# KKR
# Second Quarter 2022 Earnings
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**Presenters**
**Craig Larson, Partner and Head of IR**
**Rob Lewin, CFO**
**Scott Nuttall, Co-CEO**

**Q&A Participants**
**Alex Blostein – Goldman Sachs**
**Craig Siegenthaler – Bank of America Merrill Lynch**
**Jerry O'Hara – Jefferies**
**Brian McKenna – JMP Securities**
**Patrick Davitt – Autonomous Research**
**Arnaud Giblat – BNP Paribas**
**Brian Bedell – Deutsche Bank**
**Finian O'Shea – Wells Fargo Securities**
**Michael Cyprys – Morgan Stanley**
**Rufus Hone – BMO Capital Markets**
**Chris Kotowski – Oppenheimer**
**Robert Lee – KBW**

**Operator**
Ladies and gentlemen, thank you for standing by. Welcome to KKR's second quarter 2022 earnings conference call. Today's presentation, all participants 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 star and zero on your telephone keypad. As a reminder, 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 second quarter 2022 earnings call. This morning, as usual, I'm joined by Rob Lewin, our CFO, and Scott Nuttall, our Co-Chief Executive Officer. We'd 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 earnings release and our SEC filings for cautionary factors about these statements.

This quarter, we're reporting Fee Related Earnings per share of $0.52 and After-tax Distributable Earnings of $0.95. Looking at the first half of 2022 compared to 2021, we feel very good about our performance. Against a challenging market backdrop, our management fees are up 39%, Fee Related Earnings increased 28%, and our After-tax DE increased 14%. Now, before we go into more details on our results, we'd like to highlight the changes to our business lines that we posted to our website last week and are also reflected in today's earnings release.

We've seen a dramatic increase in the scale of our Real Assets business, so we've split Private Markets into two business lines, Private Equity and Real Assets. Our Private Equity business line is comprised of our Traditional PE, Core PE, and Growth strategies, while Real Assets includes Real Estate, Infrastructure, and Energy. And at the same time, we're changing the name of our Public Markets business line to Credit and Liquid strategies, a more descriptive name for the capital that we manage here. The driver of these changes is the growth and increasing significance of our Real Assets business. KKR today is a meaningfully more diversified Firm by strategy and by geography than it was only a few years ago.

To give you a sense of the growth we've experienced here, at the end of 2019, so 2.5 years ago, Real Assets AUM was $28 billion. Today, that number is $114 billion. So, it's over four times the size today compared to just 2.5 years ago, and the drivers of this growth are several. At the end of 2019, Infrastructure AUM was $15 billion. Driven by the scaling of our flagship fund together with our expansion into adjacencies like Asia and Core Infra, AUM today is almost $50 billion. Within Real Estate, AUM has increased from $9 billion at the end of 2019 to over $60 billion today, and that's pretty evenly split between Real Estate Equity and Real Estate Credit.

Our Opportunistic Equity strategies have been scaling. We now have Core+ strategies across the Americas, Europe, and Asia. We acquired the Japanese REIT business earlier this year, and that's all alongside a meaningful increase in the breadth of our Real Estate Credit platform driven by Global Atlantic. And in Energy, our strategic positioning has improved through our ownership interest in Crescent Energy, while AUM has increased to almost $4 billion.

Page 9 of the earnings release helps profile this increasing significant more visually. So, the bars that you see on this page in total reflect to what we previously referred to as Private Markets, and you see each of the bars broken into their Private Equity and Real Assets components. So, alongside of the AUM growth we just ran through, you're beginning to see a meaningful increase in Real Asset management fees and deployment. And at the same time, Private Equity strategies have been scaling. AUM increased from $92 billion at the end of 2019 to $172 billion today, driven by the continued growth of our flagship Private Equity funds alongside the scaling of Core Private Equity and our Growth strategies. When you look at the Private Equity figures for June 30, 2022, and compare those to 2019, AUM, management fees, and capital invested have all been growing at a compounded annual growth rate of approximately 30%.

Now turning to the quarter itself and our key operating metrics. Assets Under Management came in at $491 billion. That's up 14% year-over-year, while Fee Paying AUM increased to $384 billion, up 20% compared to last year. This growth is driven by our continued fundraising momentum with $25 billion of new capital raised in Q2 and $52 billion for the first half of the year. In terms of fundraising for the quarter, we'd highlight four things.

First, really building on what we just ran through a few moments ago, is the increasing significance of Real Assets as fundraising across Infrastructure and Real Estate contributed over 40% of new capital raised in the quarter. Of particular note, we closed on over $4 billion of capital for our Asia Infrastructure strategy.

Second, we closed on a new $5 billion multi-asset class strategic partnership in the quarter. The broad framework of this partnership is similar to those we've talked about with you before. It's long-dated in nature with recycling provisions. And with around $2 billion recently committed, the net impact on new capital raised in Q2 was approximately $3 billion. This helps bring our total strategic and perpetual capital to $232 billion, or 44% of our Fee Paying AUM.

Third is Global Atlantic. It's been a good environment for organic activity at GA as new capital raised in the quarter totaled approximately $6 billion. This is seen in both our Credit and Real Assets business lines.

And finally, the fourth point is really the breadth of activity that we're seeing across the Credit business. In addition to GA, we were active in the CLO markets in the U.S. and Europe and the private credit markets. And of note here, in Q2, we held the final closing of our Asia Credit fund. And early in Q3, we announced the final close of our Asset-Based Finance fund.

Now alongside of our capital raising, we also continue to find compelling opportunities in which to invest. We deployed $19 billion in the quarter and over $40 billion year-to-date. Again, one of the key drivers of our activity in the quarter was our Real Assets business with $8 billion of capital invested. Within Infrastructure, Core Infra was most active deploying across the U.S. and Europe, Real Estate Credit, including Global Atlantic and KREF totaled $4 billion, Real Estate Equity investment was concentrated in the Americas, really on both the Opportunistic and Core+ fronts, and Private Equity accounted for $6 billion in the quarter, driven by activity in the U.S. In Credit, deployment of $5 billion was driven by GA-related private credit activity. And importantly, at the end of the quarter, we had $115 billion of dry powder ready to deploy into new opportunities.

Now, before turning it over to Rob, we want to spend a few minutes on a piece of KKR that permeates everything that we do, and that's ESG. So, two things here. First, in June, we published our 11th annual Sustainability Report. The report this year, titled Scaling Up, outlines how we've been scaling efforts to manage ESG issues across our investment portfolio, as well as our global operations. This year marked a significant expansion of the scope of our ESG reporting, which builds on our history of transparency. We hope you'll take time to go through the report in more detail. And on the back of that, we want to drill down and spend a few minutes on the S in ESG, the social component. This is really important to us. And one spot where we've shown real leadership and we're going to walk through now is our work around broad employee ownership in our portfolio companies, and we plan to share more stories like this with you in the future. Many of you will recall Pete Stavros' presentation on C.H.I. Overhead Doors at our 2018 Investor Day. We were the fourth private equity owner of the business. It's a garage door manufacturing business, and EBITDA margins at that time were already top quartile for a building products company at 21%.

Now one of the things that our team saw was an opportunity to engage with this workforce in a way that hadn't been done before. And so began our seven-year journey. We introduced a broad-based equity program at the outset of our investment, so all 800 employees, largely hourly workers, received an ownership interest in the company, and we continue to invest in the employee base along the way. And by partnering with the workforce, operational improvements were seen at every level. Injury rates declined meaningfully, employee engagement increased meaningfully, and product quality improved. So, in total, revenues more than doubled over our ownership, and EBITDA more than tripled as EBITDA margins increased from 21% to 35%, all organic.

So, it was a very successful investment for us. It was a 10x multiple of money transaction for our clients, and through the broad-based equity program, it was also a very successful investment for the employees of C.H.I. On average, the warehouse and factory workers each made $175,000 on the sale, and the most tenured workers made approximately $800,000. So, they earned multiples of their annual salary through the sale. And now just this morning, we're pleased to have announced the sale of Minnesota Rubber & Plastics or MRP. Like C.H.I., we introduced a broad-based equity ownership program across all of MRP's employees, including many hourly workers, when we acquired MRP in 2018. Over 1,300 non-management employees across six countries and four states. And the company and its employees have performed. We've seen significant improvements in safety, waste reduction, the speed of new product delivery, and earnings growth as EBITDA margins grew from 21% to 25% over our ownership.

So again, this will be a strong investment for our fund investors. We expect the sale to be a 3x multiple of our cost in approximately 3.5 years. And at the same time, we think it's a great event for MRP's employees. On average, employees will receive 100% of their annual income and equity payouts from the sale, with the more tenured employees receiving 200% of their annual income.

And now we want to turn these experiences into a movement. We've implemented broad-based employee ownership programs across many of our Traditional PE and Impact investments, over 25 to-date. We've touched over 50,000 employees, and that number is going to grow meaningfully from here.

In addition, we helped found a new non-profit called Ownership Works to support public and private companies that are transitioning to shared ownership models like the ones we implemented at C.H.I. and MRP. At this time, Ownership Works includes over 60 member firms pursuing this mission. We think part of creating a movement will be storytelling, which is why we walked through the C.H.I. and MRP examples, and we look forward to having many additional stories to review with you in the quarters and years ahead. And with that, I'll turn it over to Rob.

**Rob Lewin**
Thanks a lot, Craig, and thank you, everyone, for joining our call this morning. First, to go through our quarterly P&L. Our management fees came in at $655 million. That's up 36% compared to the second quarter of 2021. To put that into context, Q2 2021 already reflected a full quarter of Global Atlantic management fees. So, the 35% plus growth really reflects the organic momentum that we have across the firm today. Net transaction and monitoring fees were $107 million for the quarter. The decrease here was driven by our capital markets business, which I will spend a bit of time on shortly. As it relates to our expenses, our fee related comp margin, consistent with prior quarters, was 22.5%.

Operating expenses totaled $137 million. This increase was driven by a few things, including a heightened level of activity in corporate travel and office operations, as well as continued investments in both our technology build-out and marketing organization. This is all critical investment that we feel is setting us up for future growth and is very consistent with our plans for the year. Bringing it all together, our Fee Related Earnings totaled $461 million, or $0.52 per share this quarter.

Moving to our realization related revenue, which was very positive for us this quarter, and in aggregate, represented one of our highest in the Firm's history. Realized performance income came in at $731 million. Our carried interest was driven by monetization of Internet Brands, a number of public market exits, and the sales of opportunistic real estate assets. Realized investment income totaled $277 million, driven by these same transactions. In total, our asset management operating earnings were just over $950 million. Our insurance segment also had a very strong quarter, generating $137 million of operating earnings. Together, these earnings streams resulting in After-tax DE of $840 million, or $0.95 per share. Year-to-date, our After-tax DE was over $1.8 billion, up 14% year-on-year, which I think highlights the continued strength of our business model.

Taking a step back from the quarterly numbers, the momentum across the Firm continues to be exceptionally strong, and there is high confidence that we're doing the things that we need to do, really across the board, to set ourselves up for the future. We have had continued fundraising success, with $52 billion of new capital raised year-to-date. We are on our way to reaching our goal of being top three in everything that we do. And with 65% of that new capital coming into our Real Assets and Credit businesses, we're becoming a meaningfully more diversified asset management firm. Management fees, in turn, are up 39% for the first half of 2022, and with $44 billion of AUM that will become fee paying when it enters its investment period, we have a good line of sight on future management fee growth. The quality of our investment portfolio is evidenced by our relative investment performance, as well as our ability to monetize these investments through the cycle. Realized gains for KKR are up in the first half of 2022 compared to the same period last year.

Though we had a lighter quarter in capital markets, fees for the first half of 2022 are approximately $340 million, very solid against what has clearly been a challenged market backdrop since the beginning of the year. We remain really excited about the potential for our capital markets business. We have a unique business model and an ability to recruit and retain best-in-class talent. Additionally, we have $25 billion of total cash and investments on our balance sheet. Last quarter on this call, we spent a lot of time detailing the strength of both our investment portfolio, as well as the unique nature of our long-dated and fixed liabilities. We have no doubt that our position here represents a real competitive advantage, especially in a more volatile market environment, and it will allow for us to emerge from this period in an even stronger position.

Turning to our investment performance. The Traditional Private Equity business was down 7% in the quarter compared to broad indices that were down over 16%. And over the last 12 months, the portfolio was up 4%, while the MSCI World was down 14%. Importantly, inception-to-date IRRs for the key flagship returns across geographies remain strong at 32%, 19%, and 38% across our Americas, Europe, and Asia portfolio companies. Similarly, Opportunistic Real Estate was up 1% in the quarter and over the last 12 months, up 23%, with Infrastructure down 1% and up 8% over the last 12 months. On the Leveraged Credit side, the portfolio was down 6% for the quarter and down 5% for the last 12 months. Our Alternative Credit portfolio was down 1% in Q2 and up 6% in the LTM.

Next, to go through our balance sheet. Investment performance was down 5% in the quarter and up 1% over the last 12 months. We spent time last quarter reviewing the Core Private Equity portfolio. Core PE remains the largest allocation on our balance sheet today. Over 30% of our investments are in this strategy. For Q2, this portfolio was down 2.5% but up 16% over the last 12 months. The underlying fundamentals of the Core PE portfolio remain resilient, with organic revenue and EBITDA up approximately 12% and 10% respectively through the first half of 2022.

Turning a minute to focus on our Asia franchise. With the closing of our acquisition of the Japanese REIT manager KJRM, the growth in our Asia Infra strategy, and our first Asia private credit fund, we continue to feel that we have a really differentiated position in a critical geography. Our Asia-focused capital has increased threefold since the end of 2019, now reaching $59 billion. Most recently, we have raised over $4 billion of capital so far for our Asia Infrastructure strategy, making the capital raised already larger than its predecessor, which at $3.8 billion was previously the largest Infra fund in the region. We now clearly have the number one franchise in a space that is a tremendous addressable market and real secular tailwinds. As a result of all of this activity, the moat that we have created around our Asia business continues to expand.

Finally, I want to take a minute just to review our long-term financial goals. As we have stated on the last few calls, we expect our FRE to be $4+ per share and our After-tax Distributable Earnings to be over $7 per share by 2026. These goals have not changed. And we continue to have a great deal of confidence in our ability to meet or exceed our targets. Relative to what we are all reading right now in many corporate headlines, KKR is in a really unique position where we have both the P&L and the business momentum to be able to continue investing back into our business for growth. It's one of the many reasons that we are all so excited about the long-term potential. And with that, let me hand it off to Scott.

**Scott Nuttall**
Thank you, Rob, and thank you, everybody, for joining our call this morning. A few weeks ago, we hosted a conference for our global Private Equity and Real Asset clients. People from around the world came and spent three days with us at our first in-person event like this since 2019. I thought today I'd share a handful of key takeaways from the event.

First, as a whole, investment performance has never been stronger across the Firm. This is a quarterly earnings call, so the discussion on investment performance tends to be focused on the last 90 days. But when you take a step back and look at inception to date IRRs across our key funds, we've been delivering differentiated, absolute, and relative performance for our clients.

Second, we've talked a great deal on these calls about how we're highly thematic in our investment approach. This was evident in all of the presentations. We think we got the macro right. And with volatility expected to continue and a more challenging economic environment ahead of us, it will be critical for us to continue to be on the right side of key macro trends and highly connected across the Firm.

Third, we've been balanced investors. As just one example, across our Traditional PE funds over the last 12 months, we've returned more capital than we have deployed. This is in contrast to perception and has helped us in the fundraising numbers that you've been seeing. Fourth, our newer businesses are off to a fantastic start. Over the last five years, we've launched a series of adjacencies that are early in their lifecycle. You're seeing innovation across our Firm. And in our experience, it takes 10 years for businesses to scale and inflect in a way that can move the needle. So, there continues to be a great deal of growth ahead of us.

And finally, our people. We have never felt better about the talent in the Firm. It was fun to be able to show off our deep bench at the conference. As we listen to three days of presentations and discussions, it becomes apparent we have a unified team that is focused on generating exceptional outcomes. Our numbers speak to the strength, quality, and resiliency, not only of our model, but of our most important asset, our people.

As we step back from the conference and the markets for a minute, while there's no doubt the operating environment has shifted compared to six months ago, we are not overly concerned with near-term volatility or the business cycle. In fact, nothing has changed about the path we are on. With record dry powder, multiple scaling businesses, a large and liquid balance sheet, and further innovation and expansion underway, our confidence level is high. And we find it is exactly times like this when we make some of our best investments and strategic moves. So, our outlook has not changed, and we are focused on capitalizing on the opportunity any short-term market behavior gives us to create even greater long-term value for all of us. With that, we're happy to take your questions.

**Operator**
Thank you very much, sir. Ladies and gentlemen, at this time, we will be conducting the question-and-answer session. If you would like to ask a question, please press star and then one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. We also request that you please ask only one question, and then join the queue if you have any further questions. The first question then is from Alex Blostein of Goldman Sachs. Please go ahead.

**Alex Blostein**
Hey. Good morning, everybody. Thanks for the question. Question on deployment and a bit of a multiparter, I guess, but all related. So, the $44 billion of committed capital, they'll turn on fees once deployed. Can you help break down which businesses these balances sit within? And how are you thinking about the pace and timing of deploying this capital over the next 12 months or so? What it means for management fees and transaction fees as kind of part of that? And I guess when you take a little bit of a step back, we've seen a pretty meaningful decline in sponsor-backed announcements in the space over the last month or two. To what extent is sort of tighter financial conditions do you think could weigh on KKR's ability to deploy capital?

**Rob Lewin**
Good morning, Alex. It's Rob. Thanks a lot for the question. When you look at the $44 billion of capital, that's up, I think, $8 billion quarter-over-quarter from last quarter, blended management fee rate on that is just north of 1%, 1.04%. And it's spread pretty nicely across our three asset management businesses. And so, in our Private Equity business, our Core Private Equity business would be reflected in that number. Across Real Assets, you see our Asia Infrastructure strategy where, so far, we've raised over $4 billion of capital, as Craig noted. That has not yet turned on, so it would be in that $44 billion figure. And then our credit business—most of our credit business, the closed-end funds are going to be turned on when that capital gets invested. And so, it's spread nicely across our three asset management businesses.

**Craig Larson**

And then, Alex—it's Craig. Maybe just on point two--I think as it relates to deployment, it's interesting, a couple of things. One, just on the stats Private Equity and Real Assets deployment in the first half of the year was $27 billion. That's up from $12 in the first half of last year. So, when you look broadly in terms of overall level of activity, you've actually seen a healthy amount of activity. Now, your point on the state of the credit markets, though, is certainly a fair one. I think we're seeing a couple of dynamics there. Announced M&A as a whole is down. So, I think when you look at new issuance, you're seeing that overall new issuance number is down. I think banks to us are feeling more cautious. So, I think when you're seeing both of those things reflected in terms of overall levels of activity in the private credit markets. But I think importantly, markets are open and functioning, and we still have the ability to finance transactions. We're not at a point where our ability to finance transactions is impacting our ability to get things done.

**Operator**
Thank you, sir. The next question is from Craig Siegenthaler of Bank of America. Please go ahead.

**Craig Siegenthaler**
Thanks. Good morning, everyone.

**Scott Nuttall**
Morning.

**Craig Siegenthaler**
I had a question on private equity performance. And I know it's just 90 days. But inside of the 7% mark for Corporate Private Equity, do you have the breakout of public versus private in the quarter? And also, do you have any color on the main funds like Americas XII, Next Gen II? Thank you very much.

**Rob Lewin**
Hey, Craig. Good morning. It's Rob. Thanks a lot for the question. Certainly, what you would have seen in the quarter is that our publics were down more than our privates. In part, that was impacted by an M&A trade where on one of our privates a strategic trade that resulted in north of $1 billion write-up on our private portfolio. I think you're right when you said it is only a 90-day period. I think that's important to put into context. We feel really good about how we valued our book this quarter. We spent a lot of time on it. Of course, we've got a mix of DCF and comparable companies that are going to flow through and impact our marks. I do think it's important, though, to think about coming into 2022 where our private equity performance was. And in 2019, we generated a 27% return for our investors. That was 17% in 2020 and 46% in 2021. So, we came into this period of volatility with a lot of embedded gains. If you invested $1 with us, there's a lot of ins and outs, of course, but just on those returns alone, in 2019, it would still be worth close to $2 today with some of the marks that we've taken in Q2.

**Scott Nuttall**
Yeah. I think the only thing I'd add, Craig, fundamentally, the companies are continuing to perform well. So, I think you're largely seeing some multiple contraction this quarter. But in terms of the underlying fundamental performance of the portfolio continues to be strong.

**Operator**
Thank you very much. The next question is from Jerry O'Hara of Jefferies. Please go ahead.

**Craig Larson**
Hey, Jerry. Are you there? We can't hear you.

**Operator**
Jerry, your line is open. Would you like to ask your--.

**Jerry O'Hara**
--How about now? Can you hear me all right?

**Craig Larson**
There we go. Hey, Jerry.

**Jerry O'Hara**
Okay. Thanks. Just actually hoping to get a little bit of an update on capital management. And it looks like just during the quarter, there wasn't any incremental buybacks or at least from the period from May 1st onward. Just kind of hopeful we might get a little bit of an update how you're thinking about that and potentially how we should think about it going forward.

**Rob Lewin**
Hey, Jerry. Thanks for the question. Like most things, I think in our business, probably looking quarter-to-quarter is a little bit less relevant than looking over time. And since we initiated our buyback program several years ago, we've bought back or canceled approximately 85 million shares. I think that's done, give or take, at around $25 per share, which is a little bit lower than our book value today. And so, when we look back at our body of work over the last several years, we feel good. In addition to that, if you look at Q2 in isolation, we had also completed the acquisition of KJRM, almost $2 billion and issued no equity as part of that. And so, as we think about capital allocation and buybacks, what we are most focused on as a management team is ensuring that we drive the highest level of profitability on a per share basis, and there's multiple ways of being able to get there. And ultimately, if we're moving our capital around in a way that maximizes ROE and we think that's a real core competency of ours, then ultimately, we will drive long-term best performance from a profitability on a per share basis. Our expectation is share buybacks are going to continue to be a part of that as we move forward.

**Operator**
Thank you very much. And the next question is from Brian McKenna of JMP. Please go ahead.

**Brian McKenna**
Thanks. Good morning, everyone. So, if I look at net realized performance income prior to 2021, it was running at about $1 billion annually for a few years despite varying operating backdrops. And then as the business scaled, that essentially doubled to $2 billion plus in 2021. And based on results in the first half of this year, you're still run-rating at about $2 billion. So, is this $2 billion run-rate level a reasonable expectation moving forward, despite the more challenging backdrop or if the volatility persists, do you think you'll trend back towards the prior $1 billion level? Just trying to get some additional perspective here, on the baseline level of realizations moving forward.

**Rob Lewin**
Yeah. Thanks a lot for the question. And so, we're probably going to stay away from providing levels of forward guidance, certainly on things like realization. I think what we will say, though, is that we've been really proud of our ability to be able to monetize through the first half of this year in a highly volatile environment. I think that speaks to a couple of things. Scott touched on the strength of our underlying portfolio. And no doubt, without real strong performance in our portfolio, we wouldn't have been able to achieve those exits. It also speaks to the diversification of our business model. And what we have talked about over time is a real scaling of our capital that is eligible for carry, as well as our deployment. And as a result of that, our expectation over time is you're going to see our carried interest and realized performance income scaling over time, and we think can be pretty significant scaling as we move out a number of years and some of our newer funds that are much larger start to get to scale and are maturing. So hopefully, that gives you a bit of color.

**Operator**
Thank you. The next question is from Patrick Davitt of Autonomous Research. Please go ahead.

**Patrick Davitt**
Hi. Good morning, everyone. It looks like the mark-to-market on the fee paying side of the AUM rolled forward was significantly worse than most people expected. So, could you flush out kind of some of the key drivers in the negative marks on the fee paying AUM side, maybe by strategy and/or vehicle? And in that vein, it looks like management fees actually came in more or less in line. So, is it fair to assume that the fee rate on the more negatively marked AUM was dramatically lower than the inflows?

**Rob Lewin**
Patrick, you hit it perfectly. So, the majority of that change in value is a result in really interest rates going up in the fixed income portfolio at Global Atlantic trading down. And so, that's what's driving it. And as you think about our fee rate on the Global Atlantic pool of capital, that's materially lower than the rest of our business. And so, that's why you end up in a scenario where our management fees are pretty disproportional to what you see in terms of the change in value on our fee paying assets.

**Operator**
Thank you. The next question is from Arnaud Giblat of BNP. Please go ahead.

**Arnaud Giblat**
Hi. Good morning. My question is on secondaries. Could you discuss your view on the outlook for secondary funds at this point in the cycle and how you're thinking about positioning there and gaining exposure either organically or inorganically? Thank you.

**Rob Lewin**
Yes. Thanks a lot for the question. We have nothing that's imminent to report as it relates to secondaries, whether that's organic or inorganic. It's a space that we continue to look at with interest. It is certainly adjacent to our Core Private Equity strategies across the Firm. And so, it's one that we're spending time on. I think what's important to note is we've talked about our goals, our financial measures that we expect to achieve over the next four to five years generating $4+ of FRE. That's based on principally things that KKR is doing today that doesn't rely on any inorganic activity. And so, while we'll continue to look at the space and spend time on it, there's a lot of areas that we're focused on at KKR that are in front of us that we've started where we have track records, and we've got a lot of opportunity to scale this.

**Operator**
Thank you. The next question is from Brian Bedell of Deutsche Bank. Please go ahead.

**Brian Bedell**
Great. Thanks. Good morning, folks. Thanks for taking my question. Maybe just to focus on the Real Asset segmentation and more strategically and how you're thinking about it. I guess a two-parter. First, are you—you've already built this business, obviously, hence this—the reason for or justification for segmenting it out, but is there also a change in management focus in focusing on this area disproportionately going forward? And then the second part of that is, on the Infrastructure side. Can you talk about your view on energy transition? I don't know if that would fit into an Infrastructure strategy or whether you would consider over the long-term raising an energy transition fund. And maybe just your views long-term in that area given that you've got a lot of focus on Real Assets broadly in general.

**Craig Larson**
Hey, Brian. It's Craig. Why don't I start? I'm sure on the overarching question you're asking, Scott will add. Look, I think in terms of the two businesses you mentioned in Infrastructure, you're right, we have seen really dramatic scaling in both of those businesses. If you go back to our Investor Day in April of last year, we walked through Infrastructure as a case study of how honestly we look to build investment platforms. Begin with strong performance of flagship strategies and then look to scale and innovate at the same time. And that innovation can come geographically as it did with Asia Infra, and it also could come in terms of expansion into new risk/reward as we've seen also with Core Infra.

So, we have, at this point, three distinct market segments in Infra. We've got the Global Infra fund series, Asia Diversified Core. It's interesting at that Investor Day, again, a little over a year ago, we gave some goals or targets we set out. AUM at that point was $17 billion. We estimated that Infra AUM at the end of this year would exceed $30 billion. We're in the high $50s now. So, we've obviously had a lot of success there, all organic. We talked of management fees doubling from $150 to about $300 for 2022. Through the first six months, we're at $170. So, we're comfortably on our way to exceeding that target. And in terms of Real Estate, really from a blank—beginning with a blank slate in 2013, the platform has grown into a powerful, fully integrated platform, $60 billion of AUM today, split pretty equally between debt and equity. We have over a dozen vehicles with independent economics.

I think when we look at how we're situated and the opportunities for continued growth, on top of that, we feel great about how we're positioned. And then you're right, as it relates to the opportunities that we have to continue to grow and invest in a lot of the areas of ESG. I think to date, you've seen that both through our Impact strategy. You've also seen that through our Infrastructure strategy. So, nothing new to report on that as it relates to how we think about renewals or a dedicated strategy along those lines, nothing to report today. But I think you'll continue to see that as a real focus of ours. It's absolutely one of the six or seven core themes that we're pursuing on a global basis.

**Scott Nuttall**
Yeah, Brian. Just in terms of your question on the strategic focus, is there any change? The answer is no. I think it was really just recognition that these businesses had scaled, both Infrastructure and Real Estate were efforts that we started post financial crisis. And we've been in business building mode. And we continue to be. But we found that there was, at times, a bit of a misunderstanding under the Private Markets prior segmentation. There is periodically a presumption that that was mostly Private Equity. And that's just not the case, as you can see in the chart. Just to give you a sense for the numbers, we deployed about $40 billion in the first half of this year, Real Assets was $17 billion of the $40, Credit was $13, and Private Equity was $10. So, to the—partially pick up the prior question on the deal environment, Private Equity has been sub-25% of our deployment over the last 12 months, give or take, and Real Assets just a larger and larger part of our Firm. So, we thought it was time to break it out and share it with you more explicitly going forward, but no change in focus.

**Operator**
Thank you, sir. The next question is from Finian O'Shea of Wells Fargo Securities. Please go ahead.

**Finian O'Shea**
Hi. Good morning. A question on BDCs, one of your peers lowered its fee pretty meaningfully this morning. Seeing if you have any initial take on what that might mean for the product line and maybe if this is more of a first mover or just a one-off for that group. Thank you.

**Craig Larson**
Hey, Fin. It's Craig. Thanks for the question. FSK is obviously a publicly traded entity. It's got its own management team, its own shareholders, its own board. So, really, it's probably a better question for their upcoming earnings call and not ours. Just in terms of FSK, broadly, we're really pleased with the performance of the business and the progress that we've seen over the last couple of years. But in terms of your specific question on fee structure, we point you to FSK.

**Operator**
Thank you, sir. The next question is from Michael Cyprys of Morgan Stanley. Please go ahead.

**Michael Cyprys**
Hey. Good morning. Thanks for taking the question. I was hoping you could talk about retail on the private wealth side. Hoping you could just update us on some of the initiatives there that you have on the retail side. How much was raised in the quarter? Maybe where that sits from an AUM standpoint today. And more broadly on retail, talk about some of the distribution initiatives in the private wealth channel, including around the KREST product and platform expansion. And just a quickie for a cleanup question for Rob at the end, just around the amount of capital raised and monetized off the balance sheet in the quarter. Thank you.

**Craig Larson**
Thanks, Mike. So, why don't I begin? Just first, as it relates to overall AUM, we have about $70 billion in total. That's in three buckets. That includes funds and strategies that we market through channels. That also includes the efforts of our own team that is focused on direct sales and activities with wealth and private wealth and high net worth and ultra high net worth individuals. And then that also includes the democratized piece that you're mentioning, which was a hair below $6 billion as of June 30.

In terms of the update on the democratized front, so first on KREST. So, reminder on KREST, we began taking third-party capital in June of 2021. As of June 2022, it was $1.3 billion. It crossed that $1 billion threshold earlier this year, obviously. We believe that's the fastest that any private REIT has crossed that threshold. Performance has been very strong. Net annualized returns net north of 20%. And the distribution footprint is growing, which is great to see. So, as I know you will be well aware in particular, there are three main wire houses in the U.S. KREST has been on one of those since launch. It was onboarded at a second quite recently within the last week actually, and it's scheduled to be launched on the third in the coming weeks, so also in Q3. And these are important milestones for us with the wire houses. And at the same time, we're focused on expanding distribution. That's true as it relates to the RIA and broker-dealer channels domestically, as well as the private wealth channels internationally.

So, we feel great about the long-term path that KREST is on, the performance it's delivered and the opportunity ahead of us. And then as it relates again to the—just your questions on the democratized where we are holistically. Again, AUM in total was $5.7, a year ago it was at $3.5. We've been hiring distribution talent, and we expect to continue to do so as we think about broadening distribution of these products.

And then finally, you're going to see more innovation here. So, we expect over the coming two or three quarters we'll have launched democratized Infrastructure and Private Equity strategies, and we expect to see those launched quite broadly, both in the U.S., as well as internationally. So, I think to date, these democratized products have really been focused in Real Estate and Credit, and it feels to us like there's real interest in expanding those opportunities into additional asset classes like Infra and PE where, honestly, there's a lot more white space for us. So, I think with our track record, our ability to innovate, the brand, how we're positioned, it just feels like we're really well positioned.

**Rob Lewin**
And then my quick follow-up, in the quarter, we had realizations of about $400 million off the balance sheet, deployment of about $800 million, and that $800 million does not include the roughly $1.7 billion that went into the KJRM acquisition.

**Operator**
Thank you, sir. Our next question is from Rufus Hone of BMO Capital Markets. Please go ahead.

**Rufus Hone**
Great. Good morning. Thanks for taking my question. I wanted to come back to the fund performance in Traditional Private Equity. Could you give us a little more detail around the fundamental performance of the portfolio companies? You gave us some helpful metrics related to the Core PE book, and I was wondering how that was tracking relative to the Core book. And could you also update us on the marks in Growth Equity this quarter? Thank you.

**Craig Larson**
Sure. And, Rufus, you cut out on the second part there. So, I'll let you repeat that—or actually, if you could repeat that in a second. So, it was private equity portfolio. And then what was the second part?

**Rufus Hone**
It was around the marks in Growth Equity this quarter. If you could provide us any detail, that would be great. Thank you.

**Craig Larson**
Got it. First, as it relates to the revenue and EBITDA trends, I think, as Scott noted, at the outset, we've been really well situated given the focus we have and the themes that we've invested behind. So, the underlying performance of the portfolio companies continues to be quite strong. So, we're in—looking back historically and we look at this on a fair value weighted basis, the revenue and EBITDA growth that we've seen in the private equity portfolio is in double

digits on a trailing 12-month basis. So, we've been really pleased with the resiliency that you've been seeing in terms of the underlying Private Equity portfolio.

And then as it relates to the Growth strategies that we've seen and performance this quarter, again, recognizing that the S&P and MSCI were down 16% in the quarter, our Next Gen Tech portfolio was down in the low double digits. Health Care was actually up modestly in the quarter. So, I think in the quarter, a really volatile period, we feel good about that overall performance and, in particular, feel very good about the performance and the experience that our LPs have had on an inception-to-date basis.

**Operator**
Thank you very much, sir. The next question is from Chris Kotowski of Oppenheimer and Company. Please go ahead.

**Chris Kotowski**
Yeah. I thought Craig's discussion of the equity participation was interesting. But both of the examples you listed were kind of traditional Midwestern industrial companies. And so, I'm wondering that kind of deep equity participation, is that a strategy that you kind of pursue across the board in all your transactions, whether it's private equity, energy, health care, growth, or do certain industries lend themselves to this kind of deep broad participation and others don't? And just kind of curious how you think about employing that strategy strategically.

**Scott Nuttall**
That's a great question, Chris. It's Scott. And astute. So, you're right. We actually started piloting this program with our U.S. industrials Private Equity investments, and this was a bit over 10 years ago that we started this effort. And so, some of what you're seeing is some of those early investments now being exited, which is why you got C.H.I. and MRP as the two examples that have happened in the very recent past. What we have done, though, now that we've kind of developed this strategy, is we are rolling this out across all of our control investments in Private Equity starting in North America, and we're actually looking at it now for Europe and potentially Asia, as well. So, it was piloted there, and we're now expanding across everything that we do that's control. So, there'll be more to come on this, but we've been really pleased with the results. And we think this effort is applicable across industries and geographies.

**Operator**
Thank you, sir. The next question is from Robert Lee of KBW. Please go ahead.

**Robert Lee**
Great. Thanks. Good morning. Thanks for taking my question. I guess, I'll actually have a little bit of a multi-parter. So, the first one is maybe, Rob, if you could update us on where things stand this quarter so far as you're thinking—as you're looking ahead for realization activity. And

then second question on—really on the insurance business. Could you give us a sense of kind of Global Atlantic contribution to flows, organic growth this quarter, kind of how that business—should be a very good environment for, obviously, annuity sales and maybe update us on the momentum of that business and with that kind of current spread expectations?

**Rob Lewin**
Yeah. Hey, Rob, I'll take both of those. And so, on the monetization point, another positive area for us this quarter, and I think continues to show the momentum. So, as we sit here today, based on transactions that have happened or where we have deals that have been signed up and we expect to close this quarter, we have visibility to around $500 million of monetization related revenue. So, again, some pretty good momentum on the monetization front in spite of the environment that we're in. And if we achieve those numbers, ballpark, will be about 75% realized performance revenue and the balance from realized investment income.

As it relates to Global Atlantic, you are right, in a rising rate environment. I think we see a little bit more momentum certainly in the individual channel from a sales perspective, and flows this quarter were really strong. They were about $6 billion of total inflows in the quarter, which is a great quarter for GA. Again, there's no block activity in that number. And the spread, give or take, around 100 basis points in the business. And so, we're feeling really good about how GA is positioned going into this period of time, and their relationships across the bank and broker-dealer channel I think have served them really well and to take advantage of what is quite a pliant environment in terms of annuity sales.

**Robert Lee**
Thank you.

**Operator**
Thank you, sir. The next question is a follow-up from Brian McKenna. Please go ahead.

**Brian McKenna**
Great. Thanks for the follow up. Just on the quarter-to-date realizations, how much of that $500 million is tied to the C.H.I. transaction? And it might be a little early for this, but how has Marshall Wace been performing year-to-date? Just trying to think through what that incentive fee might look like in the fourth quarter. Thanks.

**Rob Lewin**
Yeah, sure. Thanks, Brian. And so, we're not going to give specific numbers on individual deals as it relates to the Q3 monetization. I think the punchline is, we feel pretty good across the board in terms of our ability to generate monetization outcomes at least so far this year. And you've seen that in Q1 and Q2, and we're off to a good start in Q3. As it relates to Marshall Wace, maybe just take a step back. We feel great about that partnership. They're north of $60 billion of AUM today. When we started that partnership, that business was right around $20 billion of AUM, maybe a touch below. So, they've done just a phenomenal job on behalf of their

clients and have grown considerably as a result. Again, year-to-date, they've got a bunch of different strategies. But overall, their performance has been strong. It's been on the positive side. We'll see how things wrap up between now and the end of September. As you know, that will dictate their annual incentive fee for most of what they do. And so, as we sit here today, they're in positive territory, certainly not quite like last year, but we feel overall just great about that partnership so far.

**Operator**
Thank you. The next question is a follow-up from Rufus Hone. Please go ahead.

**Rufus Hone**
Great. Thanks for taking the follow-up. I wanted to come back to your earlier comments around returning more capital to LPs than you've deployed, and that's helping conversations in Private Equity. And I was wondering whether you've seen any change in LP appetite for Core private Equity, and how do you view the outlook for deployment there? Thank you.

**Craig Larson**
So, I think we feel—and, Rufus, thanks. I think on Core, we're just really thrilled with how the business is positioned, the opportunities for us, as we think about our trajectory going forward. Now, just to give you a sense, two years ago, AUM was $12 billion. As of June 30, that number is $32. And you're going to see that through our balance sheet. You'll see that through the management fee line. Over time, with continued performance, you'll see that in investment income. And again, you're going to see that over time as it relates to capital markets. So, we have a number of ways to win, which is exciting for us. That business is global. So, I think it's just—it continues to feel like the business is wonderfully well positioned. On the deployment outlook, again, we're in a choppy environment. So, we'll have to see the willing buyer, willing seller dynamic, certainly, but as we think about the long-term trajectory and opportunity for us, just feel exceptionally and uniquely well positioned.

**Rob Lewin**
Yeah. Just a quick follow-up there, Rufus. So, of our $115 billion of dry powder, approximately $13 billion of that is in Core Private Equity. So, we came into this period of time with a lot of firepower in that part of our business. And as Craig said, we feel pretty advantaged. And as we think about owning businesses in that part of our business for a 10- to 15-year period of time, gives you just a different lens in being able to evaluate acquisition opportunities and some of the things that might matter more in a three- to five- to seven-year investment might matter a little bit less when your hold period is for that duration of time. So, we would continue to expect there to be a real deployment across that business over the next several quarters.

**Scott Nuttall**
Yeah. Just more broadly, as a reminder, Rufus, as we came into this period of time in a really fortunate position around PE broadly, that we had raised the vast, vast majority of the capital for our flagship private equity funds before this year started, including the vast bulk of the

capital for our Core strategy. So, while investors maybe take a little bit of time to get their bearings on PE in particular, that's not really impacting much what we're seeing in terms of PE fund raise. The vast majority of capital we're raising right now is around Credit and Real Assets where we continue to see a good amount of interest.

**Operator**
Thank you, sir. Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would now like to turn the call back to Craig Larson for some closing comments.

**Craig Larson**
Chris, thanks for your help, and thank you, everybody for joining us. We really appreciate the time and attention on our quarterly results. And if we don't speak with you in between, I look forward to chatting with everybody next quarter. Thank you again.

**Operator**
Thank you, sir. Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time and thank you for your participation.