KKR & Co., Inc.
First Quarter 2023 Earnings
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<u>Presenters</u>
Craig Larson, Partner & Head of IR
Rob Lewin, CFO
Scott Nuttall, Co-CEO

<u>Q&A Participants</u>
Alex Blostein – Goldman Sachs
Patrick Davitt – Autonomous Research
Brian McKenna – JMP Securities
Michael Brown – KBW
Brian Bedell – Deutsche Bank
Michael Cyprys – Morgan Stanley
Arnaud Giblat – BNP Paribas
Benjamin Budish – Barclays
Michael Kelly – Credit Suisse
Finian O'Shea – Wells Fargo Securities

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's First Quarter 2023 Earnings Conference Call.

During today's presentation, all parties will be in listen-only mode. Following management's prepared remarks, the conference will be open for questions. If anyone should require operator assistance during the call, please press "*", "0" from your telephone keypad.

Please note, this conference is being recorded.

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

Craig Larson
Thank you, Operator. Good afternoon, everyone, and welcome to our first quarter 2023 earnings call. As usual, for the call, I'm joined by Scott Nuttall, our co-Chief Executive Officer, and Rob Lewin, our Chief Financial Officer.

We'd like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the Investor Center

section at kkr.com. And as a reminder, we report our segment numbers on an adjusted share basis.

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

This quarter, Fee Related Earnings per share came in at $0.62, and After-tax Distributable Earnings came in at $0.81 per share. I'm going to begin the call by walking through the details for the quarter, before turning things over to Rob.

So, beginning with management fees. Management fee growth continues to be a real bright spot for us. In Q1, management fees were $738 million. That's up 18%, year-over-year, and looking over the last 12 months, management fees are up 23%.

Looking a little deeper, over the last 12 months, management fees in private equity and credit both increased 18% while, in real assets, management fees are up 40%. Net transaction and monitoring fees were $142 million for the quarter, $102 million of which came from our capital markets business.

Our fee related compensation margin was at the midpoint for the quarter at 22.5% and other operating expenses were $150 million.

So, putting that together, Fee Related Earnings were $549 million for the quarter or $0.62 per share, which I mentioned a moment ago, and that's with an FRE margin of 61%. This is now the tenth consecutive quarter where you've seen our FRE margin at or above that 60% level.

Walking further down the income statement. Realized performance income totaled $175 million, driven by our traditional and core private equity businesses, and realized investment income was $198 million for the quarter, driven by activity in growth equity.

Both realized performance and investment income compensation margins were at their midpoints for the quarter.

Our asset management operating earnings were $778 million, and our insurance segment generated $205 million of pre-tax operating earnings, which I'll spend another minute on shortly.

So, in aggregate, this resulted in After-tax Distributable Earnings of $719 million, or $0.81 per share.

Now turning to investment performance. The traditional private equity business was up 2% for the quarter and, over the last 12 months, was down 9%. Importantly here, inception-to-date

IRRs for our blended flagship funds, so Americas XII, Europe V and Asia IV remained strong at 22%, which is meaningfully ahead of the corresponding 7% figure for the MSCI World.

In real assets, the real estate portfolio was down 3% in Q1. While we are all seeing a difficult market for a handful of areas within real estate, our portfolio continues to be heavily weighted towards those assets and themes where you're seeing strong fundamentals and cash flow growth.

So, think industrial assets, data centers, rental housing, student housing and storage. However, as cap rates increased in the quarter, that more than offset NOI growth, leading to the modest decline in the portfolio for the quarter.

Infrastructure was up 7% in the quarter. This performance reflects the strength of our infrastructure portfolio on a global basis. And with higher interest rates, we've strategically leaned into more inflation-protected assets.

On the leveraged credit side, the portfolio was up 4% in the quarter, outperforming its index, while the alternative credit portfolio was up 2%. And for the balance sheet, investment performance was flat in Q1.

Now, in addition, we have two new updates that can be seen through the earnings release.

First, I briefly mentioned our insurance results this quarter. Turning back to this topic, we expect you saw the recast financials we posted last week on our website and also filed through an 8-K.

These changes reflected two things: first, per FASB guidance and as required for all SEC filers, we implemented the accounting principles of LDTI within KKR's insurance segment to reflect the new accounting standards for long-duration contracts, such as life insurance and annuities.

Overall, the impact here on our segment financials are quite modest. There was a $1 million positive impact to 2021 pre-tax insurance segment operating earnings and a $74 million positive impact to 2022 pre-tax insurance segment operating earnings. And in terms of 12/31 book value, there was an increase of $480 million.

And second, to conform to other alternative asset management companies and enhance comparability, we're reporting our insurance segment operating earnings on a pre-tax, not an after-tax basis.

So, as you look at page 3 of the earnings release, income taxes attributable to KKR's asset management and our insurance segment are now captured within that single line item titled *Income Taxes on Operating Earnings*.

The 8-K referenced a moment ago recast our financials reflecting all of these changes for 2021, as well as on a quarterly basis for 2022 to help everyone look at our results on a comparable basis.

And the second change within our press release you'll see on page 25. We have included an additional disclosure on our Core Private Equity strategy. With $34 billion of AUM, we believe we have the largest Core PE asset management business in the world.

And Core PE remains the largest allocation we have on our balance sheet, so we thought the additional disclosure and context would be helpful for investors this quarter, as well as in quarters to come.

As a reminder, this is a long-duration investment strategy for us, where we expect to hold investments for 10 to 15 plus years and believe these investments carry a more modest risk return profile, compared to traditional PE.

And as you can see on the page, our Core PE balance sheet investments have increased steadily from $1.4 billion in 2018 to over $5.7 billion of fair value, today.

The $5.7 billion of fair value compares to the $2.7 billion of cost, or 2.1x of cost currently, a strong return over approximately 5 years.

In total, Core comprises approximately 32% of total balance sheet investments and consists of 19 companies across multiple industries and geographies.

And with a little over 20% of total PE capital invested in the last 12 months into Core PE, we remain very active in the space.

And one final note – consistent with historical practice, we increased our dividend to $0.165 per share per quarter, or $0.66 on an annualized basis. This is now the fourth consecutive year we've increased our dividend since we changed our corporate structure. And with that, I'm pleased to turn the call over to Rob.

Rob Lewin
Thanks a lot, Craig. The past few months have certainly continued to be dynamic on the macro front. However, different backdrops do create opportunities, especially for firms like ours that have substantial locked-up capital, a significant amount of dry powder and a global and highly coordinated investment team with expertise that spans multiple different asset classes.

I thought it would be helpful this morning to go through what we are experiencing, day-to-day, across the firm.

Let's start with fundraising. We raised $12 billion of capital in the quarter. In private equity, activity this quarter included the final close on European Fund VI at $8 billion, which is approximately 20% larger than its predecessor.

It's a really great outcome in what is the most challenged part of the fundraising market and now gives us $40 billion of committed capital in total, looking at our active traditional PE funds across Asia, North America and Europe. We believe this is the largest active capital base for traditional private equity, by a wide margin.

In credit and liquid strategies, we raised almost $9 billion in Q1, which is just about what we raised on average per quarter in 2022. In total, though, the $12 billion of new capital raised is a little bit on the lighter side for us. Scott is going to follow up with a little more color on the fundraising environment in a few minutes.

Now against this backdrop, we still do feel incredibly fortunate for a few reasons. First, since 2020, we've raised approximately $60 billion of capital for our traditional private equity and core private equity franchises.

Given all the flagships raised over this period, 2023 was never going to be an outsized fundraising year for us. So, our focus in private equity is on investing the capital that we have previously raised. And we have almost as much dry powder as we've ever had as a firm to invest into this dislocated environment.

Now to be clear, we are still in the market fundraising for 30 plus strategies, largely in real assets and credit over the next 12 to 18 months, and our fundraising teams remain highly engaged with our clients.

Second, we continue to make progress against our strategic priorities. As an example, we've talked to private wealth and democratized products several times on these calls.

And we are pleased that since our last earnings call, our democratized private equity vehicle outside the U.S. raised over $400 million on just one platform at its first close, which will show up in our Q2 results. It's a great start for us and we hope to build on this momentum with the wirehouses, as the domestic vehicle comes online in the second half of the year.

And in terms of our democratized infrastructure strategy, our U.S. vehicle is expecting a first close over the summer, while its international counterpart is right on its heels with a first close expected soon thereafter. We are really excited about both of these strategies. And while we're in the earlier days, we're pleased with initial reception and enthusiasm.

The launch of these products is a critical step in addressing the huge private wealth end market and bringing products that traditionally have largely not been accessible to noninstitutional clients on a global scale.

And third, on the insurance front, momentum really does continue at Global Atlantic. AUM at GA has almost doubled since we announced the acquisition in July 2020 from $72 billion to $142 billion, today. And since the transaction closed in early 2021, our share of book value has increased from $2.9 billion to $4.4 billion.

In terms of Q1, financial performance continued to run ahead of our expectations and capital raising remains robust. While GA did not announce any block transactions in Q1, our pipeline here of compelling opportunities remains quite strong, and we would expect greater activity, over time.

Turning now to deployment. We have $106 billion of dry powder, which is close to a record figure for us and feel really excited about the investing environment that we are currently in, so we remain incredibly well positioned to build the portfolio for the future. And looking what our teams have done more recently, we continue to be pretty creative of putting that capital to work.

In European Private Equity, we announced the acquisition of FGS Global, a leading strategic communications advisory firm.

This is the latest example of the team's focus on proprietary opportunities where we can provide long-term capital and a global network of resources to help an entrepreneurial, world-class management team that we've known and worked with for over a decade.

In infrastructure, we closed on the acquisition of Vantage Towers in partnership with Vodafone. Vantage is our latest take-private transaction. We have announced or closed on 10 take-privates since the beginning of 2022. An investment largely from our Diversified Core Infra Fund, Vantage is the second largest telecom tower company in Europe.

And in our credit business, we are very constructive on the risk reward we're seeing today in the market. As the syndicated loan markets have remained choppy, new issue volumes are down over 50%, year-to-date.

Companies looking for debt capital continue to increasingly look to the private credit markets where base rates are up, spreads are wider and lender protections are more significant. We believe that we are in the best direct lending environment that we have seen for the past 10 plus years.

Now with interesting deployment, which largely comes from higher volatility, does come a more challenged monetization environment. The environment here continues to be quiet, and our expectation is that it will remain soft for much of 2023.

However, as we've discussed on prior calls, our business model has multiple advantages. And one of them is that 90% plus of our capital is locked up for the long term or is perpetual in nature. So, we are not forced sellers, and we won't look to aggressively monetize our portfolio, unless it's into a window that maximizes outcomes for our investors.

Even with the volatility and markdowns we have appropriately taken over the last 12 to 15 months, we maintain over $9 billion of embedded gains on our balance sheet. So, if we never made another investment and created no additional value or returns, we are positioned to generate $9 plus billion of monetization-related revenue.

The key message you're hearing from us today is that we remain highly confident in our portfolio, and we'll optimize the monetization outcome when it is most advantageous to our investors.

So, to summarize, while the past several months have presented a more challenging operating environment, it has not changed our long-term outlook. We continue to have more conviction in our ability to meet our goals – FRE of $4 plus per share and After-tax DE of $7 plus per share by 2026, than we did when we first issued that guidance in late 2021.

In our teaching materials posted at the beginning of this year, we introduced six very significant drivers of value creation for KKR. These areas: real assets, Asia-Pacific, core private equity, private wealth, insurance, as well as the opportunities afforded to us through our balance sheet, continue to position us for substantial growth. And that is why we have the confidence that we do in our long-term fundamentals. With that, let me hand it off to Scott.

Scott Nuttall
Thank you, Rob, and thank you, everybody, for joining our call today. I thought today I'd talk about what we're seeing near term and how we're feeling longer term.

Near term, the market volatility is doing three things: it's causing some institutional asset allocators to be more cautious and delay decisions. It's making us want to sell less of our portfolio, and it's creating some very attractive investment opportunities for us.

On the fundraising front, we are seeing some investors pause, as they get their bearings. This is, in particular, true in some U.S. and European institutions. It has not been the case in other areas. Until this changes, it will likely slow down capital formation in the near term for some of our efforts.

We don't expect this to have a big impact on the firm for a couple reasons.

First, as Rob noted, we are not in the market with our flagship PE funds this year. We expect those to come back to market in 2024 and 2025. Frankly, we're fortunate with that timing.

We have been actively raising capital, however, for our non-private equity businesses. To put some numbers to this, new capital raised over the last 12 months totaled $67 billion; $63 billion or 95% of that number was raised in strategies outside of traditional private equity funds.

Given the growth in scaling across our credit and real asset platforms, we are meaningfully more diversified across strategies than someone less familiar with KKR would likely expect.

Second, we are seeing the benefit of increased diversification across our distribution channels and are less reliant on any one type of investor than we used to be.

As background, a handful of years ago, we sold almost exclusively to institutions. Today, we sell to institutions, insurance and private wealth.

Taking those in turn, while some institutions are pulling back or delaying a bit, others like sovereign wealth funds are not, and we are having a number of productive dialogues globally, in particular, around private credit and real assets.

Our insurance efforts are also scaling, meaningfully. You heard the $142 billion number from Global Atlantic. If you include the $56 billion we have from third-party insurers, we now manage nearly $200 billion for insurance companies, globally. That number is up nearly 50% from two years ago.

Also, as Rob referenced, we are now live with our democratized PE and infrastructure strategies. Our democratized real estate product has been raising capital since mid-2021 and is adding more platforms. And we have another private credit vehicle for the wealth channel in the pipeline for later this year.

So, we will have all four of our major asset classes in democratized format available globally and being added to multiple new platforms, over the course of the next several quarters.

Candidly, we don't yet know what all this will yield. But we do know it will be upside for us relative to what we have been doing to date. And we know that the private wealth opportunity is significant for the firm.

So, we are diversifying KKR, not just in how we invest, but in how we access capital. And we see all this lining up really well for us over the next couple of years as we expect to be back in the market with our flagship funds at a more hospitable time, which will coincide with us continuing to scale our insurance efforts, which are proving countercyclical and benefiting from a higher rate environment, at which point, we will also be more mature in private wealth with our products on multiple platforms in multiple geographies, all while our recently expanded sales force, up from 100 to 280 people in the last couple of years, is hitting their stride.

So, despite the near-term fundraising environment, we feel good about the progress we're making and now have multiple ways to win with more momentum coming. So, that all bodes well.

On the monetization front, we will likely sell less in an environment like this, but we are seeing the value of the portfolio continue to grow, so this is really just a timing question. And on the investing front, the great news is times like these tend to generate some of our best investments. We expect the next couple of years to be strong vintage years for returns, across asset classes.

So, we expect our earnings down the road to be higher, as we monetize the investments we're making in this environment.

Putting this all together, while the near term may feel harder to interpret and the next couple of quarters may stay bumpy in markets, we actually feel great about how we are building the firm and executing our plan.

Now switching to the longer term. Last quarter, I referenced the market volatility and suggested it's important to separate the signal from the noise and that we remain focused on what we can control. That continues to be the case.

The market noise has not changed our bottom line. We feel even more convicted in hitting the FRE and After-tax DE targets we've shared with you.

Let me explain why. In January, we shared how the earnings power of the firm has evolved.
We are in a fundamentally different place than we were even a few years ago. Because we report DE largely on a cash basis, there will be times we are over-earning that earnings power and times we are under-earning. In times like this, when we are selling less, we are under-earning.

But we look at how that earnings power is trending, and our progress has been significant. Our ability to create forward-looking financial outcomes is well ahead of where we were just a few years ago.

The capital we're raising is increasing the amount of dry powder we have, already a near record of $106 billion. And we have a lot of management fee growth visibility with $37 billion of committed capital where fees turn on when the capital is invested.

Our carry-bearing invested capital, up 3x over the last five or so years, is continuing to scale with a great investing environment in front of us, as we deploy our dry powder. And our embedded gains continue to increase, from $2 billion to $9 billion, over the last three years.

Putting all this together and stepping back, our run rate earnings power has doubled over the last three years at KKR. That's a metric we think matters, especially when the noise is loud.

So, thank you for taking the time to understand our business. And hopefully, it's clear why we are so optimistic about the path and growth ahead. With that, we're happy to take your questions.

Operator
Thank you. We'll now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

So that we may address questions from as many participants as possible, we ask that you please limit yourself to one question. If you have additional questions, you may re-queue and, time, permitting, those questions will be addressed.

One moment, please, while we pull for questions. Thank you.

Thank you. And our first question is from the line of Alex Blostein with Goldman Sachs. Please proceed with your questions.

Alex Blostein
Hi, good morning, guys. Thanks for taking the question. Maybe we could start with some of the dynamics you're seeing in private credit. And specifically, I was hoping we can zone in on direct lending. So, Scott, you suggested that's an area where you continue to see opportunities and the environment remains, obviously, quite interesting there.

Can you help maybe unpack like sort of the sizing of that business for you guys outside of the BDC? And ultimately, how much of third-party capital outside of GA you have in there and the opportunity to really scale that where you could bring in third-party assets into the franchise? Thanks.

Scott Nuttall
Sounds good. Thanks for the question, Alex. Craig, why don't you kick off, and then I'll jump in?

Craig Larson
Yeah, sure. So, look, I think in terms of the industry, just to start there, Alex, and some of the dynamics we're seeing, I think mid-market private equity firms which really are a lot of the driver of the deployment you see here do have a lot of dry powder.

And so, you're seeing more of these firms, more mid-market borrowers generally who want to use the private debt markets. So, we expect the private debt markets, broadly, and direct lending, specifically, to continue to grow and take share.

And I think in terms of KKR, you should expect to see us grow here in a number of ways. First, in a traditional institutional format. So, we're fundraising for our U.S. and European direct lending strategy. Second, we have our BDC, as you mentioned. And we think there will be opportunities, over time, to introduce additional vehicles focused on the private wealth opportunity.

And finally, Global Atlantic is also active here. So, I think in summary, direct lending, it's a core part of our credit business, lots of ways for us to grow. We think that can be in the institutional private wealth, insurance businesses across multiple forms of capital, traditional funds, separately managed accounts, perpetual capital, and that's both in the U.S. and outside the U.S.

So, again, the backdrop for us just feels really constructive with lots of opportunities going ahead.

Scott Nuttall
Yeah, just a couple of thoughts I'd add, Alex. First off, if you think about our overall private credit, like corporate credit business, it's roughly $75 billion-or-so of assets. If you include real estate credit, which is a very large business for us, that adds another roughly $30 billion to $35 billion. So, we're $110, give or take, billion of total between the two.

And that is, to your question, really fed across a number of different vehicles. We've got Global Atlantic, we've got our BDC and other permanent vehicles. We have funds, we have separate accounts and we're raising capital across all of those.

And we continue to see, to Craig's point, a real opportunity to continue to scale those businesses, especially in this environment where the traditional banks are pulling back. But I would highlight a few things. Direct lending gets a lot of attention. The senior secured opportunity is definitely there. Spreads are wider, protections are greater.

We think this is going to be a great vintage period, and we're finding real interest from investors around the world in that seniority plus yield off a higher base rate. So, we think that interest will continue.

The other thing that doesn't get as much attention is our asset-based finance business, which is also a very large opportunity for us, a very large business. That is roughly a $4 trillion to $5 trillion end market in terms of opportunity, on its way to $7 trillion.

Think of it as a series of different hard assets and consumer assets that the banks use to finance that they're pulling back from. We have a number of platforms that we've created to go after that space, again, accessed across all the different types of vehicles I mentioned.

And then real estate, real estate credit, you can imagine what that market looks like over the next several years. It's going to be a big opportunity for us to scale there as well, and we're already one of the largest players. So, big opportunity for growth as we think about how do we double our $200 billion plus in credit globally, again from here.

Alex Blostein
Great. Thanks so much.

Scott Nuttall
Thank you.

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

Patrick Davitt
Good afternoon, thanks. You mentioned holding on to some things longer and pausing realizations and last week, a competitor gave a pretty big guide down on PE realization expectations for the year, basically saying they didn't expect a big uptick, until 2024. So, do you agree with this view? And I guess, more specifically looking at your pipeline and conversations, still think there's a path to posting meaningful pickup in the second half? Thank you.

Rob Lewin
Hey, Patrick, thanks for the question. So, I think, and I applied this in the prepared remarks, we're seeing a pretty quiet monetization outlook out there, right now. That's what we're seeing in our current pipeline. And our expectation is probably going to remain that way for the duration of the year.

Now I think there's a few separate points to hit on here for KKR, specifically. I think the most important point, and I mentioned this earlier, is that 90% plus of our capital at KKR is either perpetual or locked up for 8 plus years from inception.

In terms of our carry-eligible AUM, I bet that number is probably closer to 100%. And so, we are generally not forced sellers into the marketplace.

Number two, while the near term here could be pretty slow, there are a number of factors that really contribute to our confidence in being able to generate very meaningful step-ups in monetization-related revenue in the future when the environment improves.

Number one, it's the health of our existing portfolio. It's really strong. I don't think that we can overstate that point enough. We feel really good that we got the macro right coming into this period of time, and we'll exit it in a stronger position competitively as a result.

Number two is really the scaling and diversification of our capital deployment over the last five years that's going to generate the carry and balance sheet gains in the future. Scott hit on this in his prepared remarks, but our carry-eligible AUM is up 3x versus the last vintage, which is generating today's carry.

And number three, it's our dry powder, $106 billion, almost a record number for us, and 95% plus that $106 billion is carry-eligible.

And so really, the question here around the trade-offs between monetizing investments today versus in the future was one of the key reasons why we included that earnings power framework that we did in our teach-in materials from January.

It's that metric, I think, that really speaks to the go-forward opportunity for us and why we remain so constructive on the longer-term ability to generate real monetization outcomes, and ultimately, $7 plus per share of TDE, by 2026.

Scott Nuttall
Yeah, the only thing I'd add, Patrick, a couple of things. One, this is obviously going to be heavily market-dependent. I think Rob hit on it. We've gone from $2 billion to $9 billion of unrealized gains in the last three years. So, that's the number that we track. That's why we shared that with you.

So, this is just a matter of when do we choose that we want to monetize some of those gains on the margin, especially in U.S. and Europe. We're probably going to choose to wait. But keep in mind, one of the things we benefit from is a more global portfolio than most. Asia, in particular, has some different market dynamics going on, right now. I think that will help on the margin.

But the bigger picture message you should take is the $4 plus of FRE that we shared and the $7 plus of TDE per share a few years out, we still feel great about that. So, I wouldn't get too worried about what we sell in the next couple of quarters.

I'd focus more on that earnings power and where do we expect to end up. My personal perspective is I would expect those numbers will go up relative to down, based on what we're going through now.

Patrick Davitt
Thank you.

Scott Nuttall

Thank you.

Operator
The next question is from the line of Brian McKenna with JMP Securities. Please proceed with your question.

Brian McKenna
Great, thanks. So, I had a question on your infrastructure business. Fund IV has about $10 billion of uncalled commitments. So, how should we think about the quarterly pace of deployment here for the remainder of the year? And then do you have any initial expectations around the size and timing of Fund V?

Craig Larson
Hey, Brian, it's Craig. Why don't I start? First, on deployment, one of the things that is interesting and you've picked up on this is the real scaling you've seen over time in deployment. So, in 2019, infra deployment was $2.1 billion. In 2020, it was $2.2 billion. And over the trailing 12 months, we've invested $14 billion across the infrastructure platform. Activity is very high.

This remains among the busiest teams and the framework of our firm and it's global. And returns, again, as you would have seen the snapshot from page 7, have continued to be, we think, strong and differentiated.

So, I think the activity level continues to be high. We haven't announced anything as it relates to timing of future fundraising, etc. But I think if we continue to execute the way that we have, there'll be continued opportunities for us.

And then one other point here is, again, innovation is going to continue in the framework of the firm. And I think you're seeing that real time in terms of what we talked about in the prepared remarks on democratized infrastructure as an avenue that also will continue to help us both from a deployment and, honestly, from a fundraising standpoint, as well.

Brian McKenna
Awesome. Thanks, Craig.

Operator
Our next question is from the line of Mike Brown with KBW. Please proceed with your question.

Michael Brown
Great, thank you. So, in the quarter, concerns related to the fixed annuity surrenders really picked up in March, as the liquidity stress really ruled the market. In GA, what did you guys see in terms of the fixed annuity surrenders in the quarter and what have you seen thus far in the second quarter?

And then if you just take the other side, what are you guys seeing on the organic growth side? How has that performance been in the first quarter, specifically towards the tail end and then into the second quarter? Thank you.

Rob Lewin
Yeah, Mike, it's Rob. Thanks a lot for the question. The punchline is no surprises as it relates to surrenders. They remain in line with management's expectation on initial underwriting. So, we feel good about that. That has continued into the second quarter, as well into April.

As it relates to the opportunity from here, clearly, the opportunity, we think, on the retail side of the business, given where interest rates are and —where annuities are priced at today remains a really robust one that our team is very focused on. We have a very strong market share there.

And I mentioned this earlier through the prepared remarks, but the institutional side of our business has a real healthy pipeline, right now. And so may be a little bit lumpier in nature, but we feel good with what we're seeing there and some of the risk-reward that exists in that part of the market, as well.

Michael Brown
Okay, great to hear. Thank you.

Rob Lewin
Thank you.

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

Brian Bedell
Great, good afternoon, folks. Maybe just on capital deployment. How are you thinking about the pace? And I guess in the context of monetization slowing down, clearly, the market is slower and you don't want to be monetizing in this environment. And heard you loud and clear, you're eager, of course, to deploy in this environment with valuations being good.

But to what extent will any kind of slowdown in the market prevent you from doing that? And how important can your own internal capital markets business be in sort of narrowing that gap versus, say, using other means of deploying capital? And then if I could just weave in, just the $37 billion of committed capital that comes into fee paying AUM, just your expectations of timing on that.

Craig Larson

Hey Brian, it's Craig. Why don't I start and then Rob can pick up on the $37 billion number. So, just a couple of observations, I guess, in terms of deployment. Look, first, over the last 18 months, we've seen a lot of dislocation and valuations have come down, pretty meaningfully.

And a lot of the primary markets have either been shut, thinking of the IPO market or the syndicated debt markets, again, as an example, which aren't fully healed. So, capital at the moment is precious, but all of those things from a deployment standpoint we look at, I think, are very good things for us.

And as Rob pointed out in our prepared remarks, with our fundraising success heading into this period, we're really well positioned when you put those two things together. Now I think in this backdrop, look, we're going to be value focused. We're going to look for those opportunities where our operational resources and focus can really move the needle.

We love corporate carve-outs. We've been active in pursuing public to private, so I think that's an example of where you're seeing probably as much activity from us as anybody within the industry. And so, we're going to continue to be opportunistic across those parts of the opportunity set.

And I think finally, the other thing you're seeing because it's interesting, is the balance you're seeing across the firm. Real diversification and real balance. Over the trailing 12 months, traditional private equity deployment was $11 billion. Real estate was $10 billion and infrastructure, again, as I mentioned a moment ago, was $14 billion. So, you're seeing a real balance in that level of investment activity.

And I think it's also just worth highlighting and it's kind of related to the first, but the growth you've seen also in terms of real asset deployment with the growth in our infrastructure and real estate platforms. You've seen a big step-up in overall deployment, and that is also true within the credit business.

So, in 2019, deployment in credit was $10 billion, 2020 was $10.3 billion, trailing 12 months, it was $17 billion. And then I think as it relates to capital markets, you're bringing up a very fair point just as it relates to the strength of the team and what having 70 people can do for us as we're trying to put capital structures together and look to finance those deployment opportunities.

And to date, despite all of the disruption, we've not had a situation where we haven't been able to finance an opportunity that we wanted to pursue. And I think the strength of the team and the breadth that we have in terms of the global capital markets franchise is a critical part in that.

Scott Nuttall

Yes, Brian, it's Scott. Just a couple of things I'd add. One, as I mentioned in the prepared remarks, I think it's going to be a great couple of vintage years we're walking into here. So, if you first start with equity, which is probably the focus of your question, there's a couple of things that go on. Buyers and sellers need to find common ground. It usually takes about 12 months for that to happen, as the market suggests.

We seem to be countering that. We're starting to work to the other side of that. Obviously, the bank failure has created a little bit of a pause in some discussions, but we are pretty active on a number of different fronts. So, we think that will not be something that holds us up for much longer.

I think the financing markets, to Craig's good point, capital markets and to your question, has been a secret weapon for us and has allowed us to get some deals done. We've done a couple of deals where we've spoken for 100% equity and then the private credit market shows up and put the financing in place.

So, we're not letting the financing markets hold us back in PE or in infrastructure. In fact, it's kind of creating some opportunities where maybe it's tougher for our competition that don't have the same capability sets and the same capital markets team. And then as I mentioned before, on the credit side, it's just more flow and more opportunity across both corporate and real estate credit for us.

Rob Lewin
And Brian, just as a quick follow-up on the $37 billion of capital, no firm guidance there, but a decent rule of thumb would be three to four years until that shows up in fee paying AUM. As a reminder, that capital comes in at close to 100 basis points on a weighted average fee basis.

Brian Bedell
Great, thanks for the great color.

Rob Lewin
Thank you.

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

Michael Cyprys
Hey, good afternoon. Thanks for taking the question. As you guys have continued to grow out your insurance relationships, can you talk about how you have expanded your investment capabilities there, where you see room to further scale some of those capabilities maybe in real estate credit? And maybe you could talk about some of the initiatives there. And then what

white space opportunities remain at this point where you could broaden out the investment capability set there?

Scott Nuttall
Hey, Michael, it's Scott. Really good question. I would say there's no doubt that broadening our insurance relationships, both with Global Atlantic and with third parties, has allowed us to, meaningfully, scale some parts of the firm.

In particular, I would say, all things private credit, direct lending, asset-based finance that I mentioned before. Maybe part of the firm that had the biggest impact was across real estate credit. I think the year before, we did the Global Atlantic transaction, our real estate credit team originated something like $2 billion of loans and the first year after, it was somewhere in like $12 billion or $13 billion.

So, it's allowed us to meaningfully scale our presence, both from an origination standpoint and also allow us, I think, to do an even better job for the third-party insurers because now we are operating just like them through the regulatory environment that they're living with as an operator, as opposed to just an agent.

And I think there's opportunities to grow in all of those spaces. These are very large end markets. As you know, our strategy and everything we do is only be in businesses where we are or can get to top three in that space, and we feel great across all of those fronts.

It also gives us an opportunity to look more globally as we're looking at, in particular, for Global Atlantic blocks across Asia or Europe and adding insurance clients outside the U.S. I'd say our client base is heavier in the U.S. today, but we are building relationships outside the U.S. as well.

And that gives us an opportunity to expand, just like we did in the U.S., our origination footprint across all those areas; we can do it outside the U.S., too. And we're starting to do that now across both Europe and Asia, across those asset classes.

So, it's been a big positive for us on a number of different fronts, and it kind of bolted us to top three across a number of those different businesses much faster.

In terms of kind of white space, to the second part of your question, more broadly, I think there are a number of different things that we could point to. The biggest impact on the firm, however, is just going to be scaling everything that we started.

We see an opportunity to double and triple several of the businesses that we're in. As you know, a lot of the businesses we've started in the last handful of years, over 50% of the firm is not yet scaled in our definition. Over 50% of the money we raised last year is in strategies less

than five years old. So, the biggest impact is going to be scaling what we started. But there are some other areas.

I'd point to energy transition and climate is something that we could point to. I'd point to life sciences as another big area that, over time, could be meaningful for us in terms of coming attractions.

Michael Cyprys
Great. Thanks. And if I could just sneak in a housekeeping question for Rob, just on the investment deployment off the balance sheet. Thank you.

Scott Nuttall
We would have been disappointed if you didn't ask that one, Michael. You're very consistent.

Michael Cyprys
Thanks.

Rob Lewin
Mike, we were at $500 million of deployment in the quarter and realizations about $150 million.

Michael Cyprys
Great, thank you so much.

Scott Nuttall
Thank you.

Operator
Our next question is from the line of Arnaud Giblat with BNP Paribas. Please proceed with your question.

Arnaud Giblat
Good afternoon and thanks for taking my question. I'd like to follow up on the deployment in credit. It's been detected by yourself and most of your peers as a significant opportunity to take market share from the banks. Yet when we look at Q1 data here, the deployment in credit is quite soft. I was just wondering what sort of dynamics to work out, for us to see deployment really pick up here. Thank you.

Craig Larson
Yeah, it's Craig. Why don't I start. Look, I think the first quarter, as I think we'll all remember, March, in particular, was a really disruptive period. We've had two bank failures, since the beginning of March. Just a tremendous amount of volatility.

And all of that – those dynamics are not going to be helpful from a financing market standpoint, from a deal standpoint, as Scott had mentioned a moment or two ago. So, I wouldn't read too much into the industry, honestly, in terms of these trailing 90 days.

A lot of that activity in private credit does end up being financial sponsor-driven in the framework of new transactions.

And we think over time, as you have refinancing opportunities as the market strengthens and as you have that M&A activity from mid-market sponsors pick up, that you'll see deployment in turn, pick up, as I think the overall share is one where you're continuing to see a growth in share in private credit, broadly. So, again, I wouldn't look to read too much into the trailing 90 days.

Arnaud Giblat
Thank you.

Operator
Our next question is from the line of Benjamin Budish with Barclays. Please proceed with your question.

Benjamin Budish
Hi, thanks so much for taking the question. I'd kind of like to revisit, Scott, some of your comments about fundraising. Just thinking about sort of the more excess caution across the LP base, could you maybe characterize that a little bit? Is it sort of denominator effect issues? Or is it sort of a broad skittishness that's sort of just delaying all decision-making?

And then kind of in the context of the 30 funds you've got coming to market, how much of that is expected to start raising in the back half of the year? Just maybe to help us think through the sort of risk that some of that gets pushed further into 2024. Thanks.

Scott Nuttall
Great, thanks, Ben. Look, in terms of the LP dynamics, it really depends on what product area you're talking about, what kind of investor you're talking about. So, I'd say where there has been perhaps a bit more caution on the margin has been around U.S. and European pensions.

And some of that is definitely a denominator effect as they're trying to get their bearings, heading into this year. And some of them are over their alternatives allocation and trying to sort out how much of the budget do they want to spend and how quickly.

But that is just that particular segment, and it tends to be more equity-focused, as opposed to credit and real estate credit-focused in terms of those dynamics. But when you kind of go broader than that, you go to sovereign wealth funds, we're not feeling that dynamic at all.

Whether it's Asia or the Middle East, they seem to have a good amount of capital and are looking to put it to work, across different asset classes and geographies. Insurance companies, despite the higher base rate, we continue to see a significant amount of interest in what we're doing.

And you heard the comments that we're now a couple of hundred billion near enough that we're managing for insurance companies. It's been quite good for their businesses especially on the life and annuity side. And so, we're getting the benefit of that growth.

Family offices are actually a bit contrarian in this environment and reviewing this, which we agree with, is a great period to put money to work. So, we're actually finding family offices leaning in. And you know what we said about private wealth, that's all new.

So, this is the first time some of these spaces have had access to things like private equity and infrastructure. And so we'll see what all that yields, but this is a new dynamic for us. So, I wouldn't over-index to just the U.S. and European pensions.

And I would say the footnote even on that score, I think some of them have learned from the post-GFC period, where maybe some invested less coming out of the financial crisis than they might have hoped. And so, as opposed to turning off, we're finding maybe they're reducing the amount they're committing in this environment but not turning it off.

The bigger point I would make is that if you think more broadly across everything that we're doing across private equity, infrastructure, real estate and credit, there is a significant amount of investor dialogue, both institutions and individuals. So, I wouldn't take too much caution from the comments.

Just on the margin, we are hearing this from some people. And I think the bank crisis in March probably fed that a bit, but there's also acknowledgment from a number of the people that we're talking to, that they don't want to underinvest or under commit because I think there's an understanding the next couple of years are going to be a really good investment period.

And as your question on the 30 investment strategies, I think most of those will be in the market over the course of the next 12 months, including the back half of this year.

Craig Larson
And the only thing I'd add to that last point, Ben, just again, I think the part of the market where we've seen the most headlines and where you're probably seeing the most congestion is in traditional private equity. Again, as we mentioned, we've had a final close on our Europe VI Fund, 20% larger than its predecessor, great outcome. Probably worth noting that almost 25% of the LPs in that fund are new investors. They're now new clients of KKR.

So, we've talked for a long time on these calls of our focus on growing the LP base and the success that we're having there. But more importantly, following on that, again, as we've mentioned, we're not going to be in the market with a flagship PE fund this year, and we don't expect to be back in the market till '24 or '25.

And we feel fortunate with that timing. And instead, it allows us to focus on deploying that capital. So, I think perhaps the traditional PE space might be the one place where you might hear people delaying or having the greatest impact on seeing those fundraises be elongated. And we're really fortunate in that we have no activity for the back half of this year.

Scott Nuttall
Maybe just one other macro comment I'd make, Ben, as you think about this. If you step back and think about our firm, so 15 years ago, we managed about $50 billion of capital; 10 years ago at less than $100 billion; 5 years ago, less than $200 billion. We're now in excess of $500 billion.

And what we tend to find coming out of periods of time like this is we've got a bit of a market dislocation and the question around economic cycles is investors tend to look back and say what performed when the markets were difficult. And what we found is, over time, alternatives has tended to perform quite well. And usually, what happens coming out of an environment like this is they increase their allocation to alts.

Our expectation is that the same thing will happen here. That will be a nice wind at our back, as we kind of head into the next several years and launch the flagship funds that Craig was referencing.

And then you've got on top of that, the compounding benefit of private wealth. So, the reason you hear the optimism in our voice is over the next several years, we actually think we're going to look back on this period of time, I feel like this has been quite helpful and help fuel the next leg of growth for the industry and for the firm.

Benjamin Budish
Great. Thanks for all the extra color.

Scott Nuttall
Thank you.

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

Michael Kelly

Hi, good afternoon. This is Michael Kelly on for Bill. You've seen a nice uptrend in the non-GA-related credit fee rate over the last four quarters with a nice step-up in 1Q. Was there anything to call out in the fee rate this quarter? And then how should we think about the trend in that, moving forward from here? Thank you.

Rob Lewin
Thanks, Michael. Nothing specifically to call out. It's a little bit of a mix issue that we're benefiting from. You'd see that uptick, but nothing specifically other than a little bit of mix in product.

Operator
Thank you. The next question is from the line of Finian O'Shea with Wells Fargo. Please proceed with your question.

Finian O'Shea
Hi everyone, good afternoon. Just sort of a follow-up to the last question on the higher fee rate. Is there an ability to rotate sort of the back book into more direct origination now that longer-term yields have come back down? And if so, how would you size that runway or opportunity for, say, optimizing the GA book? Thank you.

Rob Lewin
Thanks, Fin, and yeah, just to separate those two, that question was related to Global Atlantic. When we first purchased Global Atlantic, we spent a lot of time working with the team to make sure that we were very thoughtful around how we rotated the book from GA-sourced assets to KKR-sourced assets.

We weren't in a rush. We continue not to be in a rush and that's happened methodically, over time. And as a result, you've seen our blended fee rate step up in a pretty balanced way, over the last couple of years.

Today, our blended fee rate at GA, when you cut through all the math, is roughly 30 basis points. I think there's some opportunity, over time, to continue to rotate the book. We'll continue to do that in the most thoughtful way. We can, in conjunction with the GA investment team. But I wouldn't expect any market changes from the trajectory that we've had, over the last couple of years.

Operator
Thank you. The next question is from Alex Blostein with Goldman Sachs.

Alex Blostein
Hi, thank you, guys, for taking the follow up. Maybe just like zooming out for a second. I was hoping to get your latest perspective on capital management in light of kind of where we are in

the cycle. Yourself and, obviously, many of your peers are going through a bit of an earnings lull, but you outlined multiple times now that the firm continues to be really well positioned.

You guys have a significant amount of embedded earnings power, as you've outlined. So, why not lean into the share count shrinkage a little bit more here to take advantage of significantly higher earnings power down the road?

Rob Lewin
Yeah, thanks, Alex. It's a good question, the right question. I'll start with just a broader framework around capital allocation. You probably heard me say this a couple of times before. The most important thing that we can do as a management team is to have a consistent approach. Our approach is very much ROE-based.

And ultimately, when we're allocating capital, the question that we are always looking to answer is what is going to drive the best risk-adjusted outcome on a per share basis. There's no more important question than that.

And we think, as a management team, moving our marginal dollar of liquidity around to the highest ROE opportunity is a real core competency. Now specifically on the question of share buyback, if you take a look at our body of work, we've had our buyback authorization now in place for several years. We've repurchased or retired 85 plus million shares.

That's almost 10% of our shares outstanding. It's well north of 10% of our public float. The average price of which we've bought back or retired those shares at about $25 a share. So, we really like our body of work.

And on top of that, at the same time, if you look back over the past couple of years, whether that's KJRM or Global Atlantic, we've completed almost $5 billion of purchase price-related M&A, and we haven't had to issue that many shares to be able to do those transactions, but mostly cash funded. And so, when you take a step back, we don't look at share buyback in sort of one discrete bucket. We look at capital allocation, as a whole.

Now all to say, we do expect share buybacks to be a big part of our toolkit on a go-forward basis, and we're going to evaluate them the same way we evaluate all capital allocation.

But yeah, as we think over the next number of quarters and years, you're going to continue to see us lean into our share count when it makes sense, from a liquidity standpoint, when it makes sense from an opportunity relative to other opportunity sets out there and then, obviously, where our share price is at. So, thanks for the question. Hopefully, that's helpful color in how we as a management team value using our marginal dollars of liquidity.

Alex Blostein
Yeah, I appreciate it. Thanks.

Rob Lewin
Thanks, Alex.

Operator
Thank you. Our final question is from the line of Finian O'Shea with Wells Fargo. Please proceed with your question. Fin, please go ahead with your question.

Finian O'Shea
Sorry about that. I was back on mute. And thank you for the follow-up, as well. Can you touch on the outlook for capital market transaction fees? I think those looked a little strong in the context of the softer environment. Was a lot of this perhaps a one-off? Or has the development of your platform there started to show through and maybe we can expect stable to improving levels, throughout the year?

Rob Lewin
Yeah, we're really proud with how durable our capital markets business has been in what has been a really tough capital markets environment. Obviously, equity markets largely shut. Leveraged finance markets have been largely shut for some period of time. And if you look at our average quarterly revenue over the past four quarters, it's been a little bit north of $100 million per quarter.

And so, I think it's important to think about that in context of our capital markets franchise. Seven plus years ago, it was probably a $200 million a year business in good markets; five plus years ago, it was probably a $400 million year in good markets type business. And today, our LTM revenue is a little bit north of that $400 million number in a really tough environment.

And so, no guidance as it relates to forward-looking quarters, but we do look at the performance that the team has been able to generate in a really tough market and feel really great about how we're positioned.

And do know that when we do come out of this period of time, when markets open back up, we, as a management team, have every expectation that we're going to be talking about a capital markets business three, five years from now that's well in excess of the size that it is today for a number of reasons, just how we're positioned competitively, our access to talent.

We see a lot of talent potentially coming out of our traditional source of capital markets, institutions where we could take advantage of that. And then as KKR expands what we do, that's a real opportunity for our capital markets business.

Finian O'Shea
Thanks. That's very helpful. And one final, if I may. Any color or line of sight on second quarter monetizations? And that’s all for me. Thank you.

Rob Lewin
Great. Thanks for that question. It's plus or minus around $125 million of forward look that we have, again, in context of the $9 plus billion of embedded gains on our balance sheet.

Operator
Thank you. At this time, we've reached the end of our question-and-answer session, and I'll hand the floor back to Craig Larson for closing remarks.

Craig Larson
Rob, thank you for your help, and thank you, everyone, for your interest in KKR. We look forward to speaking again, post our Q2 results. And if you have any questions in the interim, please, of course, follow up with us, directly. Thank you, once again.

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

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