expect to close in the upcoming quarter.

Scott Nuttall
And Bill, the second part of your question on the retail channel, look, we're really encouraged. We've been investing, aggressively, in that space, and we've doubled the size of the team in the last 12 months. And we're continuing to invest in that build-out.

Part of the reason we're encouraged is even as we're doing that build out in the U.S., we're also investing to build out Europe and Asia, and we're seeing significant engagement across private wealth and retail. We're already at kind of mid-teens percentage of our fundraising coming from that channel.

So, as an example, in the second quarter, about 14% of the money we raised was actually from retail, and we don't think we're anywhere near our potential, yet. So, there's a lot of opportunity ahead of us.

In terms of the question about land grab, we're finding that we have an engaged set of partners, as we continue to build out distribution in this space. We're already on a number of platforms, adding products to those, and then developing new relationships, all around the world.

So, we haven't run into any resistance. If anything, we're finding a significant and growing interest in all things alternatives and a lot of interest in the registered funds, in particular.

Operator
Our next question comes from the line of Robert Lee with KBW. Please proceed with your question.

Robert Lee

Great. Good morning. Thanks for taking my question. I'm just curious, with fundraising going so well ahead of target and fund size is increasing substantially, maybe even more than you originally anticipated, how is this changing your commitments to the funds?

I mean, are you reducing, meaningfully, how much you're committing in order to maintain capacity for third-party investors? I mean, how has is kind of shaping how you think of your own capital commitments?

Rob Lewin
We're obviously very meaningful investors in our funds. We like that. We like that positioning on our balance sheet. But when you look at our balance sheet capital relative to our fund capital, it's a fairly small percentage.

And so, it really doesn't eat into capacity, and it hasn't impacted in material way how we thought about committing capital to our strategies, Rob. It's a good question, but that is--but that's, we do separate out those two things.

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

Patrick Davitt
Hey guys. Good morning. So you mentioned capital markets didn't really have any of the chunky kind of numbers we're used to seeing at a little over $200 million, a quarter.

So, if we assume, deal activity remains this high, I think you do have a couple of those chunky ones coming through in the second half that this kind of $200 million plus is kind of a pretty good run rate, assuming activity levels stay this high.

Rob Lewin
Hey, Patrick, it's Rob. So, the way we think about our capital markets business really isn't quarter-to-quarter.

I think you've heard from us quite a bit, especially more recently, that we see a lot of growth in that business, both secularly and then ability for us to be able to take market share on a global basis. We really think about that from an annual perspective and over a multi-year period of time.

But I think as you look at the first half of 2021, roughly $330 million of fees, I think our LTM is about $680 million in our capital markets business.

With a healthy amount of deal activity around the world, we think those are the types of numbers that, hopefully, should be achievable for us and, off that base, our expectation is, over the next number of years, is we should really be able to scale that business going forward.

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

Chris Kotowski
Yeah, good morning. Thanks for taking my question. You flagged the north--the three funds, North America XIII, Global Infra IV, and Health Care II, as having been turned on in the quarter.

And I wanted to know if you could talk about how much of an impact that had on base management fees? And I guess I'm also--the second part of it is a little--I'm surprised that you would have turned the funds on so early in that like Americas XII and Infra III both still have around like $4 billion of uncalled commitments in them. So, I wonder if you can flesh all those things out a bit.

Rob Lewin
Yeah, Chris, it's Rob. So, a couple of things on--when you look at our investment vehicles summary, I guess you're looking at Pages 20 and 21 of our earnings release. The uncalled commitments there represent what's uncalled from the fund. What they exclude is the amount of committed capital that we have to different strategies there that has not been called yet, as well as reserves in those funds.

And so, as an example, our Americas XII fund on an adjusted basis would be closer to $1.3 billion. And so, I think that would be much more in line with how you would think about when to turn on that fund.

And as it relates to your--the first part of your question on management fees, you're right. Those funds turned on, I think about two-thirds of the way, the big ones, through the quarter. And so, we'd expect a little bit of an additional ramp up in Q3, as those funds get going and we turn to post-investment period on the predecessor funds, as they run off.

I think a management fee number there, that could be in the range of $40 plus million for the third-quarter more of on a run rate basis, I think is something that would be an approximation that I think would be a reasonable one, at this stage.

Operator
As a reminder, it is "*", "1" to ask a question. Our next question comes from the line of Arnaud Giblat with Exane BNP. Please proceed with your question.

Arnaud Giblat

Yeah, good morning. Thanks for taking my question. I was wondering if you could give us an update on how you view opportunities to deploy capital, specifically, what target returns are being discussed with investors. Have these been--are these the same targeted returns that you used to have, or have they been scaled back, given current market levels?

Craig Larson
Sure. Arnaud, it's Craig, why don't I start, I'll let Scott give an update in terms of overall target returns. And I'm glad you asked about deployment because, honestly, given all we've had to go through today, we probably haven't talked about deployment in as much detail as we should.

I think the main takeaway is we're continuing to deploy actively. So, in terms of private markets first we've continued to invest meaningfully. First half deployment was a little over $12 billion, LTM deployments a little over $24. So, again, that pace has been very healthy and what you're really seeing there is diversification.

So, Rob mentioned this in our prepared remarks, deployment in Q2 was between $2.3 billion and $2.5 billion, individually, across all the private equity, infrastructure and real estate.

So, we've had a really nice balance with the growth strategies and core making up that incremental piece.

I think in terms of themes, you're seeing investments in really good companies with strong growth prospects. And I think overall at the moment, there's probably more dislocation in Asia, that's leading to better opportunities for us in that region.

And in public markets, what you're really seeing is, is the growth in the overall footprint of the firm. So,AUM in our credit business has increased from a little over $70 billion a year ago to $170 billion, as of June 30th. So, you're seeing a meaningful increase in deployment in public markets, just recognizing just again, the dramatic increase in the footprint of the firm.

So, in terms of the $10 billion this quarter, again, that was pretty actively--that was actively deployed across a number of strategies, direct lending, opportunistic credit, asset-based finance, etc.

Scott Nuttall
Yeah, and Arnaud your question around targeted returns. The short answer is, there hasn't really been any change in how we think about it. And we talked about this a bit on prior calls. But one of the things we've been very focused on over the last several years is having the firm get behind some themes that we think will benefit, over the next several years.

And frankly, some of those themes have been accelerated by virtue of what we all just are going through with COVID. So, in private equity, if you look at where our deployment has been, as an example, a lot of deployment in digital and technology, areas like health and wellness, cyber security, nesting and series of themes like those. Infrastructure, again, fiber and telecom would be a couple of themes we've been investing behind and renewables in real estate, industrial properties, multifamily and credit, asset-based finance, as the banks have pulled back, and housing.

And then, Global Atlantic is obviously a very big investment behind the thematic of savings, tax deferral, the aging population and people looking to manage their own retirement wealth. And so, what we're finding is if you get behind these big themes, there's a big opportunity to generate outsized returns.

And there's a lot of dispersion in the market. There's going to be some of these areas and themes that we think will be big winners. We're getting behind those.

And I think part of the reason you've seen our returns be so strong is we've, in effect, been overweight a lot of those sectors that are benefiting in those themes that are working and underweight others. So, we think by continuing to pursue that effort, we've got an opportunity to continue to generate outsize returns and our targets haven't really changed.

Operator
Our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Hey, good morning. Thanks for taking the question. Wanted to circle back to Core PE and Core infrastructure. I appreciate those are longer dated strategies with lower return targets. I would just hope that you can elaborate a bit on the platform that you've built out there, the investment strategy, more broadly.

What sort of deals can make sense and maybe can remind us how the economics work for KKR? And what's your sense on the timeframe for putting all that capital to work?

Craig Larson
So, Mike, it's Craig, why don't I start there? And infrastructure is an interesting place to begin. So, at our Investor Day, we walked through infrastructure really as a case study, in terms of how we look to build an investment platform. And so, that begins with strong performance of flagship strategies.

And then you can--there's a focus on scaling those flagships and innovating and that innovation can happen, geographically. So, you've seen that with Asia Infra, and can also come through adjacent strategies and you've seen that through Core.

And so, that's really where we are, today.

We have a built out Infra franchise with three distinct market segments: our Global Infra Fund Series, Asia Infra Fund series and Diversified Core. And in terms of Core and the focus on those investments, Core Infra is really targeting more mature cash generative assets with a focus on long-term predictable cash flows.

So, we're looking for simplicity and low execution risk all in that open-ended perpetual vehicle. And so, our focus here is we want to buy simplicity and hold simplicity. That's really the focus. In terms of Core private equity, that's really an example of innovation where we can't find a home for great investment opportunities.

And so, this again is a long duration strategy where we expect to hold investments and compound value for 10 to 15 years. But as you noted again, the risk reward is different than our opportunistic PE funds. We're looking for mid-teens IRR businesses with less disruption risk, very good cash flows, often consolidation opportunities in fragmented sectors.

Again, we've been at this business longer at this point. We have what you think is a really incredible portfolio of companies. The gross IRR here to-date, since inception, is 27%.

And I think there's a final point as it relates to Core and the business model because given the participation on our balance sheet, Core PE has really contributed to the compounding of our book value.

So, when you look at the Core line on Page 14 of our press release, you see $4.2 billion of fair value as part of the $17.5 billion of investments. That $4.2 billion has just under $2 billion of cost associated with it.

So, we have over $2 billion of embedded gains on our balance sheet. So, with shareholders we're participating in the economics from the third-party capital management fees and carry with performance over time. But in addition, that compounding aspect is an additional powerful way that we also can participate in the success here.

Scott Nuttall
Hey, Michael, it's Scott. Just a couple of things I'd add. One, it's important to understand, this is deal flow we were already seeing. So, to Craig's point, think lower risk, longer duration opportunities that we really like the risk reward, but did not fit into opportunistic vehicles but were investments we liked, nonetheless.

We now have homes for those investments. We did not before. And because of the fact that this was deal flow we were already seeing it was being sourced by our existing teams, we have not had to build new teams to actually prosecute these strategies.

So, the existing teams are actually just sourcing these investments. If they don't fit in the opportunistic fund, then they can be considered for Core. And so, it's been a highly profitable, incremental source of AUM and fees for us. And it's something that we're really monetizing deal flow that was already here.

And in terms of the deployment period, we have been very actively deploying that. I think our expectation is for Core PE that'll probably get deployed over a three to five-year period. And for Core Infrastructure with this first pool of capital we're operating at a current run rate that would be faster than that.

And we'll continue to add capital to that strategy as well, over time. Rob, why don't you pick up on economics?

Rob Lewin
Yeah, Mike, so the management fees on both these products get paid when the capital is invested. And so this capital is largely in AUM, right now, and over time, will gravitate towards fee paying AUM and the capital across both these strategies are carry and incentive fee eligible.

And so, we think will be a contributor to performance revenue, over the long-term.

Craig Larson
And Mike, it's Craig. One final point is kind of an interesting statistic, and this actually ties into Glenn's question earlier. But it's interesting when you look at Core Infra of the $7 billion of capital that's been raised, over 40% of the commitments have come from LPs that are new to KKR.

So, in terms of how these strategies are helping us really broaden the LP base again, it's an interesting statistic.

Operator
Our next question comes from the line of Robert Lee with KBW. Please proceed with your question.

Robert Lee
Thanks for taking my follow-up. I guess, just on Global Atlantic, is it possible to just get a number one, a sense of what their kind of regular flow is? Like, if we think about it outside of reinsurance transactions, what you're seeing is kind of quarter-to-quarter regular flow, if they don't do a transaction.

And then maybe just update us on the amount of capital that they've got available, once they get through the $10 billion of deals closing this quarter.

Scott Nuttall

Great Rob, I'll take that, it's Scott. Look, in terms of the way to think about it, organic away from block activity, a couple of things I'd point to. One, remember they have a significant distribution presence and are raising money in the individual sector.

And so, if you want to think about that as $8 billion to $10 billion of annual flow, give or take, that's kind of a good starting number to work with. But on the institutional side, I know the block activity is the stuff that gets the press release and gets more and more focus and attention. There's also a number of other things that we do there.

We have flow reinsurance arrangements with a number of different counterparties. There's pension risk transfer activity, which is incredibly active and it's getting more active, especially this year. We're also active in the funding agreement markets.

So, there's a lot of ways to grow on the institutional side, as well, that is significant. And those are also billion dollar plus opportunities, individually. And so, we see that as another way to grow.

So, in terms of the answer to the question, you could think $8 billion to $10 billion plus several billion on top of that from more of the kind of flow related institutional business away from blocks.

And in terms of the capital available question, as a reminder, when we actually closed the transaction earlier this year, we raised an incremental $250 million with primary capital and there is runoff in this business, as well.

So, we're generating new capital by virtue of our earnings. We're freeing up capital with some of the runoff, and we're replacing that with all the aforementioned, plus all the block activity. And if the company needs more capital, we're highly confident we'll be able to access it.

Operator
Our next question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Hey guys, thanks for taking the follow-up question, here. I had another sort of question around retail and, specifically, related to KREST. It looks like AUM there is approaching about $700 million, not huge in a context obviously of KKR as a whole, but it's an important driver, potentially, as you think about the affluent and the mass affluent part of the retail market.

So, can you maybe walk us through your sort of distributions for KREST, specifically, how many platforms and sort of the type of platforms that are contributing to flows here, just thinking through kind of wirehouses, independent broker dealers, etc.

And really trying to understand any distinct advantages of having something like this in a 40 Act wrapper that sort of really resonates with distribution partners.

And I guess, lastly, here I think Craig, you mentioned that there might be other opportunities to bring additional retail product to market, maybe in Core securities, so curious if we can get some early kind of thoughts on that. Thanks.

Craig Larson
Alex, why don't I begin? So, just for those of you less familiar, KREST is an acronym for KKR Real Estate Select Trust. It's a continuously offered registered closed-end fund with REIT taxation that was created for individual investors. And it does--it features daily pricing and subscriptions via a ticker. So, we're at the very beginning of KREST's evolution, which is exciting for us.

We began raising capital on two platforms only in June and, over time, we do expect to see an expansion across many platforms, globally.

So, Alex, we don't have a whole ton of details. I think the main takeaways for you are really threefold. One, the size of the end markets here are massive; two, it's a big opportunity for us; and three, we're really pleased with our first steps.

And we'll keep you abreast, as we move forward from here both, as it relates to this, in addition to as other products and strategies are launched again, through those products tailored towards the--towards the retail market.

Operator
Our next question comes from the line of William Katz with Citi. Please proceed with your question.

William Katz
Okay. Thanks also for taking the extra questions. So, a two-parter again, maybe one for Rob. As you think about the FRE margin, 62% this quarter, and it was weighed down a little bit by placement fees, obviously, turning on some of the bigger funds.

Where do we go from here? And then maybe stepping back, given what seems to be a step function of earnings power, any thoughts on dividend policy? Thank you.

Rob Lewin
Yeah, sure, Bill. Thanks for the question. And so, we've signaled in the past that we expect to continue to make some near-term investments here across distribution and technology. But even with those investments, we do see a medium opportunity to drive scale efficiencies in our operating expenses.

And we think that's going to yield margin expansion, over time. We've been operating, generally, in the low 60s. We do see a pathway, over time, to take that up to the mid-60s. But we're going to work through some of that additional investment over the near-term that we've flagged that we think is going to pay dividends for us in the long-term.

And then your question as it relates to dividend policy, nothing's changed, as it relates to how we think about returning capital to shareholders. Our policy and how we think about that has been consistent for a number of years, now. We would expect it to continue to be consistent just to say, we'll evaluate it, annually.

We'll do that at the beginning of the year, like we have done in past years. And our expectation as we have done in past years is that we're going to look to modestly increase our dividend on an annual basis. So, that should be the expectation, going forward.

Operator
Our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Thanks for taking the follow-up, here. More of a follow-up question, I guess, for Rob, if you could just maybe help us out with the deployment and realizations off the balance sheet in the quarter, please? Thanks.

Rob Lewin
Sure. The deployment was $800 million off the balance sheet in the quarter, and the realizations were just about that at $900 million. On a LTM basis, those numbers, Mike, are $3.1 of deployment and $2.6 of realization.

Operator
This concludes our question-and-answer session. I'd like to hand it back to Mr. Larson for closing remarks.

Craig Larsen
Thank you, everybody, for your time this morning. We look forward to chatting with you, again, after next quarter's results. Anything in the interim, please, of course, feel free to reach out, directly. Thank you, once again.

Operator
Ladies and gentlemen, you may disconnect your lines at this time. The conference has concluded. Thank you for your participation and enjoy the rest of your day.