KKR & Co. Inc.
Third Quarter 2023 Earnings
November 7, 2023

<u>**Presenters**</u>
Craig Larson, Partner & Head of Investor Relations
Rob Lewin, Chief Financial Officer
Scott Nuttall, Co-Chief Executive Officer

<u>**Q&A Participants**</u>
Craig Siegenthaler – Bank of America
Glenn Schorr – Evercore
Steven Chubak – Wolfe Research
Alex Blostein – Goldman Sachs
Patrick Davitt – Autonomous Research
Brian McKenna – JMP Securities
Ben Budish – Barclays
Brian Bedell – Deutsche Bank
Michael Brown – KBW
Michael Cyprys – Morgan Stanley
Chris Kotowski – Oppenheimer

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's Third 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, please press star, zero from your telephone keypad. As a reminder, this conference is being recorded.

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

Craig Larson
Thank you, operator. Good morning, everyone. Welcome to our third quarter 2023 earnings call. This morning, as usual, I'm joined by Rob Lewin, our Chief Financial Officer, and Scott Nuttall, our Co-Chief Executive Officer. We'd like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the Investor Center section at kkr.com. And as a reminder, we report our segment numbers on an adjusted share basis.

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

So to begin, I'm going to walk through the quarter's financial results before Rob discusses our key operating metrics.

Turning to our results for the quarter, we're pleased to be reporting Fee Related Earnings per share of $0.63 and After-tax Distributable Earnings of $0.88 per share. Management fees in the quarter came in at $759 million. This was up 13% compared to Q3 of 2022 and up 16% over the trailing 12 months. Real assets management fees have been a bright spot for us, increasing 6% compared to last quarter and 25% over the last 12 months, driven by growth across several infrastructure and real estate strategies.

Net transaction and monitoring fees were $124 million in the quarter, $100 million of which came from our capital markets business. Fee related compensation was right at the midpoint of our guided range at 22.5% of fee related revenues. Other operating expenses were $142 million. This expense figure is actually a little lower compared to both last quarter as well as Q3 of 2022. Here, you are really seeing us continue to invest for growth while maintaining our discipline at the same time.

So putting this together, Fee Related Earnings came in at $558 million or the $0.63 per share figure I mentioned a moment ago. In Q3, our FRE margin was 61.7%. We've talked consistently about our FRE margin being in this low-60s area, and we've delivered on this. This is the 12th consecutive quarter where that margin has been at or above the 60% level, and we continue to feel very good about this margin migrating up from here into the mid-60s.

Realized performance income was $329 million, and realized investment income generated $231 million. Both realized performance and investment income together were up over 2x from last quarter as exit activity increased in both our private equity as well as our U.S. real estate businesses. Realized performance investment income compensation ratios were again both right at the midpoints in the quarter. So in total, our asset management operating earnings were $869 million.

Global Atlantic again had a very strong quarter with our insurance segment generating $210 million of pre-tax earnings. To spend a moment on GA, on the institutional front, GA's block reinsurance transaction with MetLife remains on track to close in Q4 of 2023. We disclosed this transaction on last quarter's call.

We expect our AUM to increase by approximately $13 billion upon closing, and looking farther ahead, GA's pipeline and level of dialogue on future block activity remains healthy. And in terms of GA's individual business, GA experienced an increase in activity in Q3, so overall business momentum within this channel continues to feel very good as well.

Global Atlantic AUM pro forma for the MetLife block now totals $158 billion. This is up from $72 billion, or over 2 times, since the announcement of our acquisition in July of 2020. In our view, this really demonstrates the strength of GA's franchise, the power of the KKR / GA partnership, as well as the high level of execution we've seen since the outset.

So back to our P&L, in aggregate, After-tax Distributable Earnings totaled $780 million or $0.88 per share.

Next, just turning to page 7 of our earnings release, you see investment performance summarized for the quarter as well as the trailing 12-month periods. Looking at the figures on the page for the third quarter, our performance metrics broadly compare very favorably relative to public indices, which were mixed in the quarter.

The traditional private equity portfolio was up 5% in the quarter and over the 12 months is up 12%. And looking at our inception to date, blended IRR for our most recent flagship funds, that figure continues to stay strong at 23%.

In real assets, the real estate portfolio was up 1% for the quarter and down 9% over the last 12 months. Importantly, underlying NOI growth has remained strong across our portfolios, so the decline you see over the trailing 12 months reflects the change in interest rates as well as cap rate assumptions. Infrastructure was up 3% in the quarter and is up 14% over the last 12 months as this asset class has continued to be resilient for us. In credit, the leveraged and alternative composites were both up 3% in the quarter and 14% and 9%, respectively, over the last 12 months.

And turning for a moment to page 25, our Core Private Equity portfolio has performed. Today, we are the largest manager of Core PE capital, with $35 billion of AUM, which includes third-party capital alongside of our balance sheet. And as you can see on the page, the fair value of investments we've made off the balance sheet at 9/30 was $6.5 billion.

As a reminder, Core PE is a long duration investment strategy. We expect to hold these investments for 10 to 15-plus years. These investments generally have lower leverage over their hold periods compared to traditional PE and are more cash generative. The portfolio at this point is global, spans a wide range of industries, so we've continued to see strong growth in the portfolio that in our view is more stable and less cyclical in nature, which has really helped during periods of dislocation such as the early stages of COVID as well as over the last 12 to 18 months.

We got into this asset class and have really treated it as a strategic growth avenue for us since we started because it's an area where we firmly believed that our business model, including our industry depth, geographic breadth, collaborative culture, and ability to drive business building all set us up very well to be the best global player in the asset class. We're big believers in the

earnings power this strategy can create, and we continue to think about how to unlock that potential.

And with that summary, I'll turn the call over to Rob.

Rob Lewin
Thanks a lot, Craig. I thought it would be helpful this morning to go through what we are experiencing across the firm day to day. Despite what has been a dynamic operating environment, we find ourselves with a significant amount of momentum, especially across our key strategic growth areas. We are seeing a noticeable uptick in our pipelines around fundraising, deployment, and monetizations, and I'll take you through each today.

Turning first to fundraising, this quarter we raised $14 billion, bringing the past 12 months to $54 billion. While the fundraising environment has been tough, we feel as though we're positioned very differently than a number of our peers. None of the $54 billion that we have raised over the LTM period has come from our flagship strategies, which are due to begin fundraising in the next year or so.

Global Atlantic continues to have a lot of success in this rate environment and remains incredibly well positioned. Across our private wealth strategies, while still early, our momentum is strong, and our conviction around the size of the addressable market and our ability to take share continue to grow. And in the framework of KKR, this is really all upside for us from here.

Finally, many of our younger strategies continue to scale.

Looking at the quarter in a bit more detail, first our K-Series suite of products. As a reminder, these primarily serve the private wealth end market globally, providing individuals with access to alternative investments that traditionally have not been accessible to non-institutional clients. We now have vehicles for all four of our major asset classes: private equity, infrastructure, real estate, and credit. And we continue to be added to more private wealth platforms as these vehicles ramp. Two years ago, we were on approximately 10 platforms. And today, that number is closer to 40 across the suite of products that we manage, with more to come.

Looking at our private equity and infra wealth products specifically, they are now raising approximately $500 million a month. It's a really strong start for us, especially relative to our expectations, only reinforcing our confidence in the scale and impact of the long-term opportunity here.

Second, we raised $8 billion of capital in credit and liquid strategies in the quarter, and we were particularly active in private credit. As a reminder, private credit is comprised of our direct lending and our asset-based finance businesses where AUM has scaled significantly. Today, in

total, private credit AUM is $83 billion. That's up roughly three times from $25 billion just three years ago.

In direct lending, where we have $36 billion of assets under management, you're seeing us raise capital in a variety of forms. In the quarter, we raised capital for our U.S. focused strategy in traditional fund format and through Evergreen structures in both the U.S. as well as in Europe. We're seeing more interest in these perpetual vehicles as the asset class has become more mature and a more permanent part of institutions' allocations. And we're at the outset of fundraising for our private BDC and continue to raise capital in our separately managed accounts.

In asset-based finance, we're continuing to build on our leadership position here. ABF is now close to $50 billion of AUM as of 9/30. We are raising capital in a variety of forms, including closed-end and open-ended fund structures in both our high-grade and opportunistic ABF strategies. There will be more to come here in future quarters as interest in both direct lending and ABF remains very high.

This all really builds on the back of strong performance within our leveraged credit business, with many of our investment strategies ranking at the top of their respective peer categories. As an example, our investment returns in both our opportunistic leveraged credit strategy and our multi-asset credit strategy rank in the top one percentile against their peer universes since their inceptions in 2008.

And the third area on fundraising I wanted to address were some of the more recent announcements that happened post-9/30. We held the final close in Next Generation Technology III at approximately $3 billion. That represents an over 30% increase to its predecessor fund. Global Impact Fund II, our growth equity platform investing behind proven companies that deliver scalable, commercial solutions to global problems, also held its final close post-quarter end, totaling $2.8 billion, which is over twice the size of its predecessor fund.

And Asia Infrastructure II. We have already raised $6.1 billion of capital here, making it the largest dedicated infra fund in the region and up from the $3.8 billion predecessor fund, and we have not yet held a final close. This is another sizable platform that we have added to our infrastructure franchise and I think further cements our leadership position in Asia more broadly.

These three funds in aggregate have increased from $7 billion across their prior vintages to approximately $12 billion of total capital today. This is all very high-margin AUM for us and in strategies that are still relatively young for KKR.

As we look to 2024 and 2025, we expect fundraising at KKR will accelerate relative to the last 12 months. We have 30-plus strategies in or coming to market, including a number of flagships such as global infrastructure, Americas private equity, and Asia private equity, with the

opportunity for continued scaling in our private wealth products alongside the traditional fund format.

We are also launching a new climate investing strategy. We have recruited a really talented and experienced team, which is now fully integrated into our broader infrastructure platform, giving us confidence that we can become a real leader and a scaled player in this space.

Moving next to deployment. We continue to be very constructive on risk reward here across a number of our asset classes. We have about $100 billion of dry powder available to deploy, and we've seen an uptick in announced investment activity since June. However, only a small portion of that closed in the 90 days ended September 30. We do expect an increase in investment activity in Q4, given our pipelines here. This dynamic should help the invested capital figures in addition to our capital markets revenues in Q4.

And finally, our monetization activity has continued to pick up. In the quarter, our realized performance and investment income totaled $560 million. Activity in the quarter came from a wide variety of strategies and products. And as we look into the fourth quarter, standing here today, we currently have visibility on $400 million plus of monetization-related revenue.

One of the realizations in Q4 is from our investment in Kokusai Electric. Kokusai is a Japan-based manufacturer of semiconductor production equipment. We invested in the business back in December of 2017 through our Asia private equity platform. It is one of the three carve-out transactions where we've collaborated with the Hitachi Group.

You've heard us talk about Japanese carve-outs as a key investment theme a number of times on these calls. Given our operational skills, together with our relationships in the region, we feel particularly well positioned to pursue these investments. This is just the latest example for us.

At the end of October, Kokusai was listed on the Tokyo Stock Exchange in the largest IPO in Japan since 2018 and the largest-ever private equity-backed IPO. The stock has performed well since pricing, trading up approximately 35%. And based on last week's closing price, our total investment is now marked at over 15 times multiple of money on a gross basis.

We continue to own 40% of the company. In addition to the positive outcome for our Asia private equity investors, the IPO also helps our branding across everything that we do in Japan and likely as a result also creates more opportunity as we distribute K-Series products in this market.

Turning to the firm as a whole, we still have $11 billion plus of embedded gains between our investments and carried interest. So, the future around monetization-related revenue remains robust. This is compared to $9 billion of embedded gains at the beginning of the year. So, we're up roughly 25% in what has been a volatile environment, while at the same time having monetized a healthy amount of that embedded gain since 12/31.

As you can hear, we continue to be really excited as a management team about our growth and our evolution. We have been executing on our plan of building a very high growth and high margin asset management business, which benefits from and is accelerated by what we are doing across insurance and Core Private Equity.

With that, Scott, Craig, and I are happy to take your questions.

Operator
Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

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 then requeue, and time permitting, those questions will be addressed.

One moment, please, while we poll for questions. Thank you. And the first question is from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler
Hey, good morning, Scott and Rob. Hope everyone is doing well.

Scott Nuttall
Good morning, Craig.

Craig Siegenthaler
So two weeks ago, the press was reporting that KKR entered into a relationship with two of the mega online brokers to sell some of your retail vehicles. Now, this approach is different than the wirehouses, which are mainly selling your products like KREST to high net worth investors. And so, I believe this is mainly focused on the massive flow. And so, I was wondering if you could provide an update on this strategy and what you're looking to accomplish.

Scott Nuttall
Craig, you want to kick off?

Craig Larson
Sure. Hey, Craig. Why don't I start? I think the main takeaway from what you're mentioning is the focus we have on broadening the funnel at the top end. And we're going to be focused on the wirehouses. Here in the U.S., we're going to be focused on independent broker dealers. We're going to be focused on broad private wealth internationally. And the products that we've

created are ones that are going to be designed and tailored for those markets, different markets geographically, and, again, with a focus on broadening the funnel as much as we can.

One of the topics we've been particularly focused on was making sure that we could appeal not only to the qualified purchaser market but the accredited investor market. Again, the accredited investor market is eight or nine times the size of the qualified purchaser market. So again, that's just one example of a focus for us, is, again, just wanting to broaden that funnel at the top end as much as we can.

Scott Nuttall
Yeah. The only thing I'd add, Craig, is I think it's just part of the strategy. Our approach is really quite broad-based. It's global, it's multi-channel all around the world. So, what got picked up was just one element of that in the U.S.

Operator
Thank you. Our next question comes from the line of Glenn Schorr with Evercore. Please proceed with your question.

Glenn Schorr
Hi. Thanks very much. I wanted to just focus on, I guess, GA a little bit. I heard your comments about a potential for more blocks ahead. In the quarter, the cost of insurance went up a little bit more than the net investment income. I'm curious on your thoughts on how higher for a longer environment, A, plays into that dynamic, and, B, plays into your distribution mix and whether or not you saw much impact from the DOL rules that have been floating out there. Thanks very much.

Rob Lewin
Yeah, Glenn, thanks a lot for the question. I'd take a step back, and we're seeing a lot of momentum across, really, all aspects of GA right now. Year-over-year basis, our operating income is up close to 30% in the business. We're seeing success distributing through the individual channel, through the institutional channel. While, of course, we've seen cost of insurance tick up over the past 12 months, given where crediting rates are and products, I think you've also seen a commensurate step up in net investment income as well.

And if you look quarter-over-quarter, our net investment income margin ticked up a little bit north of where cost of insurance was. And so net-net, we came in about 15 basis points higher on a return on asset basis in GA. So, we're feeling like the team is executing across all aspects of that business right now.

You mentioned the DOL rules. I'm glad you brought that up. Punch line from our perspective is based on the draft regs that we have seen. We don't expect this to have a material impact on our business going forward. In many ways, the draft regs are similar to what came out in 2016. So, I think the industry is well prepared for that. GA is well prepared for that. And 90% plus of

our distribution today is through the bank and broker dealer channel. We feel it's this channel that's most prepared to be able to deal with wherever the regulations come out.

But, I think it's important to note that fundamentally we support what the regulator here is trying to accomplish. They want to make sure that consumers get the value they're paying for when they buy an investment product, and I think that's good for everybody in this space. So, punch line, no material issues, and we continue to work very closely with the GA team to continue the momentum there.

Operator
The next question comes from Steven Chubak with Wolfe Research. Please proceed with your question.

Steven Chubak
Hi. Good morning, Scott. Good morning, Rob.

Scott Nuttall
Good morning.

Rob Lewin
Good morning.

Steven Chubak
So, wanted to start off with a question on capital markets where activity continues to be subdued. But as we think about what the business could generate in a more normalized environment, the growth in your PE real assets AUM versus the average level in 2019, so pre-COVID baseline, suggests normalized capital markets fees could be about 160% higher than 2019 levels, so closer to about a $1.2 billion fee bogey.

And I was hoping you could frame what your view is on normalized capital markets activity, what that might look like. And is the increase in AUM the right lens for assessing the potential upside here?

Rob Lewin
Great. Thanks a lot for the question. So, a couple things on our capital markets business. And maybe I'll just start with this year and then frame how we think about the go forward. So as you look at really 2022 and 2023, we've been in a really tough operating environment for much of that period of time. IPO markets have been largely shut. Secondary markets have been close to shut. The leveraged finance market has been up and down but certainly more down than up.

And we're really proud of how that business has protected revenue in that down market. If you look, we were mid-$500s in terms of revenue last year, while year-to-date, we're averaging about $110 million to $120 million a quarter, in that range. We do feel good about where our

pipelines suggest our revenue should be in Q4 and so feel like the team has done a great job being able to protect revenue in a down market.

Now, I think you raised an important question around a more normalized environment. If you look at 2021, we generated $840 million of revenue in our capital markets business. And as you suggest, we are doing more things today as a firm than we did in 2021. And I think we've got an opportunity to take greater share with the third-party component of our capital markets franchise. So as we look at a more normalized environment, we feel like that plus or minus $200 million a quarter is very achievable. But to us, that's not the top end. We're building out a platform that we think over time can have real growth off that number.

In terms of forward-looking indicators, AUM could be one. But, I think it's really the scale and breadth of what we're doing across the firm, or maybe more the breadth of what we're doing across the firm, as opposed to necessarily the scale. It's our ability to take share in the third-party part of our business, where we think we've got some really competitive differentiators versus the marketplace. I think those are more what the indicators are to us for growth than necessarily what the AUM is for the firm.

But, thanks for the question. It's a part of our business that we feel really good about right now. The experience of the past 21 months relative to what it could have been or what it would have been in past cycles, I think really speaks to what our team has built over the past 10-plus years.

Scott Nuttall
Yeah. Thanks for the question, Steven. There's no doubt the baseline for the capital markets business has gone up materially over the last few years. I think AUM is one metric you could look to. You could also look to deployment. And frankly, you could also to some extent look to monetizations as the capital markets business often participates in particularly our public market exits.

So, I'd probably look at those few things. As Rob said in the prepared remarks, we're seeing activity pick up in the fourth quarter across those areas so would expect that to flow through to the capital markets business as well.

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. Thanks for the question as well. I was hoping we could talk for a couple minutes around the interplay between your deployment comments in the coming quarter and the quarters ahead and the flagship fundraising cycle, especially as it relates to some of the bigger funds like Global Infra, North America and Asia.

So, North America and Asia, in particular, still seems to have lots of dry powder. So, maybe help us frame what kind of deployment outlook you're seeing for those strategies and how that informs your view on when you can come back to the market with the next vintage. Thanks.

Craig Larson
Hey, Alex. It's Craig. Thanks for the question. So, a couple of thoughts here. First, when you look at the fund table in the back of our press release, the numbers you see on an invested basis will, if anything, be understated, as if we have dollars that are committed to an investment. Those dollars actually won't show up in that table until those dollars are actually called and invested.

So, I think as you look at where we are in terms of the status of those funds on an invested and committed basis, we're actually farther along than you might think just by looking at that table on a face value.

And in terms of broad timing, nothing to announce specifically here. But, we do expect over 2024 and 2025, that we will be active in both of those, and that activity will supplement infrastructure for us, which is a front-burner topic, as well as climate. And on those last two, we expect we'll be able to give some updates on those in the first half of next year. So again, it just feels like our fundraising team is going to continue to be very active.

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

Patrick Davitt
Hey. Good morning, everyone. So, I appreciate the strong trends at Global Atlantic you highlighted. But, the May deck they put out suggested some fairly significant offsetting outflows there. So understanding you have $13 billion coming in, in 4Q, but could you also give a little more specifics on how the regular way retail flows versus lapses and other outflow items have been tracking at Global Atlantic? Thank you.

Rob Lewin
Yeah, Patrick. Thanks a lot for the question. As we look forward in our business, really the way I'd think about it is in a regular way, organic part of our business, and in the individual side as we look to 2024, I think could be in that $10 billion to $15 billion range of organic flows, the institutional part of our business again more in that organic flow basis, probably in that plus or minus $10 billion range, and the outflows, call it in the mid-teens.

And so on a net basis, organically, we feel like GA should have, call it, $5 billion to $10 billion of organic growth next year. Now, you'd layer on top of that block activity, as an example the MetLife block, which is all incremental and upside to that. As we look at our pipeline on the block side, it feels as good today as it has since we started our ownership of Global Atlantic.

We're seeing some very specific deals out there where we can really partner with close relationships and be able to come up with win-win solutions for both us and our clients and partners in that space. And so, that's really how I would think about Global Atlantic and its ability to grow over the coming 12 months, both organically and then on the block side, we continue to see real momentum there, offset, of course, as you noted, by regular way withdrawals.

Scott Nuttall
Yeah. The only thing I would add, Patrick, is I wouldn't get too focused on any shorter period of time. Since the deal was announced in 2020, GA's assets have gone from $72 billion to now pro forma for MetLife $158 billion. So, we've meaningfully exceeded all of our expectations in terms of net growth, and we expect to see very consistent trends going forward.

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

Brian McKenna
Great. Thanks. So, you've recently announced a partnership with a life sciences investment firm. So, could you talk about this investment a little bit, what the broader opportunity is within life sciences, how this partnership accelerates growth in this part of the market, and then how it plays into the longer-term health care strategy at KKR?

Rob Lewin
Yeah, thanks for the question, Brian. I'll start. And so, as you know, we've got a $4-plus billion health care growth strategy at the firm. We've got a big private equity focused on the health care space. And our investment into Catalio, which is really a leading life science investment firm at the more earlier stage, is a real partnership that we think can help make their business better and then also make our business better from an origination perspective.

And we think we'll get a very nice return on our capital based on their business growth and the ability to help originate flow for both our health care growth strategy as well as potentially our private equity strategy, maybe strategies across our credit business – a big reason why we did that transaction.

Scott Nuttall
Yeah. The only thing I would add, Brian, is we started our health care growth strategy a handful of years ago. That has exceeded our expectations to date. There's really two areas where we've been focused on leaning in from the standpoint of just newer business creation more recently. One is climate, which the guys mentioned, and the other is this life sciences space where we think there could be a meaningful opportunity for us over time. Catalio and that partnership is just part of that effort.

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

Ben Budish
Hi. Good morning, and thanks for taking the question. I wanted to ask about Global Atlantic. There was some press earlier, I think last month, about the possibility that KKR might have to buy back the ownership stakes from some of the old Goldman Sachs asset management clients. I was wondering if you could speak to that. Is there any truth to it? And if not, could you at least remind us of how that arrangement works and what we should think about or expect going forward? Thank you.

Rob Lewin
Yeah. Thanks for asking that question. I'm glad you asked it because I know when that article came out, Craig Larson and his team got a lot of inbounds and questions. And since the shareholder agreement is not public, there is only so much color that he and his team are able to provide.

To be very clear, KKR has got no contractual obligation to buy out the minority shareholders at Global Atlantic. What we do have is an obligation in the future to the extent that they want to seek liquidity to help them in that process, which, of course, we'd be happy to do, so no obligation on our part in any way. But, of course, that option remains open to us in the future as well.

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

Brian Bedell
Great, thanks. Good morning, folks. Thanks for taking my questions. Maybe just to focus on the FRE margin comment. I think, Craig, you started off with that in your prepared remarks, the migration up to the mid-60s from the low-60s. Can you just talk a little bit about the timing around that? And is it mostly a scale-based improvement?

And so, therefore, does that require the flagship fundraising cycle to come in, and then, I guess, just strategically how you think about that in terms of – versus investing in growth initiatives? And I think the big one I'm thinking about is the wealth distribution, particularly if you're having good traction there. Is that something that you're sort of happy to spend into to grow that and maybe delay the improvements in the mid-60s?

Rob Lewin

Yeah, Brian, thanks for the question. I'll start. So, I think we can do both is the short answer. I think we can invest into the firm for growth, like we've been doing, and expand our margins. No timetable as of at least today to when we think we can achieve that mid-60 sustainable FRE margin, but I can tell you sitting here today, I have more confidence than I ever had in our ability to be able to achieve that over time.

I also would say I don't think that's the cap for us. As we look at the business that we're building across our asset management platform, I think there's opportunity over the long term to expand margins north of that mid-60% level, but one step at a time. We've got, again, a lot of conviction that we're going to be able to achieve that on a more sustainable basis, and we'll give you updates, of course, on our progress.

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

Michael Brown
Great. I wanted to ask on the 2026 targets, clearly, the growth from your next flagship fundraising campaign and the margin comments you just made, Rob, will put you on a visible path to that 2026 FRE target. But, can you maybe help me unpack the key drivers to the doubling of DE?

So, if I assume GA can maybe grow at like a low-teens growth rate, and you can correct me if I'm wrong. But if I use that assumption, and then I assume – it seems to imply, I guess, a meaningful ramp in the performance fees. Is that the right way to think about the building blocks? And then, what kind of gives you confidence that you'll get to that performance fee contribution piece since that's somewhat out of your control? Thank you.

Rob Lewin
Great. Thanks for the question, Mike. So, I think it's really multiple different factors. I think it's FRE growth, as you stated, and we can unpack that a little bit. And we definitely see further opportunities to grow and expand what we're doing with Global Atlantic to increase our earnings contribution from there. And then, it's our $11 billion plus of embedded gains that sit on our balance sheet today.

And that gives us a great deal of comfort in terms of our forward-looking earnings power. So, it's a combination of those three things working together that ultimately gives us confidence in our numbers. And we said it last call, and I'll reiterate it this call, we feel more comfortable today than we did when we initiated that guidance, I think two years ago now, in our ability to achieve our numbers.

And I think that's saying quite a bit because if you think about what's happened, at least in our space since we initiated that guidance two years ago, we've had very tough overall operating conditions, tough fundraising market, tough overall monetization, volatile marks across the

board. But, we're sitting here now telling you two years in that we feel, even in spite of that, more confident than ever in our ability to achieve our targets.

Scott Nuttall
Yeah. Let me pick up, Mike, and appreciate you asking the question about 2026. Inside the firm, it just feels really optimistic, candidly. We've got a lot of different ways to grow. As Rob and Craig mentioned, we've been raising a lot of capital, but our flagship fundraises have not been in those numbers, and those are coming.

We have a lot of younger and scaling strategies, and I'm not sure it's fully appreciated just how young the firm is. But if you look at the last 12 months, nearly 80% of the money we've raised has been from strategies less than five years old. If you look at the next 12 to 18 months, there's roughly 30 different strategies we'll be in the market with, and 22 of those are fund I, II, or III, or equivalent.

So, we're quite young, and we've been able to scale through this cycle. And as we gain more traction and find our way at that inflection part of the curve, we see a lot of upside as these businesses start to get closer to top three in everything we're doing. Private wealth is newer for us, so we have a lot of upside ahead of us. GA we talked about. Asia has significant growth opportunities as well.

So, the reason you're hearing the optimism is probably 5 to 10 years ago, we were talking about all these businesses that we started that would take 10-plus years to get to scale. And a lot of that is just starting to happen in this period of time, which is why, despite the operating environment, we're still quite optimistic.

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

Michael Cyprys
Good morning. Thanks for taking the question. Just wanted to ask on private credit with the new bank capital rules, just curious how you see that opportunity set potentially unfolding. Any particular areas you view as most attractive coming out of the banks versus less attractive for KKR? And are there any steps you guys need to take at this point in order to capture that, any gaps you need to fill in? And then, just a housekeeping question for Rob, just on deployment and realizations off the balance sheet in the quarter. Thank you.

Rob Lewin
Why don't I start with the deployment and realization, then Craig will pick up on some of the private credit-related questions. So, Mike, this quarter, we're roughly $300 million of deployment and $300 million monetization off our balance sheet. I'd say on the deployment

side, it’s broad-based across our platform on the monetization side, maybe a little bit heavier weighting towards real assets.

Craig Larson
And, Mike, it’s Craig. Just in terms of on the bank topic, look, I think our team remains very active as it relates to finding opportunities with the banks. You would have seen a press release in Q3 focused on the acquisition of a portfolio from a regional bank through our ABF platform, and that activity will continue. When you take a step back and look at our platform, excuse me, we’re over $80 billion of private credit AUM, $47 billion in asset-based finance, and $36 billion in direct lending.

And if you think of asset-based finance for a moment, it’s a $5 trillion market opportunity, and there are real secular tailwinds at play here. And in our view, against this really enormous opportunity, you’ve got a lack of scaled capital. At the same time, as you note, many traditional providers are even further retrenching. So, it’s an area that I think we would highlight as one that we just think we’re really well positioned to continue to drive real long-term growth here.

Scott Nuttall
Yeah. And, Mike, you asked if there’s any gaps. There’s nothing that I would point to in terms of a gap. We’ve got a big organic build opportunity here.

Operator
Our next question comes from the line of Chris Kotowski with Oppenheimer. Please proceed with your question.

Chris Kotowski
Yeah. Good morning. I guess I wonder if you could spend a minute or two talking about your approach to the real estate businesses, both in the United States and globally. I mean, your latest flagship fund in the United States has been mostly invested already. And on the one hand, I guess it just doesn’t feel like we’re anywhere near the end of the cycle in office, or there are concerns about the impact of rising rates.

But on the other hand, every commercial bank in the world is trying to reduce their exposure to real estate, so this is usually the kind of environment where private equity sponsors can thrive. So, what’s your general view on real estate? Is it still time to be cautious and defensive, or is this the time to lean in?

Craig Larson
Yeah. Why don’t I start with the platform overall, and then I’m sure Scott will add on as it relates to opportunities and the tone of the team and the environment. Just to level set, we’re $65 billion of AUM today, with a very good balance between real estate equity and real estate credit. So, we have round numbers, $30 billion in equity, $35 billion in credit.

We have opportunistic strategies across the U.S., Europe, Asia. In the U.S., we have a Core+ vehicle that's now expanded into Europe and Asia. We have a half dozen or so credit vehicles. So, it's a global business across multiple strategies, fully integrated, that can create solutions up and down the capital structure, across equity and debt, in the U.S., Europe, and Asia. And that's how we're situated against the opportunity.

Now, your point on the current environment is one that's really interesting because we think in the go forward, looking over the coming 12, 24 months, we're very constructive on those opportunities. I think as it relates to a couple of those, I think first, look, there is a wave of maturities and capital needs that are coming. And this is not U.S. office. These are assets that are in very strong-performing sectors, I think excellent assets, but excellent assets with very levered capital structures.

And this is going to take some time to work through. But, this is an example of an opportunity that we're very actively talking about with our limited partners as we see and think through opportunities ahead in terms of our opportunistic pools of capital. And the second I'd mention again would be real estate credit, so the dislocations that in our view are creating really interesting opportunities. You have high base rates, spreads have widened meaningfully for new credit originations, terms have tightened.

And so today's CRE loans have lower LTVs, better interest coverage, higher interest rates, with more lender-friendly covenants and structures. So if you were to look back two-plus years ago at those subordinated tranches, pricing would have moved up from the low to single mid-digits two years ago to low double digits today and, again, in our view, taking less risk with lower LTVs and better terms. So I think as we think of how we're situated, we're very constructive and think we're in a position to be forward leaning.

Scott, I'll let you pick it up from there.

Scott Nuttall
Sure. Thanks for the question, Chris. Look, we started our real estate platform probably 10 to 12 years ago, somewhere in there, call it 2011, 2012, Chris. And we were building that business over a period of time where obviously rates were dropping. We were seeing a significant move in cap rates in one direction. I think our team has been incredibly thoughtful about how they've built the business.

It's been very thematically focused, perhaps our most thematic investment business across the firm, as a result very careful about where they were deploying capital as a result. We don't really have much U.S. office exposure, as just one example. But, we've been building across opportunistic equity, to your point about the fund table, Core+ real estate. And we have a very large real estate credit business.

So in terms of kind of where we stand, we're continuing to raise capital. I think the real estate credit opportunity is showing up, to Craig's point, before the equity opportunity gets really interesting. But, we think that will be even more interesting with time. And so, we are continuing to raise capital, deploying selectively all around the world and getting ready for things to get even more attractive as we head into the next several quarters.

And one of the ways we have been able to grow this business is through Global Atlantic, which we expect to continue to be the case. So, we're really optimistic about what this business can be. And I think you're right. It's periods of time like this where you can grow significantly, especially if we continue to see valuations under pressure.

Operator
Thank you. As a reminder, to ask a question, you may press star, one at this time. And we ask you to please limit yourself to one question. The next question comes from the line of Brian McKenna with JMP Securities. Please proceed with your question.

Brian McKenna
Thanks for the follow-up. So, just two quick items for Rob. The interest income and dividend line ticked up in the quarter. What drove this? And is the $120 million quarterly run rate level a good starting point moving forward? And then, of the $400 million plus monetization slated for the fourth quarter, how much of that is tied to Marshall Wace?

Rob Lewin
Yeah, great. Thanks for the question. Some of the interest in dividends is just honestly a function of rates going up, and we're a beneficiary of that on our cash balances and some of our floating rate exposure on the balance sheet. As it relates to the $400 million plus, I would say, call it, 80% of that is more carried interest, and 20% of that would be balance sheet income and our incentive fee from Marshall Wace in the quarter.

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

Craig Larson
Rob, first thank you for your help. And thank you, everybody, for your interest in KKR. We know this is a very busy earnings period for everybody. If you have any additional questions, please follow up with us directly. Otherwise, we'll speak with everybody in 90 days. Thanks so much.

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

COMPANY DISCLAIMER - THE COMPANY HAS NOT VERIFIED THE ACCURACY OR COMPLETENESS OF THIS TRANSCRIPT