KKR & Co. Inc.
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Presenters
Craig Larson, Partner & Head of Investor Relations
Rob Lewin, Chief Financial Officer
Scott Nuttall, Co-Chief Executive Officer

Q&A Participants
Craig Siegenthaler – Bank of America
Alex Blostein – Goldman Sachs
Glenn Schorr – Evercore
Ben Budish – Barclays
Brian McKenna – JMP Securities
Michael Brown – KBW
Arnaud Giblat – BNP Paribas
Brian Bedell – Deutsche Bank
Finian O'Shea – Wells Fargo
Michael Cyprys – Morgan Stanley
Rufus Hone – BMO Capital Markets

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's second quarter 2023 earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference will be opened for questions. If anyone should require operator assistance during the call please press "*" "0" from your telephone keypad.

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

Craig Larson
Good afternoon, everyone. Welcome to our second quarter 2023 earnings call. As usual, I'm joined by Rob Lewin, our Chief Financial Officer, and Scott Nuttall, our co-Chief Executive Officer.

We'd like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the Investor Center section at kkr.com. And as a reminder, we report our segment numbers on an adjusted share basis.

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

Turning now to the quarter, we're pleased to be reporting Fee Related Earnings per share of $0.67 and After-tax Distributable Earnings of $0.73 per share. I'm going to begin by walking through the financials.

Management fees in the quarter came in at $749 million. Net transaction and monitoring fees were $190 million in Q2, with capital markets generating $150 million of revenues. Capital markets activity was most pronounced in our infrastructure business, which contributed approximately 45% of revenues in the quarter. And along with core private equity, these two strategies generated over 60% of capital markets transaction fees in the quarter, reflecting the continued diversification of the business. So, in total, fee related revenues were $967 million. This was up 7% from last quarter, and it's up 25% year-over-year.

Fee related compensation was right at the midpoint of our guided range at 22.5% of fee related revenues and other operating expenses were $147 million. Putting this together, Fee Related Earnings came in at $602 million or $0.67 per share with an FRE margin of 62%, which continues to be best-in-class looking across our industry. And for the quarter, FRE improved 10% from last quarter and on a year-over-year basis, so this is compared to the second quarter of 2022, FRE is up 31%.

Moving to realized performance income. Realization activity, as we discussed last quarter, was more muted against the slower transaction environment. So, for the quarter, we generated $149 million of realized performance income, while realized investment income came in at $115 million. In total, our asset management operating earnings were $752 million.

Our Insurance segment generated $170 million of pretax earnings in the quarter as Global Atlantic continues to operate at a high level. As a reminder, we expect pre-tax ROE to be in that 14% to 15% range, so performance this quarter was just above the top end of that range. In aggregate, this resulted in After-tax Distributable Earnings of $653 million or the $0.73 per share figure that I mentioned a minute ago.

Next, moving to investment performance. The traditional private equity portfolio was up 5% in the quarter and over the last 12 months appreciated 2%. Importantly here, inception to date IRRs for our blended flagship funds, so that's Americas XII, Europe V and Asia IV remain strong at 22%, which is meaningfully ahead of the corresponding 9% figure for the MSCI World.

In real assets, the real estate portfolio was flat for the quarter and down 11% over the last 12 months. 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 self-storage. However, as cap rates have increased over the last 12 months, that more than offset the underlying NOI growth and that's what's leading to the decline you've seen over the LTM period.

Infrastructure was up 2% in the quarter and up 10% over the last 12 months, reflecting the strength of the portfolio really on a global basis. And with higher interest rates, we've strategically leaned into more inflation protected assets. And in credit, the leveraged and alternative composites were up 3% and 2%, respectively for the quarter and 12% and 5%, respectively over the last 12 months.

Moving next to capital metrics. We raised $13 billion in the quarter. Fundraising activity was actually quite diverse, driven by our middle market private equity strategy. Our K-Series suite of products focused on private wealth, which Rob is going to touch further on in a moment, our Core infrastructure strategy and real estate across all geographies, and this is in addition to inflows from Global Atlantic as well as capital raised for our Ivy reinsurance sidecar fund, which held its final close in the quarter. With that, our assets under management increased to $519 billion and fee paying AUM to $420 billion.

And finally, we've continued to deploy capital. In the quarter, we invested approximately $10 billion, pretty evenly spread across private equity, real assets, and credit. Deployment within private equity was largely driven by Core PE, while real estate deployment was most focused on credit in the U.S. as well as equity investments in Asia. And in our credit business, deployment was relatively diversified across asset-based finance and direct lending.

Now, before turning it over to Rob, we want to spend a minute or two on our work to create and protect value through sustainability, which we detailed in our 12th Annual Sustainability Report that we published in June and is also available on our website.

Now, one of the areas where we've shown real leadership is our work around broad-based employee ownership in our portfolio companies and building off of the C.H.I Overhead Doors and Minnesota Rubber & Plastics examples discussed previously, we've another case study in RBmedia. RBmedia is one of the largest audiobook publishers in the world, and in connection with our investment, we introduced a broad equity ownership program across the company. And by partnering with the workforce and through all of their great work, wonderful things have happened, including a 22% CAGR in its core publishing business EBITDA over the life of our investment.

So, we announced the sale of RBmedia in late July, and this will be a very successful outcome for its employees. All RBmedia colleagues will earn significant cash payouts with non-management employees receiving 100% of annual income on average, and the most tenured employees receiving two years of their annual income. This outcome can be a financial game changer for people, and it's driving real value.

Over these three recent exits, we've averaged approximately a 6x multiple of cost on behalf of our clients. So, at this point we've introduced broad-based employee ownership programs at over 35 companies and we've touched over 60,000 employees. And we expect these numbers to continue to grow from here and hope and expect we'll have more stories like RBmedia to share with you in the quarters and years ahead.

And with that, I'll turn it over to Rob.

Rob Lewin
Great. Thanks a lot, Craig. The operating backdrop has begun to improve and as Craig just ran through, our model continues to deliver consistent results. With that, let's shift the focus of the conversation to the future.

Our model, growth trajectory, and culture are differentiated within our industry. I thought it would be beneficial to go through three of the foundational building blocks that have driven much of our differentiation and will importantly be a key driver of KKR's future earnings quality and growth.

We have taken very deliberate steps to build a business that benefits from several different growth engines, providing both greater earnings stability and significant long-term earnings power.

Number one, we've built a business that has meaningfully increased the durability and recurring nature of our revenues, and we expect that trend to continue. Page 4 of the earnings release highlights this point very well.

On the left hand side of the page, you see that over just the past two and a half years, we have doubled our management fees, our most recurring revenue stream from $1.4 billion in 2020 to $2.9 billion over the last 12 months, and Fee Related Earnings in turn have also increased meaningfully from $1.3 billion in 2020 to approximately $2.3 billion over the prior 12 months. Alongside this growth, the quality of these earnings has significantly improved as we've become much more diversified by strategy and by geography.

In addition, the form of our capital base has also evolved, with our perpetual capital increasing from $22 billion at the end of 2020 to $200 billion today. Our perpetual capital now accounts for roughly 50% of our fee paying AUM relative to approximately 10% at the end of 2020. We will continue this focus of increasing both our recurring revenue and profitability, as well as diversifying the form of our fundraising and capital base.

The second building block are the multiple identifiable growth avenues across our business. We have discussed a number of these drivers over the last couple of earnings calls, but today I'm going to focus on just two areas that have been more notable in the quarter, insurance and private wealth.

Global Atlantic has continued to be a fantastic acquisition for us. Looking at the past few months, we would highlight two very important initiatives. In May GA announced a reinsurance agreement with MetLife funded by GA's balance sheet, our Ivy platform, and co-investors. With this transaction, AUM will increase by $13 billion upon closing, and the transaction will be beneficial to both management fees as well as insurance operating earnings.

And in June, KKR and GA together formed a strategic partnership with Japan Post Insurance. This partnership allows us to pursue additional growth opportunities through our collaboration with a key player in the Japanese insurance market. And as part of this, Japan Post committed meaningfully to Ivy II, which as Craig mentioned, held its final close in the quarter. Overall, GA has continued to demonstrate significant momentum with $144 billion of AUM as of Q2. This has doubled since we announced the acquisition in 2020, a further proof point of our acquisition and a demonstration of how the alignment we've created can drive real success.

A specific area where GA has really helped accelerate the growth of one of our businesses is private credit. Today, we manage $78 billion in private credit with $45 billion of that in asset-based finance. We are a leader in the ABF space, encompassing both our high grade and higher yielding strategies. And with recent regional bank retrenchment, the already $5-plus trillion ABF addressable market has even more structural tailwinds for us, as those seeking capital look to KKR as a real solutions provider with scale. The multi-year relationship announced in the quarter with PayPal is just one recent example.

And now turning to private wealth. We've touched on this topic a number of times given the market opportunity alongside the significant investments we have made in order to launch and distribute a number of new products.

In Q2, we started fundraising for two new private wealth strategies focused on private equity and infrastructure. The launch of these products was a critical step in addressing the massive private wealth end market and introducing on a global scale products that traditionally have not been accessible to non-institutional clients. We're off to a really good start here. In total, including capital that was raised in Q2 and so far in Q3, we've raised $1.9 billion across these two strategies. While we are still in the very early days, these initial results are ahead of our expectations. We have also launched on just a handful of platforms so far, and we would expect that to increase over the coming quarters.

In our credit business, we look forward to the launch of a new private BDC later this year. In addition to direct lending, the strategy incorporates a specific allocation to asset-based finance, which we think will be viewed as a real differentiator. So, at this point, we have a full suite of private wealth solutions strategically aligned with our four key investment verticals across the firm.

Our focus here remains very much long-term oriented, ensuring that we are a real winner in the space over the next 5 to 10-plus years. Our conviction around success is high and is driven by a number of factors, including our brand, investment track record, our significantly expanded distribution and marketing teams, and our scale to be able to invest into the opportunity set. And importantly, each one of our core products across PE, infra, real estate and credit have aspects that are unique and a real testament to the innovation capabilities of our team.

Now turning to building block number three, we continue to achieve substantial growth in our earnings power because of both an increase in our fee paying AUM and capital deployment. We currently have $10 billion of embedded gains that sit on our balance sheet. That's the fair value of our carry and investment portfolio relative to the underlying cost, that's up from $3.7 billion just a few years ago. This provides a real lens into our ability to create meaningful revenue outcomes in the future. And over the next few years, with continued investment performance and further capital deployment, that number is biased to increase, even as we expect to monetize more as the environment hopefully becomes more constructive.

A reminder for how we think about earnings power. Distributable earnings is largely a cash metric. So, in times like these, when we sell less through the monetization environment, we are under-earning that intrinsic earnings power and embedded gains are only one piece of that equation. Our expectation here is for continued scaling of our more recurring revenue businesses as well.

Just looking at management fees alone, without raising another dollar, we currently have $38 billion of AUM with a weighted average management fee rate of almost 100 basis points, that is not yet turned on. This capital once activated, would directly flow into management fees and be additive to earnings, but is not reflected today in our FRE or After-tax DE. We also have $100 billion of dry powder, 96% of which is carry eligible. When we invest that capital, it creates the potential for more embedded gains and therefore revenue over time.

These are the main reasons why we are so constructive around the potential for further significant and sustainable growth in our earnings per share over time. We have never been more confident around our model and our prospects, which is one of the reasons that you saw us buy back some stock in the quarter. Since the end of Q1, we have brought back or canceled approximately 6 million shares at an average price per share of less than $50. Share repurchases have historically been and will continue to be an important driver of value creation for our shareholders.

As a reminder, since we initiated our buyback program in 2015, we have bought back or canceled approximately 92 million shares at an average price per share of just over $27. This represents more than 10% of KKR shares outstanding today and almost 15% of our free float.

And with our recent acquisition such as KJRM, our Japanese REIT manager, and Global Atlantic, we have completed almost $5 billion of purchase price M&A with limited share issuance. We remain as a management team, the largest owners of stock, and are highly aligned with shareholders in our focus on equity value creation.

So, to summarize, our earnings growth will continue to be supported by more stable forms of income, including our diversified high-quality and growing management fee business underpinned by our $200 billion of perpetual capital.

Number two, we have several differentiated growth avenues, including insurance and private wealth amongst many others.

And finally, our embedded gains and more broadly our earnings power is expected to continue to increase. These compounding pieces are why we continue to feel more confident than ever in our 2026 targets of $4+-plus of FRE and $7-plus of After-tax DE per share.

With that, Scott, Craig, and I are 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 today 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 to remove your question from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing "*" 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 requeue and time permitting those questions will be addressed. One moment please while we poll for questions. Thank you.

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

Craig Siegenthaler
Good morning, everyone. Hope you're all doing well. My focus is on the next fundraising cycle. When do you expect to have the first close for Global Infrastructure Investors V? And do you believe this will be your first of the flagship fundraises?

Craig Larson
Hey, Craig. It's Craig. Why don't I start? Thanks for the question. I think as we look forward, we continue to see a really active amount of funds and strategies that we expect to be in the market with. We talked historically about having 30-plus strategies in the market over the coming 12 to 18 months. I think if anything, that number probably would've increased relative to what we would've talked about three or six months ago. So, I think the level of activity and the number of strategies remains at a high level.

We don't have any guidance or specificity as it relates specifically to our infrastructure strategy. But I think when you look at the back of the tables and you look at invested and committed capital relative to the size of the fund, I think fair to assume that that's something that is becoming a front of mind topic for us, but nothing to announce specifically as it relates to individual timings, let alone closings at this point.

Craig Siegenthaler
Thank you, Craig.

Operator
Our next question is from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Hi. Good morning, everybody. Rob, I wanted to go back to some of the points you made at the end of your prepared remarks around the buyback and just capital management. Definitely nice to see a little bit of a pickup in repurchases here. Just curious that whether we are at a point now where you feel like the balance sheet has enough sort of scale to recycle capital for what you guys need and the buybacks could become a bigger part of the story going forward where M&A aside, we could actually expect the total share count to start to decline in absolute terms. Thanks.

Rob Lewin
Yeah. Great. Good morning Alex, and thanks a lot for the question. So, taking a step back just more broadly as it relates to capital allocation, the most important thing for us, and you've heard me say this and us as a management team say this before, the most important thing is to have a consistent approach. And ours is one that I think is really maniacally focused on driving ROE and the highest per share earnings that we can with the lowest per unit of risk. And we talked about four strategic areas of deployment that we think can accomplish that.

And so that's core private equity investing, continuing to invest across the insurance space. You mentioned strategic M&A. And the fourth one is share buybacks. And we think a real core competency of our management team is being able to move that marginal dollar of liquidity around to the highest return opportunity and the thing that's going to drive the most earnings per share over time. And maybe the final point here is we're highly aligned in that decision-making process. As you know, KKR management owns close to 30% of KKR stock.

And so, back to your specific question on share buybacks, as you mentioned, I noted on the prepared remarks, we've bought back over 90 million shares that represent almost 15% of our free float since we initiated our buyback program seven, eight years ago and just over $27 per share. So, we really like the body of work that's been accomplished over a long period of time.

And so, all to say share buyback is going to continue to be a very important part of our go-forward capital framework and capital allocation policy. But we're going to continue to look at other ways of driving growth in earnings per share over time as well, including in areas like core private equity, insurance and M&A. Hope that's a helpful overview.

Scott Nuttall
The only thing I'd add, Alex, if you look at what we've been doing the last several years, as you know, we've deployed several billion dollars to M&A, that's been quite additive to our fee paying AUM, our FRE, our TDE. So, to Rob's point, we look at it holistically, look at the relative trade-offs. It's less about needing to invest in the business to start new strategies or seed new businesses. It's more about what's going to give us that highest marginal return on capital, as Rob mentioned.

Alex Blostein
Got it. Okay. All makes sense. Thanks.

Operator

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

Glenn Schorr
Hi. Thank you. So, I'm curious to get a little more color on K-PEC. I know it's early. I know it was on one platform in a short period of time in a slow PE backdrop, but you raised a couple hundred million. So, I'm curious what you learned from that one platform in that short period of time. Maybe the timing of the other platform adds. And then sidebar question, is this structure able to be included in 401(K)s if and when we get there? Thanks so much.

Craig Larson
Hey, Glenn. It's Craig. Why don't I start? Look, let's take a step back for a moment, and I know that you know all of this very well, but I think when we look at this opportunity, it's a real long-term secular opportunity that we have ahead of us. So, individual investors have not had an easy way to access the alts space historically. I think that is certainly true as it relates to private equity most specifically. And so, if individual investors have 1% of their assets invested in alts today, and that goes to 5% over the next several years, that's $8 trillion to $10 trillion of additional capital that has the potential to flow into alternative products.

And as it relates to a number of the points that Rob mentioned in terms of the strength of our brand, relationships that we have, the track record that we bring, all the investments we've made in terms of distribution, all of these things are super positive. And then you layer on top of that, the product creation and creativity that we think that we've brought to a number of these products.

So, on our last earnings call, we'd noted that we had launched our PE vehicle as you'd indicated outside of the U.S. It closed on just over, $400 million with distribution expected to increase and infrastructure also soon to be accepting capital. And so, 90 days later, here we are with $1.9 billion raised across both PE and infrastructure, which is great. So, it's ahead of our expectations.

I think in terms of lessons learned, I guess I point to three. One, brand again is super important. I think, number two, again, I'd emphasize the product creation point, starting with KREST and as you then see that expansion. And then finally, I think that we have the ability to leverage the relationships that we've earned through KREST as we continue to expand into new distribution channels in private equity and infrastructure. So, hopefully that gives you a sense on that.

Rob Lewin
And Glenn, just a quick follow up on the 401(K) point, no plans in the immediate future as it relates to that. I do think it's worth noting though that K-PEC is structured in a way that can be distributed through to the accredited investor and not just qualified purchasers. It's one of those points of innovation that I highlighted in our prepared remarks.

Glenn Schorr
Thank you so much.

Operator
Our next question comes from the line of Ben Budish with Barclays. Please proceed with your question.

Ben Budish
Hey, good morning and thanks for taking the question. I wanted to ask about the performance in the insurance business. It sounds like a lot of things kind of firing well over there. But just when we look at the reported ROE, which is still ahead of your target, it looks like the decline from Q4 to Q1 to Q2 was a bit steeper than we would've expected. So, just curious if there's any other color you can share there in terms of the kind of sequential growth in cost of insurance and G&A versus the investment income and how we should think about those various pieces going forward. Thanks.

Rob Lewin
Yeah. Great. Thanks a lot for the question. As you noted, GA continues to perform at a really high level, and in Q2 was ahead of our targeted returns for GA at a 15%-plus, pre-tax ROE. In terms of the operating earnings in the quarter and why you saw that quarter-on-quarter decline that you referenced, really a function of a strategic decision at the GA level to position our book in more liquid securities at the beginning of Q2, more cash, more liquid fixed income. If you think back to early part of Q2, we were still in that regional bank crisis timeframe and I think we made the right decision to reposition the book at that point in time, gave up a little bit of ROE in the quarter, as you noted, but I think the right decision for the business.

Ben Budish
Got it. That's very helpful. Thanks, Rob.

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

Brian McKenna
Thanks. Good morning, everyone. So, core private equity continues to be a great story, fair value now totals over $6 billion with about $3 billion in gains on the balance sheet, and it's generated a 20% return. It also looks like core private equity AUM totals $34 billion today. So, could you talk about demand for this product specifically from third party? And then, is there a way to think about the absolute level of third-party fundraising for the strategy over time?

Craig Larson
Hey Brian. It's Craig. Why don't I start? First, thanks for all of the detail and noticing Core PE, again, it's one of the reasons we'd added that page in our press release focused on the asset class and the strategy.

So, a lot of innovation in our firm happens when we can't find a home for great investments, and that's what happens with core private equity. It's a long duration strategy where we expect to hold investments in compound value for 10 to 15 years, but the risk reward is fundamentally different than relative to our opportunistic PE funds. And so, at this point, we put together what we think is a really great portfolio of companies diversified across the world. As you noted since inception returns have been very positive. That $34 billion of AUM was $12 billion three years ago. That's all organic growth.

And I think, another point just as it relates to this in our model, because you're right, we've got the $6.2 billion of fair value relative to the $3 billion of cost. So with shareholders, we're participating in the economics, both in terms of the management fees and performance fees on the third-party piece, the compounding you see on the balance sheet. And then on top of that, we'd expect capital markets revenues to continue to grow alongside. Capital markets revenues in the quarter were between $25 million and $30 million. So, we've got a number of ways to win.

I think from an LP standpoint, the types of LPs who find this asset class most interesting are those I think probably larger plans with longer-dated liabilities and are interested in the matching aspect related to the asset class. So, I think that the opportunity for us to continue to grow both the third-party piece as well as on the balance sheet is one we're going to be talking about, have an opportunity to talk about for a long period of time.

Scott Nuttall
Hey Brian. It's Scott. Just a couple incremental thoughts for you. One it is a younger part of the private equity asset class, so to some extent there is a bit of an education still happening. As you noted, we do have a significant amount of AUM. We have a lot of dry powder as we sit here today. But we've been out talking to investors around the world about why we like it so much and how aligned we are, and we're having some really good conversations.

In addition to the larger plans that Craig referenced, and those may be focused on 10, 15, 20-year compounding, we're also seeing interest from large scale family offices that tend to think that like we do in terms of the power of long-term compounding, probably a greater appreciation for reinvestment risk. And as the portfolio continues to mature and we spend the dry powder we have -- we'll be back to market before too long. We’d be happy to share more color then.

Brian McKenna
Great. Thank you guys.

Scott Nuttall
Thank you.

Operator
The next question is from the line of Michael Brown with KBW. Please proceed with your question.

Michael Brown
Hey, good morning, everyone. I just wanted to ask on the capital markets environment, clearly there's been some green shoots recently and just wanted to get your take on how that could translate into a broader recovery and just get your thoughts on maybe the next 6 to 12 months.

And then, I know it's early in the quarter, but any quick color on the monetization out of quarter to date or expectations for the full quarter?

Rob Lewin
Sure. Thanks a lot for the question, Mike. If you look at our capital markets business year-to-date, we've generated $250 million of revenue. And if you look back over the past four quarters, we've averaged $110 million to $115 million of revenue. And so, we're really proud of that performance in an environment where the capital markets for both debt and equity were largely shut for most of that period of time. So, I feel like we've built a business model that is quite durable in tough operating conditions.

In terms of the back half of the year, you've noted some green shoots and we've certainly seen some signs of life in the leveraged finance market, a little bit in the IPO market, maybe the secondary market follows. I think it's a little early to call that we're out of it, but we do really think that we're positioned in an environment where the capital markets come back to generate really outsized outcomes. Hopefully that environment really persists and we can generate those types of outcomes for our shareholders in 2024 and beyond.

Mike, I'll remind you that in 2021, our capital markets business in a really up market generated $850 million of revenue. So, I feel like we've built this model that protects in the downside, but really offers the opportunity for outsized outcomes when the markets are open. And I think we are doing much more as a firm today than we did in 2021. So, I think the opportunity is greater as we go forward here with that business.

Scott Nuttall
Monetizations?

Rob Lewin
Yeah. Thank you. And then, on your question on the monetization side, it's a bit of an odd quarter for us. We've got a couple of pretty meaningful monetizations that sit on the bubble between Q3 and Q4. So, instead of providing just a Q3 number in isolation, what I can let you know is that we have at least $350 million of visibility around monetization related revenue over the second half of the year. As usual, as we get to the end of this quarter, we'll provide that specific press release, which details our performance through the quarter.

And so, while we're seeing a bit of an uptick here for sure I think consistent with the overall tone and what we're all feeling is a bit more of a constructive environment. I'd still say that we're in the part of the cycle where we are under-earning our intrinsic earnings power. So, hopefully more to come here, but a little bit of upside relative to where we've been.

Scott Nuttall
Hey Mike. It's Scott. Just maybe a little bit more color from me. And away from just the capital markets specificity of your question, I just speak to overall firm activity. As Rob said, it's far too early to declare a return to normalcy, but there's no doubt that over the last several weeks, it feels like the markets are thawing a bit. The new deal pipeline and activity is up. Some

monetization discussions are up. If that continues and if the public markets continue to perform, then we'd expect carry through to the fundraising environment over the next few quarters.

But all that could reverse again with bad news. We've seen a couple headshakes from this market, but overall there's no doubt that activity is up and the tone's improved. And it'll be interesting to see if this carries through post Labor Day.

Michael Brown
Great color. Thank you.

Scott Nuttall
Thank you.

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

Arnaud Giblat
Yeah. Good morning. I was just wanting to come back on your development of your wealth strategies. I was wondering if you could focus in a bit more on the development of your retail strategy globally. Have you had any meaningful conversations with new distributors in Europe and in Asia? I'm just wanting to get a bit more color there. Thank you.

Craig Larson
Thanks for the question. I think the answer is yes, distribution continues to expand. If you think of this as a funnel, I think from our standpoint, the funnel continues to grow at the very top end and that's global. So, as we talk about, for instance, private equity and infrastructure, those are vehicles where we specifically had created vehicles focused on individual markets in the U.S. and outside of the U.S., that opportunity, again, is one that's global and we're pursuing along those lines.

So, nothing specific in terms of number of platforms today versus a year ago or anything along those lines. But I think the broader point again is just when we look at the opportunity we have ahead of us, trillions of opportunity of dollars that can move over into the alts and we think we're really well-positioned to take a healthy piece of that.

Scott Nuttall
Hey, Arnaud. It's Scott. Just a little bit color from my standpoint. As Joe and I have been traveling around the world, we're definitely spending time with other distribution partners. As a reminder, 18 of our 23 offices at KKR are outside the United States. And maybe behind your question, we agree with the sentiment that this is not just a U.S. opportunity in private wealth. We very much look at it as a global one and have built teams in Europe and Asia and are developing partnerships in both places in addition to the U.S.

Arnaud Giblat
Great. Thank you.

Scott Nuttall
Thank you.

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

Brian Bedell
Great. Thanks. Good morning, guys. Hope you are doing well. The question beyond the deployment versus monetization backdrop. So, the monetizations were actually running a little bit more ahead of our forecast than the deployment has been the last couple quarters. And just wanted to get your sense of if we are in a better market environment, you say soft landing or no landing? Does that create more monetization opportunities over the next few quarters relative to deployment, or are you still seeing the deployment backdrop as attractive here? And then maybe if you can comment on a couple areas within that, particularly like infrastructure, and then I guess even within credit.

Craig Larson
Hey Brian. It's Craig. Why don't I start and then Rob will pick up as it relates to the monetization piece, I think specifically. So, a couple of observations. If you think, and let's start with private equity and real assets and then as you note we'll switch to credit, but I think over the last 18 months, a lot of the primary markets have effectively been shut. The IPO market's been pretty much shut over this period of time. The syndicated debt markets have been dislocated for the majority of that period, and capital has been quite precious. There's no question.

Now those from a deployment standpoint, those are all things that are good for us. And so that's why I think on a number of these calls, you've heard us actually be quite constructive on risk reward. I think as it relates to private equity and real assets, we're value focused. We're looking for those opportunities where we can bring our operational resources to bear and where those can really move the needle. We love corporate carve outs.

We've also been very active on pursuing publics to private. At this point we've announced or closed on 14 take private transactions since the beginning of 2022. The most recent of those, you probably would've seen some articles this morning. So, I think that's been an area for us where we've been as active as anybody.

I think as it relates to credit, and again, this is a big business for us. We've detailed in our press release, you see it on page 11, the composition of that overall amount of AUM $227 billion, of that we have $80 billion in private credit, really broken into those two pieces. Asset-based finance, real secular drivers as Rob had mentioned in his prepared remarks. And I think in direct lending, we remain very constructive on the risk reward, but you've seen overall transaction volumes be pretty modest within direct lending. So, I'd think of that asset class as one that has been taking a greater share, but of a smaller piece of the pie. But on overall risk reward, we remain very constructive on regular way direct lending at the same time.

Rob Lewin
Yeah. Thanks for the question, Brian. And I think you could separate a little bit deployment and monetization. As Craig went through, there's a lot going on in the deployment side, and we've done our best as a firm to really be focused on linear deployment of the dry powder in our strategies. Of course, when the capital markets are open, it makes deployment a little bit easier, but there is no doubt when the capital markets are open and the overall level of volatility comes down for some period of time that it's going to open up real drivers to be able to generate monetization-related revenue.

I mentioned on the call, we've got $10 billion on our balance sheet today of effective embedded gains between carried interest and our balance sheet investments. So, we're very well positioned to be able to take advantage of the market opening. And again, we hope that some of the green shoots we've seen here persist post Labor Day, and that presents some really good opportunities for us to deliver outsized outcomes in 2024 and beyond.

Scott Nuttall
Hey Brian. It's Scott. I'd say I would expect both deployment and monetizations to increase if the capital markets open up. As a reminder, we've got $100 billion of dry powder, and so that's great news from a deployment standpoint. When markets are shut, it's harder to get deals done. We've been more active, especially recently, but there's no doubt if the capital markets open, there'll be more overall M&A activity, which will accrue to our benefit, and you'll also see more monetizations and that'll run across asset classes, including to your question infrastructure.

Brian Bedell
That's great. That's great color. Thank you so much.

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

Finian O'Shea
Hi, everyone. Good morning. Another question on wealth. For the non-traded BDC you mentioned, are you going accredited only or does the feeder structure solve for that? And relatedly, what do you think that means for the potential for eventual monthly flows compared to what your peers are doing? Thank you.

Craig Larson
Hey, Fin. It's Craig. Why don't I start? And again, I think the product creation part is an important component as it relates to this. So across all four as it relates to real estate, private equity, infrastructure, as well as the private BDC we're focused on having the opportunity to launch those vehicles and fundraise across both of those markets. So, the entire K-suite is again allowing us to look to raise capital both through accredited investors and not just through qualified purchasers. And that's meaningful in our view.

Like I think the accredited investor market is multiples the size of the qualified purchasers market. So, again, that pie or the top of that funnel is one that is in our view very broad and helps just increase that long-term opportunity that we see.

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

Michael Cyprys
Hey, good morning. I was hoping you could spend a moment just on infrastructure, which is a real differentiator for KKR. So, just how are you thinking about driving the next leg of growth for infrastructure? What sort of steps might you take over the next couple years, and how are you expanding your capacity to deploy capital into infrastructure?

And then just a housekeeping question for Rob, just on how much was invested and deployed off the balance sheet in the quarter?

Craig Larson
Hey Mike. It's Craig. Why don't I start on infra? So again, thank you for asking about. So two and a half years ago at our ‘21 Investor Day, it was April of ‘21, we walked through infra as a case study for us is really how we look to build platforms over the long-term. And it begins with strong performance of the flagship strategy. And then that really is what allows you to earn the right to both scale those flagships and innovate into new adjacencies.

And so today, our infrastructure platform is built out with four distinct segments. We have our Global Infra Fund series, Asia Infra, Diversified Core, and then most recently, the infrastructure vehicles customized for private wealth investors.

And so, to give you a sense of how that's grown, AUM at that Investor Day was $17 billion. At June 30, we were at $54 billion, so that's $17 billion to $54 billion. All organic. The growth in innovation hasn't stopped. Again, I think we're in the earliest of days as it relates to infrastructure and private wealth. It's an asset class that we think lends itself very nicely in this marketplace. And look, the renewables space is an area where we also think we can do more. So more to come here over time.

And as it relates to deployment, logically, as you've seen the increase in our footprint, you've seen the step function increase in overall deployment stats for us. So, infra deployment in 2019 was a little over $2 billion. It was $2.1 billion. 2020 is $2.2 billion. Over the last 12 months, we've invested $12 billion in the asset class. So and again, as you would've seen in as Rob had touched on capital markets, there are flow through opportunities for us at the same point in time. So more to come, but it continues to feel like we're wonderfully well positioned.

Rob Lewin

And then, Mike, very quickly, your second part of your question, in the quarter we deployed approximately $850 million off the balance sheet. A good chunk of that, most of it is a core private equity. And then our realizations were a little under $250 million in the quarter.

Michael Cyprys
Great. Thanks.

Craig Larson
Thank you.

Operator
The next question is from the line of Rufus Hone with BMO Capital Markets. Please proceed with your question.

Rufus Hone
Hey, good morning. Thanks very much. Maybe if you could spend a minute giving an update on your Asia business. You've now owned the KJRM business for a little over a year. It'd be great to hear more about how that acquisition's performing and whether you see any more opportunities to consolidate your position in the region inorganically, and also what the near-term outlook is for fundraising. Thanks very much.

Rob Lewin
Great. Rufus, thanks a lot for the question. Asia remains a core part of our growth story at KKR, and we've talked about this in the past. For a number of reasons we feel really good that our Asia business one day will be as big as our U.S. business. So, we've got a great competitive position in the marketplace, across private equity, and infrastructure, both of which are the largest in the region in terms of fund sizes. We've got real growing businesses across real estate, as well as credit as well.

In terms of the KJRM acquisition, that's off to a great start. And from a strategic standpoint, really doing what we wanted it to accomplish, which is to generate very consistent returns for their existing investor base, which translates into very predictable management fees for us at KKR. But much more importantly, in terms of what it does for the rest of our opportunistic strategy and Core+ strategy in the Japan market, just markedly changed our approach to what we're able to do in Japan. And really in terms of one of our big growth engines within Asia is the Japanese market. And our competitive position there is in particular really strong and KJRM really helps cement that.

Scott Nuttall
Hey, Rufus. It's Scott. I'd say to your question on would we do more M&A in the region and consolidate in that way, we'd be open to it. We're always looking. So, definitely open-minded.

The only other thing I would add is Global Atlantic is also now growing with partnerships in Asia. Something that we've been able to do now that we're together. We announced a block with AXA in Hong Kong. We, of course, announced the Japan Post Partnership this past quarter. We've announced some flow partnerships in Singapore is just one more example. And there's other discussions along those lines. Some are between organic and inorganic, but we do see opportunities to expand our insurance efforts in Asia as well.

Rufus Hone
Thank you.

Scott Nuttall
Thank you.

Operator
As a reminder to ask a question today you may press "*" "1" from your telephone keypad. And we ask that you please limit yourself to one question and return to queue for any additional questions.

The next question's from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Hi. Thank you guys for taking the follow-up. Appreciate it. I wanted to touch on your credit business, specifically asset-backed finance. It's a place where you spend a little bit more time just communicating to the street of sort of how big it's gotten over the years, and you've got a number of origination platforms that are supporting it.

So, as you think about raising capital for those type of strategies outside of Global Atlantic, so whether it's third-party insurance companies or maybe other institutional LPs, what does that look like over the next couple of years? And maybe just remind us what the fee rates are? I'm assuming it's generally a lower fee rate, like separate account type of business, but curious to get more. Thanks.

Craig Larson
Why don't I start, Alex? So, first glad that you asked about, again, back to the detail we provided on page 11. So, we've got $227 billion of AUM in credit and liquid strategies. A key component of that is the $80 billion in private credit. Two big pieces here, the $45 billion in asset-based finance alongside of the $33 billion of direct lending. These are big businesses for us.

And so, back to your question, ABF is a massive end market, $5-plus trillion. You have high barriers to entry, in our view a lack of scaled capital against this end market. And we have, and we continue to see it, many traditional providers leaving the market and in our view creating a void. And so, we're finding attractive risk reward, would say that's true in terms of the high grade ABF strategy, which to date has been led really in partnership with everything that Global Atlantic is doing. And that's going to increase opportunities for us to continue to be more relevant to the broad insurance landscape, as well as within our traditional asset-based finance strategy where we have funds and separately managed accounts focused on a mid-teens gross IRR opportunity. Those would be the strategies for instance that had pursued the PayPal transaction.

And so, deployment has been healthy. I think over the trailing 12 months, it's been about $11 billion for us. So, it's been a place where we've been active. And in addition to the PayPal partnership that we announced in June, the team does continue to be active on the regional bank front. I think our most recent portfolio acquisition here closed about two weeks ago.

And in terms of fee rates, we haven't really gone into detail in terms of the separation between the high grade and the asset-based finance strategy. But fair to say that commensurate with that risk return that you're correct. The high grade would be in a different area as it relates to blended fee rate relative to the asset-based finance fund itself.

Scott Nuttall
Hey Alex. It's Scott. Just maybe a little bit more color on the types of capital raising. This is going to be a bunch of different formats, so you're not going to see a large flagship fund would be my guess. But we do have an ABF fund. We have our BDCs. We have leveraged separate accounts. We have unleveraged separate accounts. We have a high grade ABF strategy, which also tends to be in separate account format, and there's other things that we're working on. So, it all aggregates up to the $45 billion or so that Craig mentioned.

I say you're right, the initial interest over the last several years has been from a number of different places. But if there's a thematic to it, it's insurance; we now manage roughly $200 billion for insurance companies, $140, $150, give or take from GA, the rest from third parties. And we have 150 insurance companies that invest with us on a third-party basis. But also increasingly we're seeing interest from institutions.

This asset class reminds me a little bit of infrastructure 10-plus years ago. There's a lot of education. In the early days, growing market, not a lot of people understood what it was. We are finding that there's increased interest in it as the focus on private credit has continued to broaden and go global. So, we're optimistic.

Alex Blostein
Perfect. Thanks for all that.

Scott Nuttall
Thank you.

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

Craig Larson
Rob, thank you for your help and thank you everybody for your continued interest in KKR. Please feel free, of course, to follow up with me or the IR team post this call. Otherwise, we look forward to speaking to everybody in 90 days or so. Thank you so much.

Operator

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

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