KKR & Co. Inc.
Q3 2021 Earnings Call
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<u>Presenters</u>
Scott Nuttall, Co-Chief Executive Officer
Robert Lewin, Chief Financial Officer
Craig Larson, Head of Investor Relations

<u>Q&A Participants</u>
Alexander Blostein - Goldman Sachs Group
William Katz - Citigroup
Glenn Schorr - Evercore ISI
Robert Lee - KBW
Brian Bedell - Deutsche Bank
Gerald O'Hara - Jefferies
Brian Mckenna - JMP Securities
Michael Cyprys - Morgan Stanley

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's Third Quarter 2021 Earnings Conference Call. During today’s presentation, all parties will be in 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 “*”, “0” from your telephone keypad. Please note, this conference is being recorded.

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. Good morning, everyone. Welcome to our third quarter 2021 earnings call. I'm joined this morning by Scott Nuttall, our co-CEO 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. And as a reminder, we report our segment numbers on an adjusted share basis.

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

Now, turning to our results. We're pleased to be reporting another very strong quarter with fee related earnings per share of $0.60 and after-tax distributable earnings of $1.05, per share. Both of these figures are as high as we've ever reported.

Building on the success we've had in fundraising, management fees increased 16% from just last quarter, and management fees are up over 50%, since the third quarter of 2020 to $559 million.

This growth is the key driver behind the 60% increase in our fee related earnings per share that you see on a year-over-year basis. Book value per share for the quarter came in at $28.06, up 38% from one year ago.

And turning to fundraising. We continue to have a great deal of momentum. New capital raised in the quarter totaled $28 billion, organically, bringing the year-to-date figure to $102 billion. Last year, in 2020, for the full year, we raised $44 billion, and that was a record year for KKR.

So, over the first nine months of 2021, we've raised over 2x what we raised for all of last year, and that's with an active pipeline of fundraising initiatives, as we look forward.

Focusing on the $28 billion raised in the third quarter, we'd highlight two things. First, in private markets, 40% of the capital raised in the quarter came from our real estate business. We held the final close of our Americas real estate fund.

REPA III is more than two times larger than its predecessor, and total AUM across the real estate platform now totals $36 billion. And Global Atlantic was particularly active with block activity helping add $14 million of new capital, largely in public markets.

And alongside all of this fundraising, we're finding interesting opportunities to invest. We deployed a record $15 billion into private market strategies in the quarter, as well as $10 billion in public markets. This brings our total deployment for the quarter to a record $24 billion and on a year-to-date basis, to $50 billion.

One of the key drivers here is the continued scaling of our infrastructure and real estate platforms. Year-to-date, Real Assets deployment is a little more than half of total deployment in Private Markets. If we look back in 2020, Real Assets comprised 25% of Private Markets deployment.

So, as Real Assets deployment is scaling, Private Markets deployment is increasing, and it’s becoming more diversified.

In public markets, the scale of our credit platform grew, meaningfully, before the Global Atlantic acquisition, and that growth has continued after GA. So similarly, you're seeing a step-up in deployment here with the increase driven by both direct corporate origination, as well as in asset-based finance.

To give you a sense, last year, total private and opportunistic credit deployment was a little over $10 billion. Through the first nine months of 2021, that has increased to $23 billion. So, deployment has more than doubled, and we're only nine months into the year.

Now, I'll turn the call over to Rob to walk you through some additional details. Rob.

Robert Lewin
Thanks a lot, Craig. Just as we continue to see strength in the fundraising and deployment front, our funds continue to generate really strong relative investment performance. Our flagship private equity funds increased by 11% in the quarter and 79% over the LTM period, while the entire PE portfolio appreciated 9% and 52%, respectively.

In real assets, our opportunistic real estate state funds increased by 14% in the quarter and 29%, over the LTM. Infrastructure continues to perform really well, up 4% in the quarter and 19%, over the last 12 months.

And on the public markets side, our leveraged and alternative credit funds increased by 1% and 2% in the quarter, respectively, with continued performance over the LTM, up 11% and 26%.

The combination of strong investment performance, as well as the capital raising that Craig just went through, has yielded a really robust acceleration of our AUM, which now totals $459 billion, and our fee paying AUM is $349 billion. That's up 7% and 9%, respectively, versus just last quarter.

When comparing our AUM and fee paying AUM relative to this time last year, they're both up close to 100%. And importantly, much of this AUM is now either perpetual capital or in long-dated partnerships. Just nine months ago, this number was $55 billion. It's now $205 billion out of our almost $460 billion of AUM.

You can see this growth and the transformational change in the composition of our AUM on Page 16 of the earnings release.

And finally, as it relates to our capital base, we currently have $38 billion of committed capital that comes online and becomes fee paying at a weighted average rate of over 100 basis points when the capital is either invested or enters its investment period.

Now turning to our quarterly P&L. Our management fees increased over 50% this quarter versus the same time last year. As we signaled on last quarter's call, management fee growth was driven by a combination of new capital raised and various newer funds hitting their run rate.

Net transaction and monitoring fees were primarily driven by our capital markets franchise, which saw continued strength this quarter and were up 24% versus the same quarter in 2020.

And over the last 12 months, our capital markets transaction fees have totaled $720 million, which is 42% higher than the average, during the 2018 to 2020 time period.

The growth in the platform is stemming from many of the expansion areas that we touched on at our April Investor Day, including our build-out of real asset, core PE and third-party coverage, which have all generated meaningful market share gains.

We remain really constructive around the future growth of this business. This all brings us to fee-related earnings of $530 million for the quarter, which is up 63% versus Q3 2020. On a per-share basis, our FRE is $2.02, over the last 12 months.

Moving on to realizations. Realized performance income came in at $433 million for the quarter, driven by exits in Bountiful, Ingersoll Rand and Academy. Realized investment income totaled $448 million for the quarter driven by additional exits in Mr. Cooper and Flutter.

Even with these very strong monetization figures, we have still seen healthy gains in both our unrealized carried interest and the embedded gains from our balance sheet investments. Gross unrealized carried interest increased to $8.5 billion, while our embedded gains on investments increased to $7.1 billion.

That's almost $16 billion of embedded revenue, which has grown over 70%, since the start of the year, and that's all happened while we've been generating record levels of realizations.

Coming back to our P&L. Our asset management operating earnings were a bit north of $1 billion for the quarter, which is up 80% from the same quarter last year. And our insurance segment operating earnings totaled $115 million, largely driven by strong core operating performance at Global Atlantic, together with the sale of two strategic investments that helped bolster net investment income.

In total, our after-tax distributable earnings, per share, came in at $1.05 for the quarter and $3.47 for the LTM period. Both numbers up 100% and 79%, respectively, versus the prior period.

Turning to our balance sheet. Book Value per Share came in at $28.06, which was up 38% year-over-year, driven primarily by strong investment performance. It's worth noting that our result for this quarter includes an $0.80 increase to our deferred tax liability associated with the corporate reorganization that we announced last month and that we expect to close next year.

In summary, we are really doing all the things that matter most for our business to perform at a high level and to ensure that we're set up well for the future. We keep coming back to these five things and really do believe we are optimizing for outcomes, across the board.

Number one, we are sourcing unique investment opportunities in which to put our capital to work. Our year-to-date deployment is up 2.5x.

Our investment performance has been exceptionally strong, both on an absolute basis and relative to many of our peers.

Because of this performance, our monetization opportunities have been abundant, and we have delivered substantial distributions to our clients and record levels of monetizations for our shareholders.

And these first three points all enable us to have the fundraising successes we have achieved- $100-plus billion of year-to-date flows is the proof point, and this sets us up incredibly well for the future.

And finally, we have conviction that our business model allows us to generate greater financial outcomes. And I think you're clearly seeing that flow through our P&L.

We have also talked on these calls and on Investor Days about inflection points. Our overall business has seen a fundamental shift, an inflection point, in its operating level.

Beyond our distributable earnings being up approximately 2x since this time last year, all of our forward indicators are in the best shape they've ever been in. AUM is up 2x. Year-to-date fundraising is up 3x, and the embedded gains in our balance sheet have increased by approximately 300%, in just the last year.

We really couldn't be any more excited about the future.

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

Scott Nuttall
Thank you, Rob, and thank you, everyone, for joining our call, today. Craig and Rob did a nice job walking through our numbers, which were strong again this quarter.

So I'm going to spend my time on a few strategic areas of focus and give you our sense for how we're progressing.

The first is perpetual and long-dated strategic capital. As you know, we are big believers in the power of compounding in all aspects of our business, including AUM. The more capital we can attract that is perpetual or recycles, the faster we expect our AUM will scale and compound, over the long term.

A year ago, perpetual and strategic capital was $49 billion, 21% of our total AUM. Today, that number is $205 billion, or 45%. $49 billion to $205 billion in one year. So, we've seen over a 4x increase in 12 months, and we are nowhere near done. We have a lot of new ideas and efforts to generate even more perpetual capital going forward.

The second big strategic focus area is insurance. As you know, Global Atlantic advances, materially, in this area. GA assets have grown from $75 billion a year ago to $120 billion at the end of Q3, a 60% increase.

In addition, we have seen our AUM from third-party insurance clients increase from $33 billion a year ago to $48 billion today, an increase of 45%.

Putting GA and third party together, our insurance AUM has grown from $108 billion pro forma for GA to $167 billion in a year, or an increase of 55%.

While we're pleased with the progress, keep in mind, we only closed the GA deal in February of this year and see a lot more opportunity for significant growth in insurance.

The third area of focus is private wealth. As you know, individual investors have been 10% to 20% of the capital we've raised the last few years. We believe that with the investments we're making, combined with our brand and performance, that number will ramp to 30% to 50% of the capital we raise, over the next several years.

We are investing in sales, marketing, data and digital talent, and we are creating more democratized products that are relevant for a wide number of individual investors. This is a big opportunity for us, and we think we're incredibly well positioned.

So long story short, the Q3 numbers are strong, but they tell only a small part of the story of what's happening at the firm. These initiatives and others give us confidence we can more than double KKR again, over the next 5-or-so years, including our fee related earnings, where we see a clear path from the $2 of FRE per share we've achieved over the last 12 months to in excess of $4, over that time frame.

So, while recent growth has been exciting, we see a lot more ahead.

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

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, today, please 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 star keys.

So that we may address questions for as many participants as possible, we ask that you limit yourself to one question and one follow up. If you have additional questions, you may re-queue in time for many of those questions will be addressed.

One moment, please, while we pull for questions. Thank you. And our first question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alexander Blostein
Great. Good morning, guys. Thanks for taking the question. So, maybe we'll pick up, Scott, on where you left off with doubling the business again and growing FRE to north of $4 a share.

As you go through the kind of key initiatives that you outlined, whether it's perpetual capital, insurance or private wealth, can we zone in on private wealth just maybe a little bit more?

As you think about the ramp to 30% to 50% of kind of flows from that channel, what is sort of the key product and maybe key distribution partnerships that you're considering? Obviously, we have KREST out there, so would be good to get an update on that. But how else are you thinking about tackling this part of the market?

Craig Larson
Hey, Alex, it's Craig. Thanks for asking about--taking a step back, we think the opportunity within private wealth to introduce tailored democratized products really is massive, and we think we're incredibly well positioned.

Now to review, we have three broad solutions that are on multiple platforms, as well as bespoke solutions that are tailored for individual platforms. And in total, we've raised about $2 billion, year-to-date. So, we're raising a couple of hundred million a month.

So we're pleased with our first steps here. We're just getting started, as you know, and we're focused on ramping. So I thought maybe it made sense to touch on the democratized parts, initially, as it relates, broadly, to the ramping and the momentum that we have.

Scott or Rob, do you want to add on?

Scott Nuttall
Yeah, just a couple of things I'd add, Alex. I appreciate the question. As Craig mentioned, today, the products that we have, we put in this democratized category, focus on credit, real estate, private equity and we have a number of others that we're working on, across different asset classes.

In addition to those that I'd put more into kind of the '40 Act, fully democratized zone, we also have a number of our funds that we actually sell through private wealth platforms, which is another big contributor.

And in the past, as I mentioned, it's been about 10% to 20% of the total money we've raised has been from that individual investor channel, broadly defined.

I think what Craig mentioned is really critical. Though it is still early, we see a lot of upside, here. That's why we're guiding you that we think that 10% to 20% number will move up to 30% to 50%, over time, and it's an area for us where we see a significant amount of growth ahead.

In addition to building our own team, which we continue to expand and invest in, we are creating partnerships, to your point, with external managers. We'll have more to share with you on that front, over time, but we're creating partnerships with wealth platforms around the world, in addition to building our own team.

Alexander Blostein
Great, thanks very much.

Scott Nuttall
Thank you.

Operator
The next questions come from the line of Bill Katz with Citigroup. Please proceed with your questions.

William Katz
Okay, thank you very much for taking the questions and congrats, Scott, on promotion. Just coming back to maybe your commentary and I think you vet it in part of Alex's question. But can you expand a little bit on a lot more to do like yet on perpetual capital? Is that just retail?

Are there other opportunities out there to continue to scale that more annuitized business opportunity?

Scott Nuttall
Happy to, Bill, and I appreciate the kind words. I think we see it across a number of different aspects of our business. There's the institutional channel. I think there's a lot of focus lately for good reason on private wealth, but we're continuing to invest in the build-out of our institutional capabilities, as well.

So we've seen a 40% increase, just as an example, there in headcount, focused on institutional fundraising. So, I think you're going to see it, institutionally, where we're continuing to talk to partners about long-dated partnerships, some with recycling. So, that's going to be part of the answer to your question.

Part of it, of course, will be what we just talked about in terms of private wealth in the individual investor. Part of it will be growing in insurance, where we see opportunities all around the world.

And then we're working on new structures and new designs where we could actually elongate our--the duration of our capital base even further to a variety of different channels.

So, a bunch of different opportunities all across the world, and I think you'll continue to hear us talk about this, going forward. So the $49 billion to $205 billion is great progress, but we expect to continue to make real progress here going forward.

William Katz
Okay, thanks. And just a quick follow-up for Rob. So, I appreciate the sort of the broad guidance of on pace to sort of double FRE over the next few years, but it seems like your management fees are pacing even more quickly than maybe the last set of guidance.

Can you just level set where we are in terms of pacing to the previous goal? And then how--against ongoing capital raising, how that might play through over 2022?

Robert Lewin
Yeah, sure, Bill, thanks for the question. I think, in retrospect, I think it's fair that some of the historical guidance we gave over the last 6 to 12 months is on the conservative side.

But at the same time, if you look, our business has so much more momentum today than it did, even 6 or 12 months ago. And you could look at how we're performing in our different fundraises globally, all or pretty much all well ahead of expectations.

The assets we have from Global Atlantic are far ahead of where we expected them to be. The momentum in our capital markets business is as good as it's ever been. And the last piece of it, less on fees, but I think also really pertinent to the discussion of growth going forward is we now have $16 billion of unrealized revenue, or close to that on our balance sheet.

And so, if you come back to your question around where growth can go from here, I think we should pause on the $100 billion of capital that we've raised, year-to-date. If you think about it, only a very small percentage of the revenue and economics that we expect from this capital has hit our P&L so far in 2021. The vast majority of it is going to be in 2022, and beyond.

And the other neat point on the $100 billion of AUM that we've raised is that 50% of it has come from strategies that we weren't even in, five years ago. So, the ability to scale from there on that piece of the capital base, we think, is very real as well.

So, maybe bringing that back full circle to where you were going and what we expect of ourselves, while our earnings base today is at a higher level than we expected 6, 12 months ago, as Scott mentioned earlier, we still have every expectation that if we execute really well, going forward, that we can more than double our FRE off of this higher base.

And likewise, looking at the full picture of our P&L, even off the higher distributable earnings number, the $3.50 or so that we've delivered over the LTM period, I also think we've got clear line of sight in that same period of time, the strong execution to double that to $7 plus.

And so hopefully, that gives you a broader picture for how we're thinking about growth across the platform, Bill.

William Katz
Okay, thank you, both.

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

Glenn Schorr
Thank you. One quick one. There's a transaction or two in the secondary space, lately. It feels like a strategic need. For as great as you're doing, you can do greater. Curious on what your plans are, at this point, for organic versus inorganic build in that area.

Scott Nuttall
Thanks for the question, Glenn. Nothing new to report today. We continue to assess whether there's someone that we could partner with or buy all or a meaningful portion of or whether we should build our own.

As we've talked about in the past, the secondary and co-invest space is adjacent to a lot of what we do. It's something we think we could be a value-added partner to somebody or build something truly distinctive.

So, it's not a have to do, but it is something that we continue to spend time on. Nothing new to share with you today, however, but we're continuing to spend time there.

Glenn Schorr
Okay. Maybe we could follow up on. You teased us in the past with a comment about the Asia franchise, at some point, being as big as the Americas. Maybe you could break down a little bit more in terms of retail, institutional and which asset classes might be--what might we expect to see have more growth in the next couple of years, as opposed to the someday. Thanks a lot.

Robert Lewin
Yeah, hi, Glenn, it's Rob. Clearly, we've got a first-rate private equity franchise in Asia, a $15 billion fund, probably somewhere around close to double the size of our next biggest competitor in the region. The growth opportunity from here continues to be in private equity. We think it's still very much an under-addressed private equity alternatives market.

But really, it's the marriage between the best-in-class teams we have across eight offices in Asia and what we do in the private equity side with the global capabilities that we're building up in areas like real estate, infrastructure, credit, growth equity, what we're doing in capital markets.

We think the marriage of those two things with our market-leading position will create a bunch of growth going forward for us in that part of the world where we've got a real competitive advantage and think a real moat around the business franchise that we've built, so far. And for our competitors to catch up requires a lot of investment.

So, we feel really good about how we're situated. And we continue to believe that, over time, our Asia Pac business can be as big as our U.S. business, one day.

Glenn Schorr
Thanks, Rob.

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

Robert Lee
Great. Good morning, thanks for taking my questions and, Scott, also, congrats on the promotion. This really maybe is a little bit of a riff on Glenn's question. But as he mentioned, there's a lot of action in the secondaries market, a lot of M&A, but you've talked about your CPS business as being a replacement for that.

Could you maybe update us on that initiative and how you see that kind of progressing as maybe a replacement for secondaries, or fund-of-funds business?

Scott Nuttall
Sure. Happy to take it, Rob, and thanks for the congrats. Yeah, so CPS, and we haven't talked about it in a while, but it stands for customized portfolio solutions.

So this is a team and a business that we built on the back of the observation that a number of institutional investors were trying to get exposure to private equity, in particular, but did not have a big team to get after that and wanted a bit of an outsourced solution and partner to try to build a more diversified pool of private equity exposures.

And so, the team has built a business which has a combination of KKR funds and co-invest and third party, we think best-in-class private equity partners also investing in their funds and looking at their co-invest.

And so, the business has continued to perform really quite nicely. It's now about $6 billion of AUM and has been quietly a top quartile performer. And we'll continue to scale that business, and we're getting more traction with investors around the world.

So, it's an opportunity for upside and a real nice performer for us that we think will continue to get bigger, over time, and we'll keep you posted.

Robert Lee
Great. And then maybe as a follow-up, going to the inevitable question, I guess, on capital management.

So I mean, you've got a huge amount of embedded gains on the balance sheet from your own investments, crude carry businesses growing at a high rate. Is there--or do you think about, call it, a tipping point where, hey, we've got enough kind of cash generation that we can more than amply fulfill our capital needs and growth requirements and maybe start shifting towards somewhat greater return of capital, whether it's a little bit higher dividend payout or share buyback or something?

Do you feel like that tipping point may be approaching the next couple of years?

Robert Lewin
Yes. I'll start off, Rob, and I'm sure Scott will jump in, as well. I think the most important thing to any capital allocation framework is to make sure that you're consistent. And our approach to capital allocation has always been very much ROE based.

And so, we're always going to start that with what's an appropriate level of capital return to our shareholders and balancing that with investment back into KKR growth, assuming that it's able to achieve compelling ROEs. So, let's take those in order.

We've said that we will continue to evaluate our dividend policy on an annual basis. We'll do that in Q1, next year. But what we've said is we'd look to grow that consistently, over time. We want to continue to be a buyer of KKR stock. We feel really good about our body of work here over the last five, six years.

We've repurchased or retired close to 80 million shares. It's almost 10% of our outstanding shares today, close to 15% of our free float. We'd look to continue to do that going forward, and we're going to look to invest back into KKR for growth.

And I do think one of the areas of core competency that we do have is to be able to move capital around to the highest ROE opportunity. And if we're not finding that inside of the KKR platform, then we'd certainly evaluate greater returns of capital to shareholders through one of the first 2 buckets.

That's really how we're going to approach it. And I think probably the most important point of any here is we do this in a really aligned way. The KKR employees are, as a group, the largest shareholder in KKR. And so we, as we think about how to allocate our capital base, obviously, the mindset there comes from a very aligned perspective.

Scott Nuttall
Yeah, the only thing I would add is the balance sheet, if you really step back and look at how we used it has allowed us to grow our fee related earnings a lot faster, whether it's seeding new businesses.

And as a reminder, 10 years ago, we were in six investing businesses, and now we're in 28. The balance sheet has clearly accelerated the growth of what we're trying to do in terms of the organic build.

Our capital markets business, as you know, we operate in a capital-light model, but we've used the balance sheet to be able to scale the growth of capital markets in a meaningful way and perhaps, even more powerfully, M&A.

If you think about Marshall Wace and our partnership there, if you think about Global Atlantic, we've been able to use the balance sheet to really convert balance sheet earnings into fee related earnings and TDE.

And so, we view it, Rob, as a strategic weapon. So, you'll continue to see us use it that way and think of it that way. And then to Rob's point, we'll continue to reassess the dividend level and buybacks and try to get the balance as right we can with the vantage point of being the largest shareholder.

Robert Lee
Great, thank you so much for taking my questions.

Scott Nuttall
Thank you.

Operator
Our next question is from the line of Brian Bedell with Deutsche Bank. Please proceed with your questions.

Brian Bedell

Great. Thanks, good morning, also, congrats, Scott. Just maybe just go back to the fundraising, obviously, way ahead of schedule here, compared with your Investor Day. And just wanted to get a sense of, for 2022, as we move into that year, is it even possible for that to be as successful on a fundraising standpoint versus '21, if we ignore insurance blocks?

And what would be some of the drivers given you've raised your flag-- a couple of your flagships, already?

Craig Larson
Brian, it's Craig. Why don't I start? Thanks for the question. We don't have any updated fundraising guidance for 2022, but let me try and help frame things. I think really what you're seeing in this quarter is kind of interesting in this way is what you're seeing is the continued scaling of businesses and the increased diversification, across the firm.

Seven or eight years ago, if we reported one of the strongest fundraising quarters in our history, it would have meant we had a big fundraising event in private equity. And so today, we're reporting an excellent new capital raised figure.

New capital raised in Q3 is the second highest quarterly figure we reported in our history, and over 90% of that is coming from strategies outside of traditional private equity. So, in private markets, half the capital was raised in infrastructure and real estate, as we talked about it. We have all these new initiatives.

As Rob had mentioned, 50% of the capital, year-to-date, being raised from areas that didn't even exist within the framework of the firm, five years ago.

In Global Atlantic, as you mentioned, again, AUM meaningfully above where we would have ever expected it would have been, at the time of announcement. And when you think of huge addressable market opportunities like we've touched on with these democratized products, that's all on the come.

So, we don't have an updated figure for next year, but it just continues to feel like there's real momentum, and we're really well positioned, which is exciting.

Scott Nuttall
Yeah, the only thing I'd add, Brian, is, look, as Craig said, we’ve got a lot of ways to win, now. The firm is really scaling and diversifying. Last time I counted up what we have coming to market in the next 12 to 18 months, it's something like 27 different line items. So, there's lots of different products in the market, and that's away from Global Atlantic.

Brian Bedell

Yeah-no. That's it. It's incredibly powerful. But maybe as we think about that march towards $4 of FRE, if you could comment on a couple of areas, in addition to your traditional ones, and that being the, on the retail side, that moved into 30% to 50%.

Do you see that as an, incrementally, positive growth driver to that FRE target, over and above what your traditional plan is in the institutional channels?

And then I guess sort of same question on the capital markets business. I mean, that's had--moves up and down, of course, but it's had some pretty good secular growth. And is that also a substantial component to that $4?

Scott Nuttall
I don't think it's any more substantial than it would be today, on the second question. And on the first question, look, I think the opportunities we see in private wealth give us that much more confidence that it's in excess of $4 in 5-or-so years. And I think the in excess of is something you should focus on, and we'll try to do better than $4.

But I think retail, private wealth opportunity gives us more confidence we have an opportunity to continue to outperform expectations.

Brian Bedell
Great, thank you.

Scott Nuttall
Thank you.

Operator
Our next question is from the line of Jerry O'Hara with Jefferies. Please proceed with your questions.

Gerald O'Hara
Great, thanks. Seeing obviously the three block transactions in the quarter is encouraging, but perhaps you could give us just a little bit of sense on what the kind of competitive dynamics are, within that insurance and annuity business from your end.

Scott Nuttall
Thanks, Jerry. It's Scott. Look, it is a competitive environment, and we see--we have competition across everything that we do. We have a lot of smart competitors.

They tend to be responsible, smart competitors, and so we've been able to pick our spots and lean in on opportunities where we think we have a clear competitive advantage. And we've been really pleased with the progress we've been able to make.

As I've mentioned in the past, one of the key reasons that we wanted to create the partnership with Global Atlantic is the strength of the management team. And they have really built really nice relationships all around the world with different counterparties, and that's allowed us to lean into these blocks.

And so yeah, there's been a significant flow of block activity. We expect it will continue. We expect it will be competitive, and we expect we'll continue to win our share.

Gerald O'Hara
Fair enough. And perhaps one for Rob. I know we're still kind of early days here in the fourth quarter. But if you might be able to give us any sort of update or line of sight into 4Q monetization activity, that would, as always, be appreciated. Thank you.

Robert Lewin
Yeah, no problem, Jerry. You're right. We're early in the quarter, but we already have really good visibility into Q4 and into record levels, I think, of monetization activity, and what will turn into revenue. So, as of now, that figure is north of $1 billion. So, that's collectively, across both our performance and investment income.

As a reminder, this is going to be from deals that are either already closed today or have been signed up and we expect to close in Q4. I'd also note that for this quarter, for Q4, this figure also includes revenue from incentive fees that have already been booked through our hedge fund partnerships.

In terms of how that breaks down from a split perspective, so you could think about flow-through to profitability, I would say it's probably slightly weighted towards carried interest, right now, relative to both investment income, as well as the performance income that comes from our hedge fund partnerships.

If you recall, the latter has the same 10% to 20% comp load, as our investment income. So hopefully, that gives you a flavor of what's ahead in Q4. But again, another strong monetization quarter for us.

Gerald O’Hara
Great, thanks for taking my questions.

Scott Nuttall
Thank you.

Operator
The next question is coming from the line of Devin Ryan with JMP Securities. Please proceed with your questions.

Brian Mckenna
Hi, thanks, this is Brian McKenna for Devin. So just to follow up on realization activity, so you have about $5 billion of net unrealized carried interest and $7 billion of embedded gains on the balance sheet.

So, assuming the capital markets remain open and business trends continue to be healthy, how quickly do you think you can work through this pipeline of realizations, over time?

Robert Lewin
Yeah, hi, Brian, it's a good question, obviously. And I--we're going to be balanced. And what you've seen so far in 2021 is, while we've had record levels, year-to-date, I believe our monetizations and our revenue from monetizations is better than any year we've had for a full year.

And even through that period of time, we've still grown our embedded gains and unrealized gains in our balance sheet. I think that comes from investment performance.

So, if we can continue to generate strong investment performance in the future, which we feel good about, especially given the portfolio construction that we have in place, we think we'll continue to be able to generate healthy levels of monetizations and keep the pipeline for future years in place.

But obviously, a lot of it comes down to execution, and it's really hard to forecast from here. But I think if you look back at our 2000--really 2020, even a volatile period of time in 2021, you've seen a consistent level of monetizations, even as our unrealized gains and embedded gains in our balance sheet have grown.

Scott Nuttall
Yeah, the only thing I would add, Brian, as you heard Rob reference before, that, in addition to kind of having confidence, we can at least double fee related earnings in the next 5-or-so years. We think we can do the same with distributable earnings per share.

And obviously, having a line of sight that we do in terms of embedded value in both carry and balance sheet gains is part of the reason we have that confidence. But to Rob's point, we'll continue to monetize. And hopefully, we'll continue to replenish with other unrealized gains as other investments perform.

Brian Mckenna
Great, thanks. And then just on the FRE margin, that stepped up nicely in the quarter to about 65% from 62% in the first half of 2021. So, how should we think about the FRE margin, moving forward? Is that 65% a good place to be?

Robert Lewin

Brian, what we've talked about, historically, is probably a low 60s FRE margin. We were 61%, last year. Year-to-date, even with a solid Q3, we're about 63%, so kind of in line where we thought we'd be. What we've also flagged is we intend to continue to invest across technology, distribution and marketing.

And so, you could see our OpEx line ticking up a bit. But the goal going forward, over the next number of years, is to be at a place where we're, sustainably, generating mid-60s types of FRE margins. But I think the guidance going forward will continue to be in that low 60% range.

And hopefully, there will be periods of time where that can go up and, ultimately, be in a place where we're more sustainably generating those types of margins that are in the mid-60s.

Brian McKenna
Got it. Thanks, Rob.

Robert Lewin
Thank you.

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

Michael Cyprys
Hey, it's Mike Cyprys from Morgan Stanley. Thanks for taking the question. Just wanted to follow up on the private wealth opportunity. I was just hoping you could elaborate a little bit on the investments you're making in sales, marketing, distribution, digital distribution, if you could just elaborate a little bit on that.

How large is the sales team, today? Where do you think that can be, over the next couple of years? And how do you think about buy versus build versus rent?

Scott Nuttall
Thanks, Michael, Scott. I'll take that. In terms of the investment that we're making, first, the investment we're making is in headcount. So the team, kind of probably 18-plus months ago, it was probably around 10 people. It's now pushing 40.

I would expect that number will likely triple or so again from here, over the relatively near term. So, we'll continue to build the focused private wealth team out, including marketing. That's kind of Investment 1.

Investment 2 will be in all things tech and operations, around making sure that we're able to service the private wealth client in a best-in-class way. So, we're continuing to make investments, there.

You heard Rob reference some investments we're going to continue to make in technology. Some of that will be around the space. But those are the two predominant, in addition to what I talked about before, which is product development.

In terms of buy versus build versus rent, we are clearly building, and we're doing some renting, as we sit here today. And we are, as part of our corporate development efforts, assessing whether there's anything that could make sense to buy.

But right now, it is build and rent and create partnerships, and we'll let you know if we find anything that we think is interesting enough to move into the buy category.

Robert Lewin
Mike, just one quick thing to add on. As we think about headcount growth in that space or really across the firm, it's important to note that we would expect to be able to operate within our stated comp range on fees in the 20% to 25% range. And so, even with increased heads, I wouldn't expect that to impact our margins.

Michael Cyprys
Great, thanks for that. And just a follow-up, if I could, just around capital deployment. Clearly, a very strong quarter, $8 billion deployed across infrastructure and real estate in particular I thought stood out, that's $24 billion or so annualized pace there.

Just can you talk a little bit about the actions that you're taking to increase deployment capacity within your real assets business, in terms of the actions you've taken to get to this level? And as you look out over the next couple of years, where would you like to see that deployment pace and capacity be in, say, three or five years?

And what are the actions you need to take in order for that to be, materially, higher from where it is today?

Craig Larson
Hey, Mike, it's Craig. Why don't I start, just give you some facts around deployment? And I expect Scott will add on, as it relates to investments for tomorrow. And I'm glad you asked about it.

Honestly, we probably haven't talked about deployment in as much detail as we should. As you note, we've continued to be really active. Year-to-date--or in the quarter, $15 billion. Year-to-date, we're at--we're approaching $30 billion.

So, when you look at that deployment figure through nine months, that's already, meaningfully, above where we were in 2020, and that was a record year for us. So deployments have been really healthy.

I think a couple of thoughts on that, first, relates back to that thought of diversification. And as you noted, again, the strength we've seen in real assets with that amount in the quarter being pretty equally split between our real estate business and infrastructure. And if you contrast that with 2019 and 2020, again, this quarter, those businesses were about 60% of deployment in private markets.

Combined, they were about 25% in 2019 and 2020. So, as those businesses have scaled, as we've entered new asset classes like core -- and again, it's interesting when you think of core real estate, core infrastructure, those end markets are larger in size than opportunistic.

So again, that addressable market for us, has been increasing. You're seeing that in deployment.

Core PE had its, actually, most active deployment quarter for us in the year. So, while these businesses are growing and scaling, you're seeing that in terms of deployment.

I think one other point that's just interesting as it relates to private equity, we're being disciplined. So, the level of activity is exceptionally high. There's a ton of flow. But really, what you've seen in the numbers is we're being disciplined, and we're drawing lines and really looking to pick our spots.

So, despite the overall healthy amount of deployment, year-to-date, private equity deployment is actually on pace to be below that in 2020.

And in public markets, again, the credit platform was growing, materially, before GA, continues to scale post-GA. So, that's driving a real step-up in deployment. That's both in terms of corporate origination, as well as in asset-based finance.

Scott Nuttall
Yeah. No, it's a great question, Mike. I mean, we do see a real opportunity to, meaningfully, expand these real estate and infrastructure platforms. As you know, both of those were, more or less, created over the course of the last 10 to 12 years.

These are very large end markets and that there's a significant amount of client interest in all things real assets. If you have yield and inflation protection, which these asset classes do, you've got a real significant investor appetite, right now.

There's probably five things I'd point to. One is we're just, regular way, scaling of the more opportunistic strategies. So, if you think about it, it wasn't that long ago, we were an infrastructure, one. You know how that platform has scaled, materially, from $1 billion to--in the teens per fund. So, big opportunity as we continue to scale the opportunistic platform.

The same thing is true in real estate. You can see REPA I to REPA III, but we also have a European real estate opportunistic strategy - same thing in Asia. So, real opportunity, just keep scaling those platforms regular way on the back of performance.

Second would be what we're doing in core. We have raised meaningful capital this year for core infrastructure and for core plus real estate. Again, very large end markets. Those are performing well and scaling.

Third is going global. A lot of what we've done started in the U.S. We're now expanding to Europe and Asia, so you're going to see us have a Europe and Asia core plus real estate strategy. That's something that we'll continue to add to our suite of products, as we continue to take these efforts global in real assets.

Fourth would be selling to individuals. We talk about KREST a lot, but there's various other products that we're in the process of creating and other versions of real assets democratized for the individual investor.

And then to Craig's good point, it's not just equity. There's also a big opportunity to continue to scale what we're doing in real estate credit. Global Atlantic has allowed us to, meaningfully, expand that business, and we see more opportunities around the world, including in Europe, where we're going to start building a real estate credit platform, there.

So, a long way of saying we agree with you. There's a lot of growth opportunity.

Michael Cyprys
Great, thanks so much.

Scott Nuttall
Thank you.

Operator
Thank you. At this time, we've reached the end of the question-and-answer session. I'll turn the call back to management for closing remarks.

Craig Larson
Rob, thank you for your help. And everybody, thank you for joining us. Please follow up with us, directly, with any follow-ups. Otherwise, we look forward to speaking with you, next quarter. Thanks again.

Operator
This will conclude today's conference. You may disconnect your lines at this time. We thank you for your participation.

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