KKR & Co. Inc.
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Presenters
Craig Larson, Partner & Head of IR
Rob Lewin, CFO
Scott Nuttall, Co-CEO

Q&A Participants
Craig Siegenthaler – Bank of America
Alex Blostein – Goldman Sachs
Glenn Schorr – Evercore
Brian McKenna – JMP Securities
Michael Brown – KBW
Jerry O'Hara – Jefferies
Bill Katz – Credit Suisse
Patrick Davitt – Autonomous Research
Brian Bedell – Deutsche Bank
Finian O'Shea – Wells Fargo Securities
Michael Cyprys – Morgan Stanley
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Rufus Hone – BMO Capital Markets
Chris Kotowski – Oppenheimer

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's Fourth Quarter 2022 Earnings Conference Call. During today's presentation, all parties will be in a listen only mode. And following management's prepared remarks, the conference will be open for questions. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference call 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 fourth 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 will 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.

So this quarter, we're pleased to be reporting solid results with $0.63 of Fee Related Earnings per share and $0.92 of After-tax Distributable Earnings per share. I'll start by walking through the quarter. So beginning first with management fees, management fee growth continues to be a real bright spot for us. In Q4, management fees were $706 million. That's up 5% compared to last quarter and up 19% compared to Q4 of 2021.

And comparing full year 2022 to 2021, management fees increased 28% from $2.1 billion to $2.7 billion. Growth in full year 2022 was greatest within our real assets business where management fees increased over 50%. Net transaction and monitoring fees were $195 million, with our capital markets business generating $144 million of revenue in the quarter.

Now to go through expenses, our fee related compensation margin for the quarter was 20%, which is at the low end of our 20% to 25% range. Rob is actually going to circle back on this topic in a moment.

And other operating expenses for us were $177 million. The increase here compared to last quarter was driven by higher professional fees given activity levels across the firm as well as increased expenses related to capital raising. So in total, Fee Related Earnings for Q4 were $559 million or $0.63 per share with an FRE margin of 61%.

Moving to realized performance income, we generated $339 million with realized carried interest driven by monetizations of Minnesota Rubber and Plastics as well as a number of public positions while realized incentive fees were driven by the crystallization of performance fees and Marshall Wace. Realized investment income was $223 million for the quarter. Overall, our asset management operating earnings came in at $946 million.

Now turning to our insurance segment, Global Atlantic had another strong quarter, generating $165 million of operating earnings. This quarter, the results were driven by an increase in invested assets from new business growth alongside a continued rotation into higher yielding assets. This resulted in After-tax DE for us of $822 million or $0.92 per share.

Now turning to investment performance and pages seven and eight of our earnings release. Page 7 shows investment performance across our major asset classes for the fourth quarter as well as the full year. Beginning first with traditional private equity, the portfolio was flat in Q4 and -14% for the year. Those figures are below public indices for the quarter and ahead of public indices for 2022.

In real estate in the quarter, that portfolio was marked down by -8%, driven by a widening of cap rates on unrealized investments, offset some by strong rent growth in the quarter. And for the year, the portfolio appreciated 3%, meaningfully ahead of public REITs as well as broad real estate indices.

The infrastructure portfolio was up 3% in the quarter and up 9% for the year, very strong performance in infra given broad volatility again across markets. And on the leveraged credit side, their portfolio was up 3% for the quarter and -3% for the year. And our alternative credit portfolio was up 1% in Q4 and +2% for the year. Volatility in 2022, of course, was not limited to just the equity markets. Investment grade and high yield indices declined -13% and -11% over the course of the year.

Now perhaps more important are the figures that you see on page eight of the earnings release. This page shows investment performance since inception, across our recent funds that have been investing for two plus years. The figures you see here, of course, reflect any marks taken in Q4 or over the course of 2022. Looking at this page and taken together, we continue to feel very good about the returns we've been generating on behalf of our clients.

In terms of our balance sheet investments, performance was flat in the quarter and --5% for the year, again, against a volatile backdrop. Of note here, Core Private Equity investments on the balance sheet have continued to perform. For the quarter and the year, the core PE portfolio appreciated 7% -- excuse me -- appreciated 5% and 7%, respectively.

Turning to capital metrics, we raised $16 billion in the quarter. This was driven by fundraising across our growth and traditional PE strategies, leveraged credit, a block transaction at Global Atlantic alongside incremental flows at GA. This brings our full year 2022 total new capital raised to $81 billion.

Our assets under management increased to $504 billion as of 12/31 with fee paying AUM coming in at $412 billion. We continue to find opportunities to invest, deploying $16 billion in the quarter. Infrastructure and traditional private equity accounted for about half of the Q4 deployment with opportunities dispersed globally.

And finally, before handing it to Rob, consistent with our historical approach, we're pleased to announce our intention to increase our annual dividend policy from $0.62 to $0.66 per share. This change will go into effect for the dividend announced alongside first quarter 2023 earnings.

And at the same time, we've increased our stock repurchase authorization back up to $500 million.

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. I thought I'd begin by giving you a sense of our recent annual planning meetings. We got our senior team together earlier this year to review where we are as a firm, where we're going, and most importantly, what we need to get right to capture the opportunity that is in front of us.

Listening and participating in these discussions was incredibly energizing. We've never had a stronger team and been more aligned around where we are going as a firm. We have a number of very clear avenues for long term and sustainable growth and more confidence than ever in our ability to achieve it.

I'm going to step through some of these more material opportunities for growth in a minute, but before I do that, I first wanted to emphasize just a few points about 2022. Starting with our fundraising, we raised $81 billion of capital last year, the second most active year in our history, and of course, all against a much more complex market backdrop and without significant contributions from our flagship strategies. Over 70% of our fundraising last year came in our real assets and credit businesses, strategies that are often front of mind for our clients in rising interest rate as well as inflationary environments.

Moving to deployment, we invested a healthy amount of capital over the last 12 months. Looking at private equity and real assets taken together, deployment here was approximately 20% greater in 2022 compared to 2021 as teams were able to find very creative ways to put capital to work. For example, across PE, growth and infra, we announced or closed on 10 take private transactions over the course of the year. And as our footprint has scaled and become more diversified, so has our deployment. Real asset strategies were 16% of total firm deployment activity in 2020. That number totaled almost 40% in 2022.

Over that same two year period, credit deployment has increased approximately 2.5 times as the business has expanded with Global Atlantic as a partner and new focus funds such as asset-based finance.

And finally, I'd like to circle back to our compensation expense and the comp margins that you saw in Q4. Fee related compensation was 20% of fee related revenues. That is at the low end of the 20% to 25% range that we've articulated historically while realized investment income comp was 10% of realized investment income, also at the low end, in this case of the outlined 10% to 20% range. Carried interest comp was at the midpoint for the quarter, which as a reminder, is 65%.

This had the impact of reducing our total compensation margin for the quarter, which including equity based comp, was 32%. Given realized carried interest generation across KKR over the course of 2022, we felt that we could move to the low end of our FRE and investment income compensation ranges and show some expense discipline in support of our operating earnings while importantly still ensuring that we have the capacity to recruit, retain, and incent world class investment, distribution and operations talent.

As we think about levers that we have as a firm to generate long term earnings growth from here, operating leverage is really a key component. As a reminder, KKR employees own approximately 30% of our stock, so we are very well aligned to drive margin improvement across the business.

And before I switch gears, let me give you an update on the outlook for Q1 monetization activity. Things have slowed a bit on the monetization side but nothing that is surprising to us given the environment and how we're thinking about the timing of when we want to generate realization outcomes for our limited partners. So as we stand here today, we have visibility on approximately $250 million of monetization related revenue for the first quarter.

Now, turning the page and looking forward, we think there are really six key areas that are going to drive significant growth for KKR for several years to come.

The first area is real assets, where we have seen meaningful growth across our platform. AUM at the end of Q4 stood at $119 billion. That's compared to just $28 billion at the end of 2019, so 4 times growth in three years. Growth in infrastructure has been driven not only by our flagship fund but also our extension into areas such as core as well as Asia-Pacific. The real estate platform continues to grow across a full suite of 10 plus products further propelled by both Global Atlantic on the credit side and our acquisition of KJRM on the equity side. Our momentum across our real assets platform is obviously quite significant and aligns well with a big area of current focus from our limited partners.

The second area of meaningful growth for KKR is continuing to leverage our market leading position in Asia-Pacific. Looking at our progress in 2022, our Asia infrastructure strategy raised almost $6 billion, the largest in the geography, and we closed on our first Asia credit fund, as well. Looking ahead, we expect our Asia real estate strategy to expand in 2023, as will our Asia tech growth franchise. And as I mentioned a moment ago our acquisition of KJRM, which is our Japanese real estate business, is a great example of how we can use our balance sheet to strategically pursue inorganic growth to both enhance our market position as well as to access differentiated forms of capital.

Looking at this progress all together, our Asia focused AUM has now increased to $60 billion at the end of the year. That's up roughly three times since 2019. Our local presence paired with our KKR toolkit has created an industry leading business against very compelling long term macro fundamentals in the region.

The third area for us is Core Private Equity, which is just a massive opportunity as the addressable market is very significant and the P&L impact can be positive across so many different parts of our financials. And most importantly, it is an area where we believe that we have the business model and culture that sets us up well to be the best global player in the asset class.

As a quick reminder, Core PE is a long duration investment strategy, and we expect to hold these investments for 10 to 15 plus years. We currently have 19 businesses within our Core portfolio. These businesses generally have lower leverage than traditional private equity investments, tend to be less cyclical and are more cash generative. These traits do create a more stable earnings profile within the portfolio.

Today, we manage roughly $18 billion of third party capital, which I believe is the largest in our space. The AUM we manage positively impacts our management fees, transaction fees, as well as carried interest. But Core PE now also accounts for over 30% of our balance sheet investments. Yet these investments only accounted for 1% of our After-tax Distributable Earnings in 2022 when you look at their flow through impact to realized investment income.

Looking at this another way, and to highlight this point even further, if you look through our balance sheet to the Core PE portfolio, our portion of the company's EBITDA totals over $600 million. This is not accounted for in our distributable earnings. Make no mistake, this 30% plus allocation is purposeful. It is by design because we have a substantial opportunity to really compound our investments in an asset class where we know that we have differentiated capabilities.

The fourth big macro driver for us is private wealth. We currently manage $67 billion of capital here compared to $37 billion in 2019. Approximately 15% of new capital raised has historically been sourced from this investor cohort, mostly from high net worth clients and in traditional drawdown products. Over time, we expect all private wealth focused capital will account for 30% to 50% of the capital that we raise as a firm. And along this path, we will continue to expand our footprint in the democratized access vehicle space. Our ambitions and views of the long term opportunities we see for KKR have not changed.

Next, my fifth point is our continued focus on the insurance space. Going back to July 2020 at the announcement of the Global Atlantic acquisition, their AUM was $72 billion. Today, it's close to $140 billion. So it's grown about two times in the last two and a half years. Our thesis in buying GA was multifold. We believe that the combination of a leading life and annuity franchise with multiple ways to expand against compelling market fundamentals combined with KKR’s origination and capital capabilities could lead to strong growth in AUM operating earnings and book value while also delivering for policyholders.

This has really played out and looking ahead remains a key strategic priority for us. Not only is the $139 billion of GA capital itself perpetual, but the business has also helped us grow our third party insurance client AUM to $56 billion. That's up from $26 billion at the time of the GA acquisition announcement as we have continued to create products that are tailored to this unique investor base.

And finally, the sixth high impact long term growth driver for us is our balance sheet. I said the same thing last quarter as well, but there's really not a corporate that I know that doesn't wish they had more capital availability right now. The balance sheet has a clear competitive advantage in its continued ability to enable and accelerate growth in a way that is less dilutive for our public shareholders.

To highlight this point, M&A, our investments in Core Private Equity, our build up in the insurance space and share buybacks have all accounted for roughly 90% of our net balance sheet deployment over the past five years, and we expect that trend to continue over the coming several years as well. This is just another tool that we have to be able to drive earnings per share over time.

To summarize, we continue to feel extremely positive about our future outlook. The six drivers that I just went through are particularly impactful for our long term success, and we have real conviction across the entirety of our management team in our ability to build on our existing momentum.

With that, let me hand it off to Scott.

Scott Nuttall
Thank you, Rob, and thank you, everyone, for joining our call today. I thought today, I would share how things look from Joe's and my seat. There's no doubt that markets and the economy remain dynamic. There's also no doubt many remained focused on the macro, quarterly results, short-term catalysts and the near-term outlook for our industry and business.

In summary, there's a lot of noise out there. We find that noise is just that – noise. We continue to raise capital, find interesting deployment opportunities and selectively monetize our portfolio. It's business as usual at KKR. So from our seats, while the noise creates some questions, it's important to not let it become a distraction. Building KKR is a long-term effort that takes years of planning and investment to get right. Many of the businesses we are scaling now were started over 10 years ago. And many of the businesses we are starting now will be scaling for decades to come.

So we are singularly focused on what we need to get right – talent, culture, performance, clients and operations. If we get those things right, we will double KKR again at a rapid pace. If we don't, our growth will be slower than it could be.

Growth is the result of execution. So as a management team, we are focused on what we can control and executing on those five fronts. The good news is that as we look back at recent progress, we feel like our strategy is being executed well and the results are emerging.

To name just a couple of things we look to as evidence – in the last two years, our AUM has doubled from $250 billion to $500 billion, and our fee paying AUM has more than doubled. And

over the same two years, our management fees and TDE per share have almost doubled, as well. So the results of execution are starting to come through.

But these metrics are backward looking. What's even more encouraging to us is the strong evidence we have of growth continuing to be very attractive for years to come. Some of this may be apparent from these calls and some less so.

To name just a few of the things that we are looking at, first, we've continued to create new businesses over the last several years. In fact, over 50% of the capital we raised last year was in strategies that did not even exist five years ago. And over 50% of our AUM is not yet scaled in our definition. Said another way, we have had a lot of recent innovation and half of the assets we now manage are still approaching the inflection part of the growth curve.

Second, our dry powder has grown from $67 billion to $108 billion over the last two years, positioning us well to invest into this environment, which we continue to find attractive.

Third, our efforts in democratized products are just starting. We expect to have multiple vehicles launched this year after two years of structuring and team building work. This is upside for us and we expect will be an additional growth engine for the firm across all of our asset classes.

Fourth, Global Atlantic goes from strength to strength and has almost doubled assets since we announced the transaction two and a half years ago, well ahead of schedule with significant opportunity ahead.

Fifth, and maybe less visible, our sales team has grown from 100 people to 280 people in the last two years across institutions, insurance, family offices and private wealth. It typically takes a year or two for a new salesperson to learn our products and hit their stride. The result of this investment will show up over the next couple of years and create even more wind at our back.

Sixth, our carry-bearing invested dollars in the ground have increased dramatically. It's important to understand that the cash carry we generated last year largely came from investments we made five-plus years ago when our AUM was a fraction of what it is today, and our carry eligible invested capital was as well. To be specific, the vast majority of last year's carry came from harvesting investments made when our carry earning invested capital was roughly $50 billion. Today, it's about $150 billion, up three times. So don't let the near-term monetization environment divert your attention from what matters. The forward is incredibly strong as this much larger scale of invested capital matures with the returns on the slide Craig showed you.

And finally, and perhaps most important, our team has never been stronger or more cohesive. In summary, over the last several years, we've made the investments for the next leg of growth at KKR and see years of opportunity ahead. And as we've done all this, the earnings power of

KKR continues to increase. This is true regardless of the near-term noise and markets and is what gives us such confidence in our outlook. So don't get distracted by the noise. The signals are strong, and our confidence is high.

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

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. We ask that you limit to one question and get back into the queue if you do have a follow-up. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd 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. One moment please while we poll for questions.

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

Craig Siegenthaler
Good morning, everyone. Hope you're all doing well.

Scott Nuttall
Good morning.

Rob Lewin
Hey, Craig.

Craig Siegenthaler
So my question is on Global Atlantic. I wanted to get an update and hear how early stage credit quality metrics have trended inside of this business, especially given prospects that we may be entering a recession in the U.S. in the first half of this year.

Rob Lewin
Yeah, hey, Craig, it's Rob. Thanks a lot for the question. The very short answer is that GA continues to trend really well as it relates to its credit exposures. We've talked about this in prior calls, but 95% of GA's book is rated NAIC 1 or NAIC 2, so investment-grade in nature. The equity book at GA is sub 1% of total assets. And so we've done a bottoms up across the entire portfolio as we've gone into year-end and feel really good with how the strength of the balance sheet is holding up.

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

Alex Blostein
Hey, guys, good morning. I was hoping maybe we could talk a little bit about margins and scale in the business. So, Rob, this one's probably for you, but you guys were able to bring down FRE comp this year, partially because of pretty good monetization activity this year, I think as you alluded in your prepared remarks. So if monetization income weakens in '23 for a variety of cyclical factors, should we think about that drifting back higher, or is there enough sort of scale in the business where FRE comp rate could be at a lower run rate on a more sustainable basis? And I guess, bigger picture, I was hoping we can maybe just, again, kind of double click into how monetization activity flows through the margins in other parts of the business. You guys report and we sort of think about it in silos, but that's ultimately not how you sort of pay your people. So wrapping all of that around, we're hoping to get a little more color. Thanks.

Rob Lewin
Yeah, got it. Thanks, Alex. A lot in there, so let me try and tackle one at a time. First, let me just start with margins. We believe that we've created a business model that allows for best-in-class FRE margins. And we've been consistent for a number of quarters now, a number of years now probably, that assuming reasonable market conditions, we've got a business that can sustainably drive a low 60% FRE margin in spite of some of the investments that we're making back into our business.

But over time, as those investments that we're making pay off and as the fees come in on the back of those investments as well as the efficiencies, we believe that we can create a business model that delivers mid-60% FRE margins. I think that's going to come in a couple forms. I think that will come from operating expense leverage. I think it also has the potential to come from compensation expense leverage as you would've seen in Q4 of this year.

Now taking back to how we thought about compensation margin inside of the quarter, I'd say a couple things as it relates to that – the first, we want make sure that we've got – and I said this on the prepared remarks – the right amount of compensation in our business such that we can recruit, retain, and incent world-class talent across the board at KKR. And as we looked at the pool of compensation that we had available in 2022, we made the determination that, in Q4, we can operate at the bottom end of that range. Now you asked the question, if monetization activity comes down next year where might that shake out? I instead would look at it across our total comp margin. And what we've guided historically is, on a total comp margin, we can operate in the low 40% range.

In 2022, we were at 39.7%. I believe, 2019, '20 and '21, we were below that 40% guidance number. And if monetization comes down and carried interest comes down, that's our highest comp margin at 65%. And so all things equal, you would expect compensation margin across the board to come down. So there was a lot in your question, but hopefully, I got at most of it and happy to catch up more offline on the topic.

Scott Nuttall

Yeah, Alex, the only thing I would add is our people understand that monetizations, if they come down, compensation is going to come down as a result. Our business, you get paid on cash outcomes. So I don't think that would be a surprise to anybody.

Operator
Our next question comes from Glenn Schorr with Evercore. Please proceed with your question.

Glenn Schorr
Hi. Thanks very much. So I'm a big believer in the big picture, growth picture that you laid out, so cool with that. One of the five things you talked about getting right is performance, and I think your long-term performance is awesome. I want to focus on 2022 for a second, get the right perspective –PE down -14%, I think just the fourth quarter real estate was down -8%, leveraged credit down -3%. I want to – I know it's a longer tail – I know your long-term track record is great. I wonder if we could talk about the right perspective on portfolio composition or how you do marks relative to publics – that was the only Achilles heel that caught my eye in the quarter. Thanks.

Rob Lewin
Yeah, hey, Glenn, it's Rob. Thanks for the question. Why don't I just start with valuation methodology because I think that that's really important for this discussion? Then Craig and Scott could spend some time as it relates to performance.

We've been reporting as a public entity now for close to 17 years if you include KPE, which was the predecessor closed-end fund that KKR merged into. And we really do believe that, over that period of time, we've developed best-in-class process for determining fair value for our Level 3 assets, which are those assets that don't have observable marks. Our exact process and methodology is, of course, by its nature, different by asset class, but what is most important to us is that we have a consistent process and methodology quarter after quarter after quarter. And we believe that aspect is critical in delivering a fair and representative view on fair value, which we think you've seen over time and in 2022.

I think the other thing that's worth mentioning on valuation methodology, as part of our consistent process, we've got a third-party valuation agent, who is an expert in their respective space, and they either perform the valuation exercise or provide positive assurance on those investments. So if you look at our history, we feel we've gotten that balance right and that our portfolio is certainly impacted by market movements as well as by inputs like interest rates and equity risk premiums that might impact DCFs offset over the course of the year by operating performance, as well. And so I think it's important really to understand that our methodology doesn't change and it's consistent quarter-over-quarter. And in that respect, we feel really good that we're delivering the right representative mark across our portfolio.

Craig Larson

And then, Glenn, it's Craig. I did have – why don't I just pick up on one of the statistics you mentioned on opportunistic real estate. And there are really two points there. Rob's already hit on the first just as it relates to the consistency around that process for us and the work we do with the valuation agent.

In the case of real estate specifically, that valuation agent will look at recent transactions, and they'll come up with cap rate and discount rate assumptions for that specific quarter. So in a quarter like Q4, transaction activity was really muted. Volumes in the U.S. were off something like 60%, but in those observable transactions, cap rates widened. And so that's really what drove the performance figure in real estate that you saw for the quarter.

Now, the second point, which we think is more important honestly, is the fundamentals in the portfolio itself. We continue to feel great about the portfolio as well as those fundamentals. So our exposures continue to be weighted towards those assets and themes where you're seeing strong fundamentals and strong growth. Industrial assets, data centers, rental housing, student housing, storage, those are over 80% of the portfolio in total, and we're seeing strong fundamentals and cash flow growth there. On the flip side, we globally have only 1% exposure to retail, and our U.S. office exposure is below 5%.

And then just to help put those two things together, to give you a sense, if we had used constant cap rate and discount rate assumptions in Q4, you actually would've seen the portfolio marked up in the quarter instead of that down for the quarter percentage that you did see. So again, we are really benefiting from strong underlying NOI growth, and that dynamic is really the reason that we put in page eight.

So I think as our clients evaluate us across our strategies, they're looking at this inception performance, much less focused on any 90 day period, etc. And I think when you look at it, since inception, as you noted and we appreciate that in your beginning of the question, the performance figures and in the case of real assets and real estate, the blue bars, I think we feel great about how we've been performing on behalf of our clients.

Scott Nuttall
Hey, Glenn, it's Scott. Just, if I were you, I'd be trying to figure out is there anything to worry about here, and the punchline from my standpoint is no. I think as the guys said, we've had a very consistent methodology. It's not at all a surprise given the markets have been off, multiples have been off, they see some marks come down, but they're just that – marks. What matters to us is the fundamental operating performance of the portfolio, which continues to be really strong.

If anything, we feel even better that we got it right in terms of investing behind the right themes the last several years. Revenue and profitability metrics remain strong. The fundamental operating performance of our real assets book and our credit book remains strong, candidly, a bit stronger than I might have expected given what's going on with the

economy and the backdrop. So overall, we're not worried about it. I would suggest you not worry about it either. My expectation is, as markets rebound, you'll see the marks rebound, as well.

Operator
Our next question comes from Brian McKenna with JMP Securities. Please proceed with your question.

Brian McKenna
Thanks. Good morning, everyone. So you've done a great job expanding into a number of adjacent strategies and products over the past several years. I'm curious, though, as we think about the next three to five years, should we expect this expansion into new areas to persist, or will more of the focus be going deeper in the strategies you have today and moving more of these platforms from earlier stages of the lifecycle to more mature and scale stages?

Rob Lewin
Brian, thanks for the question. I think it's going to be much more focused around taking what we have today and scaling that up. We think there's more than enough room to have very substantial growth. And as we've outlined, our 2026 profitability measure is greater than $4 of FRE per share, $7 of DE per share. That doesn't rely on adding a lot of new products to what we're doing.

That said, we continue the focus on innovation. We are likely to add products over time where we believe there's large addressable markets and where we can be a top player in the world of what we do. But that list is going to be small because I think we believe that, if we go execute on what we have in front of us today, take that 50% of our products that aren't yet at scale and get them to scale, that the growth opportunity is going to be much larger than starting something new from scratch.

Operator
Our next question is from Michael Brown with KBW. Please proceed with your question.

Michael Brown
Great. Thanks for taking my question. So I wanted to start with GA. It's clearly a strong quarter there. And then given the favorable rate backdrop and the good new business trends that you've been seeing, any thoughts on how we should think about the next six to 12 months from that business? If you could maybe touch on the net investment income and the net cost of insurance, that would certainly be helpful. Thanks.

Rob Lewin
Yeah, great. Thanks a lot for the question. Clearly, Global Atlantic in the two years of our ownership has had really outstanding performance. And we had targeted 12% to 13% type of ROEs. We've out-achieved that over the course of 2021 and again in 2022. I do still believe that

that's the right level which – to model GA on a go-forward basis. We are benefiting right now on the investment, net investment side of the business. We're certainly benefiting from greater deployment as we've rotated our portfolio, which we took some upfront losses on given where interest rates are and have put that into higher-yielding securities. We've also benefited – while we are pretty well asset liability matched, we do have a decent size floating rate book. And so as interest rates have gone up, GA has benefited from that, as well.

At the same time, though, cost of insurance has, of course, gone up, the price at which we price our annuities has gone up. But I think the team has done a really good job on the operating expense side of the business. And overall, you're seeing that operating leverage flow through. So we continue to be really encouraged. I think 12% to 13% is still the right range to model that business going forward, and hopefully, they're going to continue to be able to outperform.

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

Jerry O'Hara
Great, thanks. Good morning, folks. Obviously, fundraising remains a topical item, so just sort of hoping you could comment a little bit on how conversations with LPs have been evolving over the past several months, and also to the extent you might be able to sort of address this whole dynamic around LP allocations and their sort of "budget" as we look into 2023 and beyond. Thank you.

Scott Nuttall
Thanks, Jerry, it's Scott. I'll take that one. It's hard to answer that question in a clear fashion because it kind of depends on where you are and who you're talking to. So there's no doubt kind of as we got into the back half of last year, some of our LPs were struggling with allocations on the back of a reduced denominator. That was predominantly a U.S. pension fund dynamic. As the calendar has turned, and there's a new budget year, some of that has softened, and we're having conversations that indicate they're looking to put capital to work.

But if you go outside the U.S. – Middle East, Asia, sovereign wealth, insurance, in particular, you find investors aren't struggling with those same issues. In fact, several of them are very forward leaning and trying to figure out how to invest into this environment. So the overall picture is not consistent depending on where you are. What is very consistent, though, is we're finding this year, just like last, a lot of interest in a couple of themes – anything with inflation protection and yield, so think real estate, infrastructure, credit, significant amount of interest – I'd say an increased awareness that in times like this, all things, private equity tend to perform quite well.

So it should be some very strong vintage years coming out of this period of time. So people are kind of swinging a bit to think about how to take advantage of this environment. So I'd say people are more on their front foot this year overall than maybe late last year. And there's more of the conversations gearing toward how do I invest into this in a thoughtful way. And

then part of that is people look back and post-GFC and maybe post the initial stages of COVID, some wish they were maybe a little bit more aggressive in terms of deploying into the environment spend. And I think that's what's leading to some of this shift in sentiment.

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

Bill Katz
Okay, thank you very much. Good morning, everyone, and appreciate taking the question. Maybe circling back to one of your growth drivers, wondered if you could talk a little bit about on the global private wealth opportunity, you mentioned a couple of new products coming out. Maybe update us on what you're hearing from the respective channels, just given some of the mixed macro backdrop with higher yields in more liquid products, and what might be happening in terms of behavior and demand as you scale the business? Thank you.

Craig Larson
Hey, Bill, it's Craig. Why don't I start? Look, I think the tone in any near-term period is going to be influenced by what we all see in broad markets. But I think we'd encourage everybody not to miss what really is a huge opportunity for us. And when we look at how we're positioned with our brand, our track record, our ability to innovate, the relationships that we enjoy with distribution partners – I think some of the things that Scott mentioned in our prepared remarks. We spent the better part of the last two years really as a firm positioning ourselves to be able to launch a handful of new products, and we're on the cusp of that currently.

So I think we just feel really well positioned in what is an enormous, massive addressable market. And again, our views of the opportunity here hasn't changed. And I think, I guess one final thought – in a product like KREST, again, we think the performance of KREST and the experience that people have had with that as an entry has been great. So performance was an 8% over, an 8% return in 2022, 16% inception to date, over a 5% current yield. So I think when we look at the initial experience that investors have had from the democratized products, we feel very good about what they've experienced.

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

Patrick Davitt
Hey, thanks, good morning. I have another follow-up on the real estate market. Is there any specific region or specific type of assets in the portfolio where those transaction comps drove the mark? And as a follow-up to that, could you give us an idea of where the cap rates were moved to and where they were before?

Craig Larson

Patrick, we haven't disclosed the specific cap rates. I think the dynamic this quarter is, one, I think we wouldn't be surprised if you actually see a real variability in those cap rate assumptions. Again, each manager is probably going to view the data points differently in what you're going to see in this 90-day period. And again, like the book that we have is going to be predominantly U.S. based, just given the maturation of our portfolio.

And again, from an overall exposure piece, as I'd mentioned, our largest allocation is 35% in those industrial themes and 80% in those themes where we're continuing to see really strong growth. But almost by definition, those are going to have the big – just given the significance of those in the portfolio, those are the instances that are going to be the biggest contributors to that movement in the quarter.

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

Brian Bedell
Great. Thanks. Good morning, folks. Just wanted to come back to the retail democratized part of the retail strategy. Maybe if you could just remind us on the AUM you have right now in the actual democratized products where you might think that could go to over the long term. Realize it's definitely a long-term build. And then how many products you plan to launch this year? And then going back to the FRE margin, part of that, as you scale the overall business and improve the FRE margins, should we be thinking of the rollout of those democratized products as a near-term headwind as you pay for shelf space and build up the infrastructure to scale that?

Craig Larson
Hi, Brian. It's Craig. Why don't I start? And then we'll let Rob pick up on the FRE margin impact. Just in terms of framing that significance for us, again, we've got about $500 billion of AUM. Roughly $6 billion are in these democratized vehicles today. So it's a little over 1% of our AUM. In terms of the launch of additional products and where we are from here, given SEC rules and filings that we've made, we can't get into a lot of the specifics, but sufficed to say, we think there's more to come in the first half of the year, and we'll keep you abreast as we continue to make progress.

Rob Lewin
Brian, some of those costs that you reference are costs that we've talked about, where we've been investing back into the firm in distribution and marketing as well as in technology. Some of that technology supports our efforts in the democratized vehicles. So as we talk about operating in the low-60s and over time gravitating our business model to get to the mid-60s, that incorporates how we're thinking about the democratized access vehicle space.

Scott Nuttall

And, Brian, the only thing I'd add is, we've said over time, if you look at kind of what we've been selling to individual investors, so think democratized plus the more traditional fund formats sold through platforms to individuals, that's been roughly 10% to 15% of the capital we've been raising ex-GA. And we've said that we expect that over time to trend to 30% to 50%. So to your question of where do we think this goes over time, think of it as kind of an increasing percentage of a larger base. And we've also shared over time that we expect to have democratized versions of what we're doing across all of our major product areas in the near term and that's still the case.

Operator
Our next question is from Finian O'Shea with Wells Fargo Securities. Please proceed with your question.

Finian O'Shea
Hi, everyone. Good morning. A follow-on to the insurance ROE – appreciate your color on portfolio rotation into higher yields driving the impact. With that considered, how long should we expect the normalized ROE remaining elevated in today's environment with today's portfolio, understanding the inputs can be hard to predict?

Rob Lewin
Yeah, Fin, thanks for the question. Listen, I do think that 12% to 13% range continues to be a good one for next year. And while there's things that can elevate that number as we look forward, there were some timing elements in 2022, as well, on that portfolio rotation. So I think that's still the good range for the near term. As I said, we hope that the GA team is able to generate returns that are in excess of that. They've done that in '21 and '22. But our internal modeling suggests that's the right range for '23.

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

Michael Cyprys
Hey, good morning. Thanks for taking the question. Just on deployment, just curious how you would characterize the $71 billion of capital that was deployed in '22. Seems like a large quantum of capital, similar level as 2021, but a tougher backdrop. So just curious how you'd characterize that relative to your full potential? And what's the scope for that deployment to say grow at a meaningfully step function higher level, maybe in '23 or '24, just how you're thinking about the capacity you have to deploy and what that might look like five years from now? And then just a quick housekeeping question for Rob, just if you could help quantify the investments and realizations off the balance sheet in the quarter? Thank you.

Craig Larson

Hey, Mike. It's Craig. Why don't I start on deployment. I think a couple of things when you look at our activities – one, look, the primary markets are pretty shut. Capital is very precious. Those are good things for us and particularly when you look at a $100 plus billion of dry powder that we have as a firm. So I think when we look back at our activities in 2022, I think we feel very good about capital that we put to work. We're value focused. We love carve-outs. One of the things Rob talked about that I think is pretty interesting again is just the amount of public to privates we did in an environment where public markets are really dislocated. So I think for us to have announced or closed on 10 take privates is a pretty interesting statistic. Eight of those were done outside of the U.S. in private equity, infrastructure, real estate. So I think on balance, we feel really good about that balance of activity.

A couple of other thoughts just as you look at deployment, some statistics that, as we go through things, it's always kind of interesting to reflect back. I think, one, you're seeing real diversification. So in '22, traditional private equity deployment for us was $14 billion, real estate was $14 billion, infrastructure was $13 billion. So I think when you look back at this – it's really a reflection of how the firm has meaningfully grown and diversified by strategy and by geography. Kind of brings us to the second point, which is some of the growth you've seen. So in real assets, as an example, as our infra and real estate footprint has grown, you've seen deployment grow meaningfully. Rob gave some of the statistics earlier on AUM growth in those businesses, but real assets deployment in 2018 through 2020 averaged a little over $4 billion a year, pretty equally split between infra and real estate. Last year, that was $28 billion. So again, we've gone from $4 billion to $28 billion, again pretty equally split between those two businesses for us.

And the third point, and I think this is not as well understood, but it's interesting when you look at private equity deployment for us, we feel good about when we deployed, where we leaned in. Let me give you a couple of statistics there. So I think in 2020 during COVID, I think everyone will remember, we leaned in. So our deployment was around 33% higher in 2020 versus 2019. I think we were more active than our peers. I think people remember that. In '21, it almost felt like the industry felt the need to play catch-up and industry deployment was up materially. So in the U.S., PE investment activity in '21 was more than double 2020. I think that's what many people remember and in some ways fear.

For us, deployment was flat. So again, you didn't see any kind of an acceleration into that really frothy environment. And then in '22, again, a year with a lot of volatility and challenged debt markets as you noted, deployment for the industry was down over 20%, deployment for us in private equity was up 35%. So again, I think you've seen this really thoughtful dynamic over time of how we look to deploy and take advantage of dislocation.

And then the final point just relates to credit. Again, that same scaling thought – in 2019, total credit deployment was $10 billion, 2020, that deployment was $10.3 billion, and last year, deployment for us was $25 billion. So as the credit business has grown, as GA has come online,

you've seen a meaningful increase in that deployment. So again, long-winded answer, but hopefully, that gives a little bit of flavor for the activities you saw last year.

Scott Nuttall
Yeah, the only color I'd add to that, Mike, is if you take the numbers apart, you're right, deployment was relatively flat in the low $70 billions in '22 versus '21. But if you look at the makeup, there's a bit of a shift. Credit was actually down year-over-year. Part of that is overall transaction activity in the market. Part of it is we had a lot of work on the GA front to do in 2021, in particular. But if you look at private markets, so think private equity, infrastructure and real estate, our deployment was actually up 20%. So we were leaning in, to Craig's point, into kind of what was happening with the markets last year after maybe being a little bit more cautious in late '21 in a high valuation environment.

Rob Lewin
Then, Mike, real quickly, our realization [and] deployments were about $400 million for the quarter off the balance sheet.

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

Arnaud Giblat
Good morning. If I could just follow up quickly on the last question. Could you talk about – a bit about the outlook a bit more on deployments? Are you seeing financing conditions improve in private equity? Is the bid-ask spread starting to narrow? A lot of the participants in the industry are talking about that as an issue. Is that improving? And equally, if you could comment a bit more on infra. I mean, that's obviously a very active area of the market. How are you seeing the pipeline of opportunities for deploying there?

Craig Larson
Yeah, thanks for the question. I think on deployment, look, the debt markets haven't fully healed, but despite that, we've continued to find ways to deploy capital. I do think the capital markets business actually gives us a real leg up in helping to put together the debt side of a capital structure. Where we're interested now would include those areas where we think we can really bring our operational resources to bear and move the needle.

Again, we love carve-outs. We've been very active public to privates. I think by strategy, you actually hit on probably the single busiest area in our firm, and that's infrastructure. And I think infrastructure has just continued to be a real success story and a real growth story for us. I think it's – when we look back at our April '21 Investor Day, we gave a bunch of statistics there of actually where we thought infra would be over the course of 2022. Just to give you a sense, at that point, infra AUM was $17 billion. We estimated at that Investor Day that infra AUM would exceed $30 billion, and as of year-end, we're at $51 billion against that $30 billion estimate, all organic.

We look for management fees effectively to double from that $150 million to $275 million to $300 million was our estimate for 2022. And for the full year, infra management fees came in at $340 million, so nicely ahead of the top end of that range. And we've got $9 billion of infra capital that will become fee-paying as it's invested at a weighted average fee rate of about 120 basis points. So not only were we at the high end, but we've got lots of visibility towards future management fee growth.

And I think as we look at opportunities for us, that opportunity for continued growth and innovation hasn't stopped. So again, we think it's an asset class that can lend itself nicely to the democratized marketplace. And we think the renewable space is again an area where our presence can increase. So I appreciate you're asking about it, but it's been a real bright spot for us.

Scott Nuttall
Yeah, the only color I'd add, Arnaud, is that our pipelines have been strong this year across asset classes. And I think to your question, it does take about a year for the public and private market valuations to start to align. We're getting close to lapping that, and we're starting to see that show up in the pipeline.

Operator
Our next question is from Rufus Hone with BMO. Please proceed with your question.

Rufus Hone
Oh, great. Good morning. Thanks very much. Just a follow-up question on Global Atlantic – I was just curious to get your thoughts around the outlook for inorganic growth for GA in the coming quarters. Any color on the pipeline there would be helpful. And would you consider raising or bringing on third party investors to accelerate organic growth and M&A even further? Thank you.

Rob Lewin
Yeah, thanks for the question, Rufus. You've hit on a spot of a lot of activity, actually. And our pipeline around the institutional side of our business at Global Atlantic frankly is big as it's been certainly since our ownership and probably since GA's founding. And so a lot of resources going into the institutional side of the business. And that's both in the U.S., but that's also global. I think there's a real opportunity to leverage KKR's franchise in Europe and Asia to help Global Atlantic grow in those parts of the world – so a lot of effort there.

We do have today, as you talk about third-party pools of capital, we do have side car pool of capital called Ivy today that participates alongside some of our block reinsurance activity. It's a big part of our go-forward strategy, and we'd certainly look to continue to be able to add capacity to the Ivy strategy to help support Global Atlantic and its growth in the future.

Operator
Our next question is from Chris Kotowski with Oppenheimer. Please proceed with your question.

Chris Kotowski
Good morning and thanks for taking the question. I wanted to ask about the Core Private Equity business. And I think if I heard him correctly, I think Rob referenced that it's $600 million of EBITDA, which is about 15% of your pre-tax earnings, but only 1% of DE. And I guess I'm wondering when and how – what is your philosophy or outlook on when and how the EBITDA starts converting into DE. I mean, do we have to wait 15 or 20 years until these investments are mature and ready to be monetized, or are these companies in a position where they can start throwing off steady dividends? Or do the cash flows have to be reinvested to keep the growth going? Or are there dividend recaps down the line? Or what is the, I guess, the strategy for converting the EBITDA into DE for KKR shareholders?

Scott Nuttall
Really appreciate the question, Chris. Let me start. Really, what we want to do first is highlight to you and all of our shareholders the fact that we think there is a fantastic portfolio that we're building in Core that is generating a significant amount of underlying value creation. And you're right, it's not yet showing up in our distributable earnings.

Part of that – the reason for that is because we report DE, which as you know, is a cash metric. These investments by their very nature are meant to compound for a very long period of time. So it shows up in our marked book value per share, but not in DE. And you're right, we would need to sell them or we would need to pay dividends or do some kind of a dividend recap to actually show up in DE. But even that I think would understate the quality of the underlying earnings because these businesses are designed to have recurring revenue and recurring bottom line.

And so part of what we're doing now is just sharing with you that we've got a little bit of that disconnect that we're building this portfolio that we feel great about as the largest shareholder, and we think it will show up in some parts of the financial statements but not others today. Some of these businesses will start to pay dividends in the near term, so we'll share that with you as we go along.

But one of the things that we've been discussing is how over time can we make it even more clear the value that's being created in that part of our strategy and what are the ways to do that. Just one example – Global Atlantic, as you know, we consolidate our share of GA's earnings, which is a long-term compounding investment that has a lot of other strategic benefits to it but not dissimilar to some of the things that we're doing with the Core portfolio in terms of the underlying. It's just GA shows up in earnings and Core today doesn't, at least yet. So part of what we want to do is create a dialogue with you and our shareholders so you know

what we're seeing. And then over time, we'll discuss how can we actually remedy that, but it's a good problem, not a bad problem.

Operator
We have reached the end of the question-and-answer session. I'd like to turn the call back to Craig Larson for closing comments.

Craig Larson
Rob, thanks for your help this morning, and thank you all for your continued interest in KKR, and we look forward to giving you further updates on our progress in the quarters ahead. Thanks again, everybody.

Rob Lewin
Thank you.

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

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