KKR & Co. Inc.
Third 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
Patrick Davitt – Autonomous Research
Bill Katz – Credit Suisse
Brian Bedell – Deutsche Bank
Arnaud Giblat – BNP Paribas
Michael Cyprys -– Morgan Stanley
Rufus Hone - BMO Capital Markets
Chris Kotowski – Oppenheimer

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's Third Quarter 2022 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference will be open for questions. If anyone should require operator assistance during the conference, please press "star", "arrow" on your telephone keypad.

As a reminder, this call is being recorded.

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

Craig Larson
Thank you, Operator. Good morning, everyone, welcome to our Third Quarter 2022 Earnings Call.

This morning, as usual, I'm joined by Rob Lewin, our Chief Financial Officer 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.

I'm going to begin the call by spending a few minutes walking through the quarter.

So, we look at our results and think they really highlight the resiliency of our business model. Our management fees for the quarter were $671 million. That's up 20%, compared to Q3 of last year.

Management fee growth for the quarter, as well as over the last 12 months, has been most meaningful within our real assets business which, as you'll recall, we began reporting separately, last quarter.

Net transaction and monitoring fees were $168 million for the quarter with capital markets contributing $116 million.

To go through our expenses, our fee related compensation margin, consistent with prior quarters, was 22.5%, and other operating expenses increased modestly from last quarter, coming in at $146 million.

In total, our Fee Related Earnings grew to $542 million, or $0.61 per share with an FRE margin of 61%. This is now the eighth consecutive quarter that our FRE margin has exceeded 60%.

Next, realized performance income was $498 million with realized carried interest, driven by monetizations of C.H.I. Overhead Doors, Fiserv, as well as Max Healthcare.

Realized investment income was $285 million, driven by similar monetization events.

Adding these two lines together, still looking at realized performance income, together with realized investment income, really to get a complete picture of our monetization activities, total realized gains for this first nine months of the year are 10% ahead of last year.

Given all of the volatility experienced across markets in 2022, we think this speaks to the breadth of our platform and, again, the resiliency of our business model.

So, overall, our asset management operating earnings were $959 million, and our insurance segment had another very strong quarter generating $127 million of operating earnings.

Together, this resulted in After-tax Distributable Earnings of $824 million, or $0.93 per share.

Turning to investment performance, you can see the details of the quarter and the LTM period on Page 7 of the press release.

Just looking at this page, the traditional private equity portfolio was -4% in the quarter, compared to broad indices that were -5% to -6%.

And over the last 12 months, the PE portfolio was -8%, compared to the S&P 500 and MSCI World Indices that were -15% and -19%, respectively.

In real assets, our portfolios continue to perform, again in a quarter with a lot of volatility. The opportunistic real estate portfolio was -1% in the quarter and +11%, over the last 12 months, while the infra portfolio was up 1% in the quarter and is +5%, LTM.

On a leveraged credit side, the portfolio was +1% in the quarter and -5%, over the last 12 months. And our alternative credit portfolio was -1% for the quarter and +3% in the LTM.

There's been meaningful volatility in the credit markets, over these periods, as well. The high-yield index declined 1% in the quarter and is off 15%, over the last 12 months, just as a point of comparison.

In terms of our balance sheet investments, investment performance was flat in the quarter and -5%, over the last 12 months.

Core private equity, which Rob will touch on in a moment and is still our largest allocation, was up 2% in the quarter and is up 8%, over the LTM.

Turning to fundraising in the quarter. We raised $13 billion, bringing new capital raised to $65 billion, year-to-date.

With that, our assets under management increased to $496 billion and fee paying AUM now totals $398 billion. To help put these figures into perspective, over the past two years, both our AUM and our fee paying AUM have more than doubled.

We also continue to deploy capital with $16 billion invested in Q3. Credit strategies invested $7 billion in the quarter with the remainder of the quarter's deployment roughly split between real assets and private equity.

And with that, I'm pleased to turn the call over to Rob.

Rob Lewin

Thanks a lot, Craig, and good morning, everyone.

Let me start by saying a few words on the operating environment.

As you know, the third quarter, and really the first nine months of 2022, were very challenging across markets.

High levels of inflation are clearly impacting global consumers, while the sharp increase in interest rates has had multiple knock-on effects that will, invariably, slow much of the global economy.

In turn, equity and bond indices have been very volatile and virtually all of them are down significantly, year-to-date.

And capital markets activity has meaningfully slowed. Global equity and credit issuance is significantly below historical norms.

Now, despite all of this volatility and uncertainty, the overall mood and sentiment across KKR is quite positive. And we thought it would be worthwhile this morning to go through five key reasons why we feel the way we do.

First, let me remind you why our business model positions us well for periods like this one. There are a few key reasons why.

About 90% of our capital is perpetual or committed for an average of 8 years or more, from inception. Our management fees are largely calculated on committed or invested capital and, as a result, are more insulated from fluctuating NAVs of our funds.

Therefore, much of our management fees are highly predictable and that visibility, in turn, provides us with the continued ability to invest back into the firm for growth.

We also have $43 billion of committed capital yet to turn on that has a weighted average management fee rate of about 100 basis points.

And finally, and maybe most critical in moments like these, we have $113 billion of uncalled capital from our investors that we can use to invest into the current dislocation.

While those statistics are all meaningful in their own right, I think it’s also helpful when viewed in comparison to where we were as a firm, even a short while back.

Two and a half years ago, March 31, 2020, so right as we entered COVID, we had $57 billion of dry powder with $19 billion of committed capital yet to earn management fees. That compares to the $113 billion and $43 billion I mentioned a moment ago.

So, both of these figures have doubled, more or less, over the last two and a half years.

And when you consider our relative positioning as a firm, those numbers don't account for the significant increase we have had in perpetual capital, largely due to our partnership at Global Atlantic and our acquisition of KJRM, as well as the meaningful increase in the diversification of our business, both by geography and strategy.

This brings me to my second reason for optimism. We're fortunate, due to our fundraising success and definitely a bit of luck on timing, that we are in a position to deploy a significant amount of dry powder with asset prices more dislocated and while capital is quite scarce.

As a result, we're starting to become a lot more constructive on our opportunity sets. We are already finding opportunities across the credit landscape. Our real estate and corporate credit teams are all very active.

But more exciting is our outlook for the coming 12 to 18 months, across all asset classes and geographies.

We are mobilizing our teams and resources against what we see as a growing opportunity to put our client capital to work.

Take, for example, in private equity. Often times, our best vintages result from investments made during periods of market distress. Think the early 2000s, the GFC or what we went through a couple of years ago.

We think 2023 can present such an opportunity. And the key here is that we have really set ourselves up to be able to outperform in this environment, given our expertise and breadth across geographies, industries and asset classes.

And most importantly, our culture really incentivizes our people to work across the firm to ensure that both information and capability travel and that we can make each other better.

As a result, we are uniquely positioned to find creative and attractive investment opportunities.

Turning now to performance, which is my third point, please turn to Page 8 of the earnings release.

As Craig went through, every quarter, we report our investment performance for the quarter and trailing 12 month period, across our major asset classes. This really, though, only tells part of the story, as it doesn't capture investment return since inception.

These funds all continue to outperform their comparable public indices. Our clients, really in all channels, rely on us to produce differentiated outcomes, compared to what they can achieve in traditional asset classes.

And that is just what we've been doing.

Now to be clear, we certainly have today, and will in the future, a handful of more difficult situations to manage. But our thematic approach, which we have talked about many times, and our focus on portfolio construction, are two critical reasons why you see this kind of outperformance.

Which brings me to my fourth point; the strength of our fund performance continues to allow us to raise capital from our investors.

Q3 new capital raised of $13 billion brings year-to-date fundraising to $65 billion. To put that number in perspective, that's already our second-best year of fundraising ever, and we still have a quarter to go.

Even more notably, this was against a much more challenging fundraising backdrop in the past few years and without many of our largest flagships in the market.

And looking ahead, over the next 12 to 18 months, we continue to have a really active calendar. I remain constructive about the outlook for scaling our strategies that are coming to market.

And finally, I want to turn to my fifth point and focus on the competitive differentiation that our balance sheet creates in periods like these.

There's not a corporate that I know that doesn't wish they had more capital availability right now. And we are very confident in our ability to deploy our excess capital in opportunities that can both generate compelling investment returns and also help build and scale the firm, at the same time.

Part of what generates this confidence is the strength of our existing investment portfolio. Our focus on asset allocation, and really where the puck is going, has served us well.

While the S&P 500 declined 15%, over the last 12 months, our balance sheet was off only 4.7%. And over the last three and five years, our annual returns have been 16% and 14%, also, several hundred basis points ahead of the S&P over these periods.

One of the key drivers of this outperformance is the shift that we made a few years ago to increase our exposure to real assets. The fair value of our real assets investments have increased from $2.4 billion, two years ago, to $4.2 billion, as of 9/30, and today represent almost a quarter of our investment portfolio.

Our largest allocation on the balance sheet remains Core private equity, and this really gets into business building and how the balance sheet allows us to play offense.

As a reminder, Core PE is a long-duration investment strategy, where we expect to hold these investments for 10 to 15+ years and believe they carry a more modest risk-return profile, compared to our traditional private equity model.

We're looking for mid- to high-teens gross IRRs that we can compound for north of a decade. These are businesses we believe have strong secular tailwinds with defensible market positions, solid cash flow dynamics and as a result, benefit from a more stable earnings profile.

So, from a standing start six years ago, we've put together this really incredible global portfolio of 17 companies with $32 billion of AUM that is both third-party capital, together with balance sheet capital. We believe we have the largest Core PE asset management business in the world.

And as shareholders, we are all participating in Core PE through the compounding of value on our balance sheet, alongside the management fees, capital markets revenue, fee-related earnings and carried interest that is generated, over time. That combination is incredibly powerful.

Our acquisition of Global Atlantic in July 2020, right on the heels of COVID, is perhaps the best example of how our balance sheet positions us to play offense when others could not, during that period of severe dislocation.

We have deep conviction that GA can be a long-term compounder of capital, much like Core private equity, and we are partnered here with a first-rate management team. So far, GA has been performing exceptionally well.

Over the last 12 months, they have generated an ROE of about 21%, well ahead of our expectations. While AUM has increased from approximately $70 billion at announcement to over $130 billion as of 9/30, really helping to also drive our asset management economics.

Core Private Equity and Global Atlantic are great examples, but they're just two of many. We know that our model will continue to allow us to find ways to use the balance sheet where we can simultaneously generate compelling investment returns and also use it to grow and scale the firm, at the same time.

We have also created a liability structure on our balance sheet that allows for playing real offense in this environment.

We have very intentionally funded ourselves with long-dated liabilities that have fixed cost of capital. The average maturity of our recourse debt is around 20 years, and it is a weighted average fixed coupon of approximately 3%, after-tax.

Obviously, that just isn't replicable today and represents a huge asset for us right now. With all of this, hopefully it's clear why we remain so excited about our long-term opportunities.

So, in summary, (1), our model is durable and diverse with significant recurring revenues. (2), the next 12 to 18 months should present great deployment opportunities and we are extremely well positioned to invest into them.

(3), we are generating excellent investment performance on behalf of our clients. And (4), our fundraising success has been notable, especially given the backdrop, and we remain very well positioned to achieve growth from here.

And finally, (5), our balance sheet is a strategic differentiator whose value is even more meaningful in moments like these.

The opportunity set in front of us over the next five to 10 years is immense, and we have never felt better positioned competitively. That's why the tone inside the firm is so constructive right now.

Our long-term goals that we have articulated for 2026 are unchanged, and we have a great deal of confidence in our ability to achieve them.

And with that, Scott, Craig and I are happy to take any questions that you have.

Operator
Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*', "2", if you would like to remove your question from the queue.

We ask that all analysts will limit themselves to one question. You may re-enter the queue by pressing "*", "1", if you would like to ask a follow up. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

One moment, please, while we pull for questions.

Our first question is from Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein

Hi, everybody, good morning. Thanks for the question. Apologies for a two-parter but promise they're kind of related. So, just starting with private equity. So, financing costs are obviously up pretty meaningfully, growth slower, credit spreads are widening.

So, I hear the optimism to deploy capital, but curious how you're thinking about deployment in private equity specifically, and how are the return profile of where you could deploy money today varies versus what you could have done a couple of years ago?

In other words, are you still underwriting to high teen to 20% IRRs? And I guess, are the lower multiples, the lower entry multiples enough to offset both the growth headwinds as well as higher financing costs. And then I had a quick follow-up just on the growth in private equity management fees for the next 12 to 18 months.

Craig Larson
Alex, thank you for the multiple parter. Why don't I start. Look, a couple of observations just on deployment. One, public market and--why don't we start there--public market valuations have obviously come down very meaningfully.

Our macro team does this work every quarter where they look across a breadth of markets and asset classes and look at current valuations versus a 20-year average. And Japanese equities, as an example, are at 8% of their long-term average. That's just one example. That's a pretty remarkable statistic.

And at the same point in time, capital is obviously very precious, as you noted. So, I think the combination of markets coming down, together with capital being very precious is a great thing for us. And we have lots of tools at our disposal in terms of finding ways to be relevant.

I expect you remember our deployment history during COVID, again, in a period which even arguably was more dramatically dislocated and more dramatically shut down. I think we feel great about the connectivity that we had as a firm and the opportunities that we were able to find in terms of deploying capital in private equity and private markets, broadly.

And I guess the final thought that I'd make, just as it relates to the financing market is, look, we have 70 people, globally, in our capital markets business and the strategic value of this business increases during periods of volatility and distress.

And so, I think as it relates to our ability to finance transactions, given our position, the best-in-class talent we have here on a global basis, our ability to access and finance the capital markets during periods of distress is actually something that we think of as being as a real competitive advantage of ours.

Scott Nuttall

Alex, it's Scott. Just a couple of things I'd add on to what Craig said. You're right. Financing costs are up. I'd say multiples, generally speaking, are down more than financing costs are up.

And if you look kind of over time and you run out the math, paying a little bit more to get the financing in place doesn't have that large an impact on returns, as long as you've got the right assets, the right thematic and you're able to make the company better while you own it.

So, the bottom line is we are still pricing the IRRs to where we were before. It's just a bit of a different mix.

Rob Lewin
And then, Alex, switching to your question as it relates to management fees across private equity and growth from here, obviously, as you know, a couple of our big flagships, we got done over the last 12 to 24 months.

But we continue to raise a number of adjacent products that we're excited about that are in their scaling phase. And also remember that our Core private equity business is a business that generates management fees as capital is deployed, as opposed to committed capital at the onset of the fund.

And so, as we continue to deploy capital and Core private equity, you should see some natural growth there, as well. So, we're constructive, as it relates to growth in our private equity management fees over the coming quarters. And then obviously, at some point there in the future, we'll have a re-raise of our flagship strategies.

Operator
Our next question comes from Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler
Thanks, good morning, everyone. So, my question is on Global Atlantic. I wanted to see how early-stage credit quality metrics have trended inside of GA in 3Q. And we know it's coming off very strong levels, but have you seen a pickup in delinquencies, non-accruals, criticized assets, OTTIs.

And then if the U.S. does enter an economic recession next year or at least if the economy does slow a lot, do you expect to see a pickup in OTTIs next year off of a very, very low base currently?

Rob Lewin
Great. Hey, Craig, thanks for the question. So, the short answer is that we have not seen any deterioration of credit quality, across Global Atlantic. And as you look forward and as you look at different sensitivities, we feel really good with how that book is positioned.

I would note that their NAIC rated assets, that 95+% of them are NAIC 1 or 2, so investment grade in nature. And so, we feel really good about the underlying strength of the book at Global Atlantic.

Craig Siegenthaler
Great, thank you, Rob.

Rob Lewin
Thanks, Craig.

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

Jerry O'Hara
Great. Thanks for taking the question this morning. Just kind of circling back, I guess, on some comments made in some of the recent quarters, just around the expansion of platform distribution for some of the democratized retail products. Hoping we could get an update there and perhaps, any kind of commentary around flows in the quarter would also be helpful. Thank you.

Craig Larson
Hey, Jerry, it's Craig. I'm glad you asked about it. Why don't I start? First, just to your specific question on flows. We did see new capital raised in the quarter slow versus Q2. With volatility in the quarter, I guess we're not really terribly surprised by that.

So, new capital raised across all of our democratized products was about $500 million in the quarter, and KREST would have been about half of that.

Now what that doesn't tell you is all that's going on under the hood because there's quite a lot. I think first, just as it relates to KREST and distribution, there are three main wirehouses in the U.S.

As you know, we've been on one of those since we launched 15 months ago, and we're really pleased with our market share and our positioning, there. We were added to a second wirehouse in August and then launched on the third, right at the very end of September.

So, with all the volatility in the quarter and the timing of these launches, you're not really seeing the impact of that in our 9/30 numbers, but the breadth of our distribution there certainly increased in the quarter.

Second, we did make a series of filings, as you may have seen on our Infrastructure product. Now unfortunately, now that we have an active registration statement on file, there isn't a lot of additional detail we can give you here because of the SEC's private placement rules, but I wanted to highlight that as something noteworthy.

Third, we have made additional filings on additional private equity, as well as credit products in the quarter. And fourth, we continue to hire and onboard and build the team that's focused on this opportunity for us.

I think the main takeaways, if you were to kind of step back from the 90-day period, if you will, is we expect to have democratized products across our four main asset classes: real estate, infrastructure, private equity and credit.

This continues to be a real priority for us, and the great news for us, one, this is a huge end market. It's a massive opportunity. And in many ways, it's all upside for us, and it continues to feel like we're really wonderfully well positioned against this just enormous opportunity.

Scott Nuttall
Yeah, the only thing I would add--Jerry, it's Scott--as Rob mentioned, that we continue to feel great about what we shared with you in terms of our growth plans, through 2026. We had very little on private wealth in those numbers.

So, to Craig's point, this is all in front of us and upside for us relative to what's in the firm today. And hopefully, it will provide upside to the trajectory we shared with you at our Analyst Day amongst other quarterly calls.

Operator
Our next question is with Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt
Good morning, everyone. Could you give us an update on the announced but not closed realizations for 4Q? And then maybe taking a step back, any updated broader thoughts on the potential for realized cash flow to come down over the next few quarters into next year given the decrease in net accrued carry and more difficulty getting deals done?

Rob Lewin
Hey, Patrick, thanks for the question. Based on transactions that have happened or where we have deals that have either been signed up or we expect that have closed or we expect to close this quarter, we've got approximately $350 million of realized performance revenue and realized investment revenue that we feel good about. So, continued momentum on the monetization front, in spite of the environment.

And if we achieve those numbers, and this part’s important, ballpark around 30% comes from carried interest and the balance from realized investment income and incentive fees that will come in at that lower comp range. And so a higher flow-through on monetization is at least what we've got, quarter-to-date.

In respect of realized monetization revenue in the future, of course, some of this is going to be impacted by the environment. And I've said this before, we don't need straight line up markets. What we need are periods of time where volatility is down and pockets of time where volatility is down to be able to monetize our portfolio.

And while you're right, we've taken some marks as an industry and as a firm, we still have approximately $9 billion of embedded revenue that sits on the balance sheet across our carried interest line item, as well as our balance sheet.

And so, that's the fair value of those assets relative to their cost that gives us a good bit of visibility in terms of generating meaningful revenue in the future, when we do get those pockets or opportunities to be able to monetize our portfolio.

Operator
Our next question is from Bill Katz with Credit Suisse. Please proceed with your question.

Bill Katz
Okay, thank you very much for taking the question this morning. So, maybe circling back to the insurance platform. Just wondering if you could talk a little bit about the implications of higher interest rates, as it relates to any kind of lapse or surrender dynamics and/or block opportunities. Thank you.

Rob Lewin
Yeah, hey, Bill, it's Rob. I'll take this, or I'll start. Overall, the punchline is we think GA should be a net beneficiary of a rising rate environment for a couple of reasons, and I'll touch on surrenders at the end.

One, flows should be better, both on the individual, as well as on the institutional side of that business. I think on the individual side, it's just easier to be able to sell and distribute a 4% annuity than it is a 1.5% annuity.

And then on the institutional side, you referenced blocks. We should benefit, here. We're seeing this in our pipeline because all things equal, our reinsurance clients are going to realize lower losses in a higher rate environment. And so, I think that's why you're seeing our pipeline pickup on the block side.

As it relates to the balance sheet, specifically, assets and liabilities are pretty tightly matched at GA, as you know. So, we don't expect much impact here, but we definitely do have some floating rate exposure. And so overall, we should be doing better on the balance sheet in a higher rate environment.

And then you mentioned surrenders at the end. It's still early, of course. But so far in 2022, as well as in Q3 of 2022, we've experienced lower surrenders than what we were expecting.

We attribute a good part of this to the design of our products, which disincentivize policyholders from surrendering before they are expected to do so. And so, as you think about Global Atlantic and our policies, but 75% of those policies either have surrender charges or aren't able to be surrendered get back to product design and why we feel like we've got our arms around that kind of a risk in a rising rate environment.

But of course, something that we continue to watch. But the punchline is, we think in this kind of a rising rate type of environment that we're in right now, GA should be a net beneficiary.

Operator
Our next question is from Brian Bedell with Deutsche Bank. Please proceed with your question.

Brian Bedell
Great, thanks. Good morning, folks. My question is on fundraising, the $13 billion for 3Q. Can you unpack the real asset component of the fundraising that could only get about a third or so of that from the fund tables within that $6 billion in that segment. And then also if you can sort of comment on the pension plan appetite and your view on that channel, given rising long-term rates.

And then just one comment on the fundraising, so far year-to-date being the second-best year, I imagine it's still a challenging environment near term, at least. So, I just want to be sure that you're not expecting fundraising to exceed the 2021 which, of course, was a record year with flagships.

Craig Larson
Hey, Brian, it's Craig. Why don't I start. And I'll start on your last point first. Look, I think with market volatility, the tone of the fundraising market has become more challenging. But to be clear, we feel great about the body of work here.

So, as Rob noted and as you mentioned a second ago, new capital raised for the first nine months of $65 billion, again, through nine months, already the second most active fundraising year in our history, without a lot of flagships in the market.

And when I think back to where consensus estimates were for us at the beginning of this year, that number for 2022 for the full year was in that $55 billion to $60 billion range. So, again, we've already raised more capital relative to what was expected at the outset of the year. And that's been accomplished in a more difficult fundraising environment, and we've still got another quarter to go. So, look, I think, again, we feel great about everything that we've accomplished.

A couple of other thoughts. One, you mentioned the fundraising that we've had in some of the real assets areas. And when I think of activity for us in strategies like infrastructure, real estate and credit, so, strategies that can--or should participate in a rising rate environment or are inflation protected, that's been two thirds of the capital that we've raised, over the trailing 12 months. And then finally, I think also in terms of innovation, over half of the capital we raised in the trailing 12 months, again, were in strategies that didn't exist within KKR five years ago. In real assets, one of those contributors to the quarter is a great example.

So, our Asia Infrastructure strategy is a great example of this. Asia was outside of the mandate of our flagship fund series, the first-generation fund. Again, we feel great about performance. And that was certainly one of the contributors to real assets in the quarter. That would have been the largest piece, as it relates to the infrastructure component.

And then within real estate, you had a handful of components, the largest of which would have included GA's contribution, within our real estate footprint. But again, I think the main takeaway, we feel really great about everything that we've done so far, this year.

Scott Nuttall
Yeah, the only thing I would add, Brian, to your pension plan question, there's no doubt some U.S. pension plans are getting their bearings right now in trying to figure out where the market is going to go.

But we're having a lot of very productive conversations, to Craig's point, around anything that's got an inflation protection element or yield. So, within credit, infrastructure, real estate. We're having a lot of good dialogues on those fronts, even with some of those that are still getting their bearings and may be more active early part of next year than the end of this year.

But remember, we're spending a lot of time with institutions we've never spent time with before. So, insurance companies, globally, are trying to figure out how to navigate the rate environment.

Sovereign wealth funds have a different dynamic entirely, as do family offices and high net worth investors. So, we're having more dialogue than we've ever had before about the markets and the macro and introducing what we're doing.

And I think to the bigger broader point, and you referenced this in your question, we were incredibly fortunate. We raised over $120 billion last year. Our large flagships have been in the market over the last couple of years, before the more recent more challenged markets. So, we really got a bit lucky with our timing, and that's why we have the $113 billion of dry powder to put to work.

In an environment like this, companies still need capital. And we find private capital tends to have less competition at a time like this. Public markets are more difficult. Corporate M&A is more challenged. So, we've got a lot of capital to put to work. Companies still need it.

Operator
Our next question is with Arnaud Giblat with BNP. Please proceed with your question.

Arnaud Giblat
Good morning. My question is regarding capital deployment and infrastructure. You hopefully gave us quite an update on private equity. I'm just wondering if you could zoom in for a second on infra. Other key players out there have been broadly unaffected by the macro environment deploying quite quick.

I'm just wondering specifically, how you see the outlook in terms of deployment in Infrastructure. Should we be thinking of a similar time frame, as you experienced in the past and where the opportunity set may align in front? Thank you.

Craig Larson
Yeah, it's Craig, why don't I start. Look, on the main point, there is a massive need for Infrastructure capital, globally. And alongside of that massive need, you're really seeing a step function change in the footprint of our business. So, whether that's our Global Infra fund series, Asia Infra fund series, Diversified Core, AUM two years ago was $15 billion and today, we're at $50 billion.

So, alongside of that presence, you're seeing, similarly, a step function increase in terms of our deployment and that team's remained among the busiest within KKR. We've invested $11 billion of capital globally, over the last 12 months in Infrastructure. In 2020, that number was a little over $2 billion.

So, again, you've seen a big ramp in that activity, and that's something that I think we'd expect that you should continue to see for us.

One of our largest deployments in the quarter was in a take-private of a French renewables business. We have another take-private that is announced, scheduled to close in Q4. And I think the take-private dynamic is actually also something that's just worth mentioning. It's true in infrastructure.

It's also true more broadly. We've announced again or we've closed on four take-private this year with a fifth set to close in Q4. But again, the main takeaway on infra is a high level of activity for us.

Scott Nuttall

Yeah, Arnaud, it's Scott. I'd say the punchline is consistent with your comment. Our pipeline is strong across both value-add and Core infrastructure. So, we've been announcing deals and we continue to have a full pipeline.

Operator
Our next question is from Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Great, thanks. Maybe just continuing with the real asset theme there. Can you talk a little bit about how you're expanding your capacity to invest in real assets? Where are you looking to expand the platform as you look out over the next year or two? Where are you hiring?

Can you also talk about the sort of added benefit on the transactional revenue side as real asset deployment continues to come up. It looks like that was pretty strong in the quarter there, as well. And then just a cleanup question for Rob, if you could just mention the investments and realizations off the balance sheet in the quarter. Thank you.

Scott Nuttall
You want to start with realizations?

Rob Lewin
Sure, in the quarter, Mike, thanks for the question. About $800 million of deployment and monetization, so that's a little bit north of $400 million off of the balance sheet.

Craig Larson
Why don't I start on the first part; I'll let Scott then add in. Look, I think if you look at a statistic to kind of help frame the growth and the presence in the marketplace, we had $118 billion of AUM in real assets at the end of the quarter.

Two years ago, that number was $30 billion. And naturally, in the evolution of these businesses, your CapEx runs through your income statement. And so you hire people, you need to bring on world-class talent to then have the opportunity to raise capital.

And then you're looking to earn your right to grow, build and scale both those funds themselves, as well as where you see opportunities to expand into other areas where you can be relevant.

So, I think we feel great about the progress that we've made, but our hockey sticks aren't in the air, as I think we see the opportunity set ahead of us and look where the leading one or two providers are in some of those businesses. And it just feels like there's a tremendous opportunity for us to continue to build and grow and scale off of all of the growth that you've already begun to see.

Scott Nuttall
Yeah, just a couple of other thoughts, Mike. Thanks for the question. Just take real estate, we'll take the two pieces of real assets in turn. Real estate, a few things I'd call out. One is Asia. We continue to expand the team. You saw the acquisition that we completed in Japan of the platform now called KJRM.

We have 160 people now in Tokyo focused on what is the second-largest real estate market in the world, and that's a J-REIT platform, as a reminder. So, Asia would be one thing I'd call out.

We've also expanded the platform. We started in Opportunistic, but we've also now expanded to Core+. And so, we're raising capital across U.S., Europe and Asia Core+. So, that would be a second area I'd call out.

Third would be credit. Right now, we think the real estate credit opportunity is very attractive as those financing markets have become more challenged in the traditional format.

We're seeing excess return and a very strong pipeline across all we do in real estate credit. That platform, as a reminder, is now approaching $30 billion of AUM, and that's all on top of the regular way Opportunistic funds where we remain highly thematic and we're raising capital and continuing to build the teams.

In infrastructure, similar set of themes. I'd call out again, Asia. Our Asia Infrastructure platform. Rob referenced it from a fundraising standpoint, but we continue to see a lot of opportunity there and frankly, less on the ground competition, and that platform has scaled meaningfully and quite quickly.

We are also building out our Core infrastructure business and moving from value add into Core in a bigger way. And per the discussion earlier about some of the take-privates, I'd say Europe would be another area that I called out. There's just a lot of activity and a lot of opportunity, in particular lately, on the renewable and energy transition front. So a lot going on.

Operator
Our next question comes from Rufus Hone with BMO Capital Markets. Please proceed with your question.

Rufus Hone
Great, good morning. Thanks very much. I was hoping to get your thoughts around the trajectory of fee-related performance revenues. And you had a fairly big increase this quarter from the real assets business.

Can you give us a bit more detail about how we might think about the growth of that line item looking at a year or two and perhaps if you take a normalized view on investment performance and growth of some of the democratized products? Thank you.

Rob Lewin
Yeah, Rufus, you hit on it there at the end. As we think about that line item in our P&L, that is going to be largely driven by our open-ended and more perpetual vehicles that are more yield-based in nature. As you would have heard a couple of times already on this call, we have a lot of conviction that we can scale that part of our business.

We've got a lot of conviction that we continue to perform on behalf of that client base and as you combine those two things, our view as you look over the coming quarters and years, you're going to see a real ramp up in that line item, over time.

Operator
As a reminder, if you would like to ask a question, please press "*", "1" on your telephone keypad. Our next question is from Chris Kotowski with Oppenheimer & Company. Please proceed with your question.

Chris Kotowski
Yeah, I wonder if you could give us your thoughts on the financing markets. I guess Twitter is done, Tenneco got European approval. So, the banks are, in fact, kind of perhaps have some inventory to work through.

And I'm wondering if you can talk a bit about how long do you think that that is going to be an obstacle for financing transactions in the public markets? And how much is that an obstacle for you to pursue public to privates, in general?

Craig Larson
Hey, Chris, it's Craig, why don't I start? Look, the financing markets have become more challenging, certainly relative to a year ago and six months ago. But again, we look at that, honestly, as an opportunity for us, and we mentioned it earlier.

If you go back to 2020, we very creatively were able to find lots of ways to deploy capital in very dislocated environments.

So, I'm not at all trying to minimize your thoughts or points of view on the banks, etc. And you've seen a lot of the impacts of that in broad statistics.

But when you see that the broadly syndicated market in Q3 was at its lowest level since the global financial crisis, that gives you a sense of how dislocated markets are and what that means and how things can become more challenging and financing in the broadly syndicated markets.

Now there is a flip side to that coin, obviously, as it relates to private credit. And I think we look at the environment in private credit currently, and we are very, very constructive. So, when syndicated markets are challenged, and as Scott mentioned earlier, companies still need capital. That's a really interesting opportunity for us.

So, base rates are higher, spreads are higher, protections are better. The risk reward just feels very attractive to us at this moment in time.

And the opportunity for us in our direct lending business is not only going to be in new transactions and new deals like the ones that you referenced but, historically, around half of our deployment has traditionally come from companies where we're the incumbent lender.

And in markets like these where volumes are down and there's uncertainty, that percentage is even going to be higher. So, if you look more recently, that number would be at about 70%. So, I think there are two sides of that coin, again, on the topic broadly.

Scott Nuttall
Yeah, Chris, it's Scott. Just a couple of other things. One, I use the word obstacle. I think first, it's important to understand, we think it's a real opportunity for us. So, to Craig's point, private credit deployment, real estate credit deployment, we are seeing dramatically more interesting risk-reward than we saw, even a few months ago.

I'd also point to mezzanine. We think this is going to be a really interesting opportunity for mezz. New transactions with sponsors in particular, tend to be over-equitized in this type of environment, and you've got a more attractive risk-reward there. Opportunistic credit fundraising. Every time the high-yield market trades below 85%, the 1-year returns tend to be in the high 20s. And so, we're having really productive dialogue with investors all around the world who are looking to pivot into the leveraged credit markets on the traded side, in addition to the private side.

You're right, new deals are harder to finance. It's part of the reason we built the capital markets business, and we have that team sitting in the middle of the firm that can dock directly to debt investors, so we can place our own capital structures.

You may lean a bit more on the private credit market in this environment, maybe some portable capital structures. But we're finding ways to get deals done. So, I think as we sit here today, we're finding ourselves incredibly enthusiastic about the opportunity that this environment represents for a large part of the firm, across our credit platforms.

Operator
It appears that there are no further questions at this time. I would now like to turn the floor back over to Craig Larson for closing comments.

Craig Larson
We'd just like to thank everybody for your time and interest in KKR, and we look forward to connecting, next quarter. Thank you so much.

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