

KKR & Co. Inc.
Second Quarter 2024 Earnings
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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
Bill Katz – TD Cowen
Alex Blostein – Goldman Sachs
Patrick Davitt – Autonomous Research
Dan Fannon – Jefferies
Brian Bedell – Deutsche Bank
Brian McKenna – Citizens JMP
Ben Budish – Barclays
Steven Chubak – Wolfe Research
Michael Cyprys – Morgan Stanley
Chris Kotowski – Oppenheimer
Arnaud Giblat – BNP

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's Second Quarter 2024 Earnings Conference Call.

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

As a reminder, this conference is being recorded.

I will now hand 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 second quarter 2024 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 would 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 kkf.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 first, beginning with our results for the second quarter. We are pleased to be reporting Fee Related Earnings of \$0.84 per share, the highest we reported in our history and 25% above the figures we reported, one year ago. And Adjusted Net Income of \$1.09 per share is up approximately 50%, compared to one year ago.

Going into a little more detail, management fees in the quarter were \$847 million. This is up 13% year-over-year, driven by the breadth of our fundraising activities, alongside a pickup in deployment.

Capital markets transaction fees were strong in the quarter at \$192 million, mainly from activity in new and existing portfolio companies within private equity and infrastructure, as well as an overall improvement in both the debt and equity capital markets backdrops.

Fee Related Performance Revenues in the quarter were \$37 million. This was the first quarter our offshore K-Series vehicles earned their annual incentive fee, given their launches about a year ago. The Fee Related Performance Revenue figure includes our infrastructure vehicle while, to be clear, our performance allocation on our private equity vehicle is reflected in our Realized Performance Income line item that is below Fee Related Earnings.

Fee Related Compensation was right at the midpoint of our guided range which, as a reminder, is 17.5%. Other operating expenses came in at \$158 million. So in total, FRE was \$755 million and our FRE margin came in at 68%.

Insurance Operating Earnings were \$253 million in Q2. And Strategic Holdings Operating Earnings were \$41 million in the second quarter, as we continue to track towards our expected \$300-plus million of net dividends by 2026. Importantly, we're continuing to see consistent growth across the underlying businesses. KKR's share of these businesses as of the first quarter, so on a 1-quarter lag basis, LTM revenues were \$3.6 billion and EBITDA was approximately \$900 million or so, with 14% and 12% like-for-like growth in revenue and EBITDA, year-over-year, respectively.

So altogether, Total Operating Earnings were \$1.17 per share. As a reminder, Total Operating Earnings equals our Fee Related Earnings, together with Insurance and Strategic Holdings Operating Earnings.

This quarter, Total Operating Earnings represents over 80% of pre-tax Adjusted Net Income. So said differently, over 80% of our pre-tax earnings this quarter were driven by our more recurring revenue streams.

Turning to investing earnings, realized performance income was \$482 million and realized investment income was \$139 million. This was driven by secondary and strategic sale activity across a number of asset classes, including private equity, infrastructure, as well as across multiple geographies pointing to the maturity and the diversity of our business.

So in aggregate, Adjusted Net Income was \$972 million, or the \$1.09 per share figure I mentioned a moment ago.

Moving to investment performance on page 10 of our earnings release. The traditional private equity portfolio appreciated 4% in the quarter and 18% in the last 12 months. Opportunistic real estate was up 1% in the quarter and up 3% in the LTM. Infrastructure continues to perform well, up 3% in Q2 and up 17% LTM. And in credit, the leveraged credit composite was up 2%, and the alternative credit composite was up 3% in Q2. And over the past 12 months, performance here was 12% for both strategies.

And given this investment performance, our gross unrealized carried interest balance increased to \$7.1 billion, and that is up over 40% from Q2 of 2023.

And finally, before turning over to Rob, we wanted to reflect for a moment on an exciting milestone as KKR entered the S&P 500 Index in June. We believe this is a strong reflection and endorsement of the firm's performance, our people and our culture. And we want to thank and recognize everyone at KKR for their creativity, innovation and focus that got us to where we are today and will continue to propel us going forward.

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

Rob Lewin

Thanks a lot, Craig. Given the recent S&P 500 inclusion, we expect that there are many on the call listening for the first time. Welcome. We would encourage you to also take a look at our April Investor Day replay and presentation that is found on our website.

We feel as good as ever in our 2026 guidance figures that we introduced in April. As a reminder, those include: \$300 billion+ of new capital raised over the course of 2024 through 2026; and in terms of our financial metrics by 2026, \$4.50+ per share of FRE, \$7+ per share of Total Operating Earnings, and between \$7 and \$8 of Adjusted Net Income per share, which is after tax.

So looking at the LTM figures that we reported this morning, our 2026 guidance implies a 20% annual growth rate, plus or minus, across all three of these key financial metrics.

Overall, our activity levels and the momentum across the firm feel very strong. We are continuing to see our management fee scale meaningfully with 13% year-over-year growth. And this is before our in-market flagship funds have turned on.

We are also seeing continued real signs of the monetization backdrop improving as evidenced by our Q2 realized performance fees and investment income.

Last quarter, I mentioned that we had very healthy pipelines on the back of the improved environment, as well as our diversified and performing portfolio. I will echo those same comments again this quarter. So far in Q3, we have already completed a secondary sale of our shares in Kokusai, took our portfolio company OneStream public, and advised Lineage Logistics, a third party capital markets client, on their IPO, as well.

As a result of the current activity levels, our capital markets business saw its second highest revenue quarter in the past couple of years in Q2. Looking forward, unless something changes in the market or our deal pipeline gets pushed, Q3 capital markets fees are shaping up to be one of the highest in our history.

Turning to Strategic Holdings. We've only reported this segment on a stand-alone basis for two quarters, but we remain confident in our ability to take the business to over \$1 billion of operating earnings by 2030. Stepping back, I don't think there are a lot of corporates giving 7-year guidance, so I think this really does speak to our confidence in both the durability and growth orientation of these cash flows.

Now turning to Insurance. There are a lot of really positive developments this quarter, so I wanted to spend a bit of extra time taking you through a number of business-building initiatives. In Q2, we saw a record volume of inflows from Global Atlantic across annuity sales and flow reinsurance, totaling over \$8 billion in the quarter, compared to less than \$3 billion just a year ago.

And looking at the last four quarters in aggregate, total inflows, including block activity, have been over \$50 billion. That's the highest point in any 12-month period in GA's history.

On the earnings front, we continue to feel good about our ability to generate 14% to 15% pre-tax ROEs as the right long-term target. The ROE for Q2 came in below this range as a result of a couple of factors but mostly a function of us leaning into the long-term opportunity at GA.

The drivers for the quarter include elevated levels of liquidity from our big block reinsurance transactions, as well as the significant ramp-up in quarterly volumes, and some of the investments we are choosing to make that favor longer-term ROEs really at the expense of near-term ROEs. Overall, we continue to feel great about the long-term trajectory at GA and the opportunity for us to create significant value, together.

In particular, given that we are now 6-plus months into owning 100%, we thought we'd bring you through some tangible examples of how our closer collaboration across investments, as well as capital markets, are driving real business performance.

First, in real estate, we recently closed on a \$2 billion unlevered acquisition of a 5,000-plus unit multifamily portfolio.

Given the dearth of Core Real Estate capital globally, we are seeing excellent risk return for the few very well-capitalized buyers in the market, of which we are one. We have conservatively priced this deal to an 8% unlevered return with significant upside potential, which we think is a really compelling risk-adjusted return, but it's the type of deal that is going to put some pressure on our near-term ROEs for the benefit of longer-term profitability.

As an example, we expect the year one yield on this portfolio to be in the low 4% range, obviously less than where we are originating our liabilities today. But the combination of yields increasing over time and the expected appreciation of the asset make this a really interesting deal and one we're excited to pursue for the long term.

Now, there will naturally be a limit to how much of this type of investment that we want to make. But I think it's a really great example of our increased coordination between our real estate equity team and GA.

We also have had a very positive development this quarter on the infrastructure side of our business. We announced an investment in Labrador Island Link, which is a transmission line that brings renewable energy to eastern Canada. This is the first collaboration between Global Atlantic and KKR's infrastructure teams who worked together to structure the equity interest with significant downside protection.

And finally, we wanted to take you through a brief case study from early Q3 that combines Global Atlantic, our credit teams, as well as our capital markets franchise. CyrusOne, a data center portfolio company of ours, has been growing rapidly with demand for hyperscale facilities continuing to increase, driven by cloud and AI deployment.

To support this growth, our capital markets team helped arrange an \$8 billion facility, of which we sole led the \$3 billion institutional tranche that was anchored by Global Atlantic. Strategically, this represents a really exciting evolution in our playbook where we generated a great outcome for a portfolio company, made a compelling credit investment and were able to, simultaneously, drive capital markets fees.

All of these examples would not have been possible without the interconnectivity across the firm and our model. We expect many more examples like this to come.

Now before handing it off to Scott, I wanted to briefly touch on some of our operating metrics across the firm, where there continues to be very significant momentum. In the quarter, we raised \$32 billion of capital. This is the second most active fundraising quarter in our history.

Of particular note, we're very pleased with the initial reception of our Global Infrastructure V fund. Through July, approximately \$10 billion of capital has been raised. And in June, we launched our Americas Private Equity flagship fundraise, so our fundraising super cycle is now well underway. Also within private equity, our middle market strategy called Ascendant has already achieved its fundraising goal of \$4 billion, and we have not yet held its final close.

It's a great outcome for a first-time fund, obviously something that is adjacent and benefiting from our existing private equity team. And I think it really speaks to the receptivity of our investors to the quality of our team and our track record, as we look to fundraise for our next flagship.

Focusing for a moment, specifically, on private wealth. Our K-Series vehicles in the quarter raised \$2.8 billion of capital, 60% of which was driven by our private equity strategy. The K-Series suite has gained real momentum, but we are still in the earliest of days of what we view to be a really long-term strategic focus.

As a reminder, we now have vehicles across our four key investing verticals. That's private equity, infrastructure, real estate, as well as credit, representing over \$11 billion of AUM, and that's up from approximately \$3 billion, just a year ago.

And looking beyond K-Series, we recently announced our exclusive strategic partnership with Capital Group, one of the largest global active asset managers. With \$2.6 trillion of AUM and serving 67 million individual investors, Capital Group has built a leading client franchise with world-class wealth distribution capabilities.

By combining Capital Group's public market investing, as well as distribution expertise with KKR's nearly 50-year track record in alternatives investing, we plan to introduce a series of hybrid public-private investment solutions that make the KKR platform available to a broader universe of investors.

Importantly, the hybrid products are a step beyond what we are already doing with the K-Series and the accredited investor universe, as they expand our reach to include the mass market. We're excited about the future of this collaboration, and we will share much more as we approach the product's expected launch in 2025.

Turning to capital invested. We deployed \$23 billion of capital in Q2. For the first half of 2024, we have now deployed \$37 billion, which is almost double the first half of 2023. Real estate, in particular, had a strong deployment quarter across equity and credit. On the credit and liquid strategy side, direct lending continued to put capital to work, as well as opportunities in high-

grade ABF. Importantly, there remains a very healthy pipeline for deployment in the second half of 2024 as well.

Overall, we remain very excited around the business momentum that we are seeing across the firm and how that can really translate into further P&L outcomes over the second half of the year.

And with that, let me turn it over to Scott.

Scott Nuttall

Thank you, Rob, and thank you, everybody, for joining our call today. Last month, we held our annual meeting for our fund investors, followed by KKR's partners meeting. I thought while we are together today, I would share some of the messages we shared in those sessions and some reflections from Joe and me on the first half of the year and our expectations for the second half.

The main message we shared with our investors is that we are seeing significantly greater market activity since the beginning of the year. The macro inflation and rates backdrop has improved, markets are open, and the deal market is back. To give you a sense, globally, year-to-date, leveraged credit issuance is up over 100%, IPOs are up nearly 50%, and announced M&A is up approximately 25%.

And given it typically takes a couple of quarters for the market to turn back on, these numbers understate the run rate activity we are feeling today. If this momentum continues, we believe you will see even more activity and announced deals and exits in the second half of the year.

We are seeing this dynamic across our businesses. Deployment is up, monetizations are up, capital markets revenues are up, yield pipelines are up and visibility is high. Unless something happens to disrupt this momentum, we expect to see increased activity in the second half of this year relative to the first. What's also encouraging is that we believe this is a very attractive investment environment.

Volatility and uncertainty are still with us. So far, 2024 feels like it could be a sweet spot year, where values are attractive and activity levels are high. This is in contrast to last year when values were attractive but transaction volumes were more muted as owners of mature assets didn't want to sell or finance them in a closed market.

This year, we not only have an open market, we have pent-up supply of deals that didn't get done the last couple of years coming to market. So we are optimistic.

A couple of other things we shared in our June sessions. In private equity, while many in our industry over deployed in and around 2021, we did not. We have been applying the lessons we

learned before and during the financial crisis and have been deploying in a linear fashion in the last many years.

As a result, we have strong returns, dry powder and a healthy portfolio. In credit, we're seeing the benefits of a scaled \$230-plus billion platform with significant opportunity across now a \$40 trillion global credit space. Our private credit business is now over \$100 billion, and we continue to see attractive investing opportunities in asset-based finance, Asia credit, opportunistic investing and junior debt, amongst other areas.

In infrastructure, the global opportunity is immense, across our efforts in core, value-add, and climate. The capital need massively outstrips supply, and we feel very well positioned. In real estate, the credit opportunity remains compelling with banks on the sidelines, and the equity investment opportunity is very attractive.

As a reminder, we started our real estate business in 2011. We don't have office and retail exposure of any consequence, so we have the ability to play offense in this environment. And we believe we will take share over the next several years and will benefit from the current and coming dislocation.

The real estate investment opportunity is highly compelling. We have closed or are under exclusive contract on over \$10 billion of real estate equity deals since April 1 and have a full pipeline as some owners of real estate seek liquidity and sell their best assets. And in this environment, scale is trading at a discount.

And we also introduced a fifth asset class to our investors in June: Insurance. This is the Ivy sidecar franchise that invests alongside the Global Atlantic balance sheet in block and flow deals. This area has amongst the most compelling capital supply demand imbalances we see across the firm.

And speaking of GA, we're now roughly seven months since we became 100% owners. We've been focused on mining the untapped opportunities we shared with you last November when we announced the deal. As you heard, GA is growing rapidly. And as we transition the business to 100% ownership, we're seeing the combined impact of simultaneous fast growth and investing in the business for the long term.

As we sit here today, we feel very optimistic about the opportunities to create value with GA at 100%, investing across more KKR asset classes, scaling KKR capital markets and structured assets, going global in particular in Japan and finding more ways to work together, more broadly.

Overall, the opportunity with GA is greater in our minds today than it was at the beginning of the year.

So to keep it simple, the market is open, the firm is very active, our investment performance is particularly strong. We've never felt better about our team, and we are well positioned to execute the plan we shared with you at our April Investor Day.

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

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. We ask that you limit your questions to one. You may get back in queue for a follow-up, if time allows. You may re-enter the queue by pressing “*”, “1”. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

Your first question comes from Craig Siegenthaler with Bank of America. Please go ahead.

Craig Siegenthaler

Good morning, everyone. My question is on GA's net investment income and your comments on long-term versus near-term ROEs. So given GA's investment portfolio yield, that it's currently depressed because you have excess levels of liquidity that have yet to be deployed, how do you expect yields to improve as you fully deploy the excess liquidity and over what timeline?

Rob Lewin

Hey, Craig, it's Rob. Thanks for the question. Why don't I start out? And there's a couple of things going on and maybe the shorter part of your answer is going to ultimately depend on what the growth is from here. But maybe let's talk a little bit about what we're seeing in the business.

You referenced a lot of growth. And just to put some numbers around that, if you look at the past nine months, we've taken on \$50 billion of additional capital, and that compares to \$20 billion in the preceding nine months. And we're trying to be very thoughtful, as you can imagine, around deployment as we're digesting that growth.

We're also using new muscles inside of our firm as it relates to linking up our real estate equity team, our infrastructure team, our capital markets team, and so there's a lot of really good work going on. And as a result, we've been operating at elevated levels of liquidity.

And so just to put some numbers behind that, if you look at the end of the quarter, we had roughly \$8 billion of cash. If you look at a year ago, that number was closer to \$4 billion, and that doesn't even take into account a lot of the high-grade corporates that we have that are being weighted to be rotated into higher-yielding assets.

And I think the other point that I think is worth talking about as we think about what the medium-term net investment income can look like, an ROE could look like, is really this point I was trying to get at in the prepared remarks around us actively making investments today that we believe will generate meaningful long-term ROE but that's coming at the expense of shorter-term ROE.

It's that core real estate example that I mentioned, where day one, we expect running yields to be roughly 4%. Think about where we're originating liabilities today, that's north of 5%. And so, not only are those investments not accretive to our near-term P&L, they're actually dilutive.

But for those who have followed us a while, been shareholders with us for a long time, I think they'll know that we're always going to make the decision to take some pain on short-term P&L for long-term earnings power. And so, it's tough to then extrapolate from there exactly what that's going to mean to near-term ROEs and returns as a lot of that is a function of the growth that we expect.

But as we look forward, we look at Q3 and Q4, our expectation is we'll have operating earnings that are in and around where we are in Q2. And as we think about how we ramp up into 2025, my expectation is we're probably—based on the growth we see in front of us—we're probably operating at a level that's a little bit below our 14% to 15% long-term ROE range but again, all in service for that long-term growth that we feel across the KKR platform and that we believe pretty strongly will benefit GA's long-term P&L.

Craig Siegenthaler

Thank you, Rob.

Rob Lewin

Thanks, Craig.

Scott Nuttall

Thanks, Craig.

Operator

Next question, Bill Katz with TD Cowen. Please go ahead.

Bill Katz

Okay, thank you very much. So many questions but so little time. Just in terms of volume, you sort of reiterated the \$300 billion, you're certainly well on your way to that. You launched—you got the first closing on Global V, Infra V is great, and then you mentioned that you're sort of now in the market for the North America Fund. I was wondering if you could just sort of comment about what you're hearing from the LPs on demand across the asset classes and then maybe tie that into Asia, when that might start to come into the market, as well.

Scott Nuttall

Hey, Bill, it's Scott. Thanks for the question. There's a couple of things. One, just broader context for you. I know there tends to be a lot of focus on the flagship funds. But if you go back and think about what's been going on with the firm, even go back to beginning of 2022, so call it the last two and a half years, we raised \$214 billion. Only \$14 billion of the \$214 billion was in flagships.

So happy to chat about the flagships, but we should also keep in mind the vast majority of the activity that we've been generating has been outside of that. And to your point, we now have the flagships coming back, as well.

The overall tone in the fundraising market continues to improve. I think it kind of depends on where you are and what you're talking about. So let's just talk about asset classes. Infrastructure and Private Credit, we continue to see investors very interested on trying to catch up to the allocations that they have made. So there continues to be quite a bit of activity in those asset classes.

I would also include real estate credit in that area. It's kind of a similar theme to private corporate credit. Then you kind of move on into real estate equity, where I think the sentiment is shifting a bit, right now. There has been more caution, no doubt. Our perspective is that the sentiment has bottomed. And the last year, valuations have bottomed in the first half of this year.

And as you heard in the prepared remarks, we've been quite active deploying into real estate equity. I'd say the fundraising is going to lag that reality a little bit, but we're starting to have more conversations with investors that understand, although it may be perceived as a bit contrarian, this is a really good time to invest in real estate equity.

And then in private equity, activity is picking up. As you heard, monetizations are up and deployment is up. People are starting to get more money back. So those with more mature programs are starting to see some of that. I think you'll see more of that as we get into the latter half of the year. We have just launched our flagship U.S. Private Equity funds, so not a lot to report, as of yet.

I'll let Craig give an update on our Ascendant strategy, which is a recent data point in a minute. But it feels to us like there's a decent chance that the private equity fundraising environment has bottomed as well, and you'll start to see sentiment shift to positive.

More broadly, as you know, private wealth, big opportunity for us, all upside. Insurance companies, we thought, might pull back from alts a little bit as rates went up. I have not seen that. Actually, we're seeing as much activity and momentum as insurance as we've seen in a while. And so, we do think there's quite a bit of activity. Sorry for the long answer, but hopefully, it gives you a sense that there's a variety of different things happening underneath

the surface. And on private equity, Craig, why don't you just give the latest data point we have? It's not a big one but it's at least indicative.

Craig Larson

Sure. Bill, thanks for the question. So as you heard from Rob in our prepared remarks, we've made what we feel is some great progress on Ascendant. That's our middle market private equity strategy, first-time vehicle for us. As of June 30, we're at \$4.1 billion. We have a \$4.6 billion hard cap there, and we're in a pretty advantageous spot at the moment. We're oversubscribed at that hard cap.

And so to be clear, we are turning away clients that want to begin final diligence there. And for some of those clients, through final diligence, we're cutting back on allocations. So the backdrop is one that feels constructive. There again, far too early to try to lead through those dynamics as it relates to North America XIV. But again, I thought that would also be a helpful data point.

Scott Nuttall

And Bill, just one other thing for me, maybe two, quick because I know there's a lot of interest in the fundraising environment. We are continuing to see a couple of other themes. One is concentration of relationships. So we're finding more investors want to do more with fewer partners, and so we're continuing to see that trend accelerate.

Also, I think there's increased recognition of what we've been talking about for the last decade-plus, the power portfolio construction, deployment pacing and tools to add value. And you're going to see much higher dispersion of results, I think, and we'll figure out who did a good job the last five years, and we feel really well positioned in that context.

Bill Katz

Thank you.

Scott Nuttall

Thank you.

Operator

Next question, Alex Blostein with Goldman Sachs. Please go ahead.

Alex Blostein

Hey, good morning, everybody. Thank you for the question. So I wanted to start with a question around the outlook for deployment. You mentioned it a number of times that the pipelines look pretty robust and you've announced a handful of deals, as well. So when we think about private equity in particular, as you deploy this capital, how are you thinking about utilization of direct lending markets versus indicated markets, over the kind of coming several quarters? And on the flip side, I guess, what does that mean for your own direct lending business as you're navigating

this environment where syndicated bank loan market seems to be back in kind of full force?
Thanks.

Craig Larson

Alex, it's Craig. Why don't I start? So first, just as it relates to private equity, and you would have seen some of this in the page in our press release, we have a very healthy backlog of traditional private equity investments. Feels like in the second half of the year, we're going to continue to see an acceleration of activity there, which is great to see.

I think on your point on the syndicated versus the direct lending or private debt markets, it just provides optionality. When we think back or when we all think back to a year ago when the syndicated debt markets were closed, I think we saw M&A volumes, honestly, be pretty modest.

And as Scott had mentioned, we were very constructive on risk reward. But with many of those financing markets effectively shut and the syndicated markets, in particular, it just led to a reduced level of activity. So I think it's actually very helpful in terms of private equity deployment, honestly, in terms of private debt deployment and the outlook to have a very healthy syndicated debt market.

But we'll be able to, from again, a PE standpoint, it gives us the flexibility to think through what we think the right solution is in the framework of that particular investment. So I think with a private debt hat on, you may see a smaller market share versus those environments where the syndicated debt markets are really volatile, but you'll see overall volumes be a lot higher.

Scott Nuttall

Yeah, Alex, it's Scott. I think that's well said. We use both. It depends on the circumstance and the deal. The way I think about this is last year, the deal volumes were so muted. There was quite a bit of focus on how large a share the private credit market had. This is one of these environments where it becomes clear that a smaller share of more pie can still be more pie. And so that's how we think about it.

Operator

Next question, Patrick Davitt with Autonomous Research. Please go ahead.

Patrick Davitt

Hey, good morning, everyone. Could you give us an update on the K-Series distribution rollout and to what extent you can give specifics on any large platforms coming online with certain products over the next few quarters? And then more broadly, any update on or thoughts on plans to add new products to the suite. Thank you.

Craig Larson

Patrick, it's Craig. Why don't I begin? And just to step back to level set for everyone, as of June 30, we had around \$75 billion of assets under management from individuals. And that number does not include policyholders at Global Atlantic. So if anything, that would understate our presence as you think about the breadth of activities that we have.

Now most of that capital is from high net worth and ultra-high net worth individuals and family offices that are invested directly in our funds and strategies. And over time, we tended to see teens percentage of our new capital raise come from individuals. So it's been a healthy environment for fundraising.

Now most recently, again, as I know you know wonderfully well, we've introduced our K-Series suite of products. These are the funds and strategies that are designed and tailored specifically for that wealth market. So we have K-INFRA and KIF for the U.S. and non-U.S. vehicles focused on infrastructure. Similarly, we have U.S. and non-U.S. vehicles focused on private equity, private BDCs, also. And then we also have additional real estate and credit vehicles.

And so of that \$75 billion, around \$11 billion are from these K-Series suite of products. And a year ago, that was \$3 billion, so we're in the early days but we feel really good about our progress. And I think that's particularly true in infrastructure as well as in private equity, which are newer asset classes here, and it feels like we have an opportunity as a first mover.

Now in terms of ramp and pace at the end of '23, we mentioned that we were raising about \$500 million a month. In Q1, we raised \$1.8 billion so we were at \$600 million a month. Q2, we raised \$2.8 billion, so \$900 million a month or thereabouts. So it seems like reception and interest and momentum feels really good. We don't have a specific update in terms of number of platforms.

But to be clear, we do expect the number of platforms where we're present to increase over the coming months and quarters. I think that's going to be particularly true in terms of the private BDC, which is the youngest of those products for us. So it feels like great progress.

And again, I wouldn't take the eye away from the prize. Like we do think the more interesting point here is really that long-term secular opportunity. Mass affluent individual investors have not had an easy way to access alts. Over the coming years, we do expect an opportunity for trillions of dollars of assets to flow into these products.

And given our brand, our track record and the investments we've made in distribution and marketing, it just feels like we're really well-positioned to continue to be a winner. And our strategic partnership with Capital Group, as we touched on in our prepared remarks, just increases this opportunity set. So hopefully, that's helpful.

Scott Nuttall

Patrick, it's Scott. Just a couple of quick additions. The platform rollout is kind of at or slightly ahead of our expectations. And it takes a while once you get on a platform to have it really kick in and work and train the advisers and the sales team. So I'd say really pleased with the progress, but the kind of capital raising power isn't embedded yet in the numbers that Craig walked through.

To your question on new products, we don't have anything new to announce on the K-Series front today. But in the prepared remarks, we did mention our Capital Group partnership. As a reminder there, we're creating hybrid products in partnership with Capital Group. We announced two credit products that we're going to launch in the first half of next year, together. But to be clear, that is not the extent of the vision. We expect to roll out hybrid products across the other parts of the alternative space, as well with our partner. So more to come on that, over the next few quarters.

Operator

Next question, Dan Fannon with Jefferies. Please go ahead.

Dan Fannon

Thanks, good morning. So just wanted to build upon that on the Capital Group partnership. If you could maybe talk about the context and the background of how you came to choosing each other in terms of the partner. And then you just mentioned a couple of products next year and then kind of the longer-term vision.

So I think you've said previously that you're not looking to have a whole suite of products out there for the retail market. But curious as how you're going to differentiate between the K-Series and the Capital Group partnerships and what you think a more mature product lineup looks like.

Scott Nuttall

Thanks, Dan. I'll take a crack. So how did it come together? Capital Group called us, and they had been thinking about how they wanted to participate in the alternative space. And if you go back to, I think, the original press release, our partner, Mike Gitlin, did a really nice job laying out how they thought about it. Should they acquire something, should they partner, should they buy pieces of different businesses? And they decided that partnering was the best path. So to be clear, they called us. We spent quite a bit of time together, got to know each other really well as firms and as people.

And I think the reason this came together is the reason most things come together, just an extraordinary cultural fit. We thought about the world the same way, same focus on delivering value for all the clients, counting on us and understanding really who we work for. So that's how it came together, it was kind of a joint vision and shared values and how we see the world.

In terms of kind of where we're going and how this is different. So one simple way to think about it, let's just take the U.S. market. And the numbers are never precise but to be close enough.

With our K-Series, we're targeting the accredited investor and the qualified purchaser. That's roughly 5%, give or take, of U.S. households. I'm close but it's single digits, mid-single digits percent, depending on what you look at. That means there's 95% of U.S. households that it does not access.

And so what we're doing with Capital Group is creating a product that will allow the other 95% of households to participate in what we do. In its simplest form, that's what we're doing. So it's hybrid, so there's going to be an element that is going to be the liquid strategies that will be managed by Capital Group, and then a portion that is the private market strategies that will be managed by us. So think of all of these products as having a component of both and geared toward that broader audience, that mass market.

And as I said, we're starting with credit, so think of it as a component of liquid credit, plus private credit. And for us, that will include both direct lending and asset-based finance in the private credit sleeve. And then for the other products that we're talking about, launching, infrastructure, private equity, real estate, we're in the design phase.

So I would expect, over time—I'm not going to put a time frame on it today—but over time, you will likely see products from us together across all of those areas. And so that's how we expect it to play out, over the coming years. But we'll keep you posted, but hopefully, that helps.

Dan Fannon

Great, thank you.

Rob Lewin

Thank you.

Operator

Next question, Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell

Great, thanks, good morning. Yeah, lots of questions to ask. Maybe if I can wrap in a 2-parter here on the capital markets that you talked about for the third quarter being elevated. Is there any Telecom Italia lumpiness in that? And do you see the environment for your capital markets fees improving as we move into the end of the year, given the pent-up demand that you were talking about?

And then just if I can squeeze in an FRE margin question. The incremental margin on cap markets, obviously, I think being—well, maybe you can comment, is that above your overall FRE margin, therefore accretive? And do you see the 68% as sort of a peak?

Rob Lewin

Great. Thanks, Brian. Good morning. So as it relates to capital markets, you're right, the Telecom Italia transaction closed July 1. We will generate a meaningful capital markets fee as part of being involved, multiple different aspects of that transaction. But I would tell you, as I look at our broad-based capital markets pipeline, I think pipelines for that business are certainly good one quarter out, but probably two quarters.

As I look at that back half of the year, I'd tell you that our aggregate pipeline is as good as we've ever seen it. And that includes 2021 when we generated roughly \$850 million of revenue in our capital markets business. So we're quite encouraged around what the back half of the year could look like. Again, these are pipelines. There are forward indicators.

A lot of stuff needs to come to fruition. But it is broad-based, it's across debt, it's across equity. It's U.S., Europe, Asia; it's also third party. So we're feeling really good about what the back half of the year could look like.

As it relates to FRE margin, I would say, absolutely, in an elevated capital markets quarter, you are going to see higher FRE margin. The flow-through is just higher given our operating expenses are more fixed in nature relative to that incremental capital markets revenue. Here's how I've described our FRE margin in the past. I believe that today, we can operate sustainably in the mid-60s on an FRE margin basis across the firm, and that includes in most market environments.

But that is definitely not the cap for us. And if we're successful with the business model that we've got a lot of conviction in here as a management team, we're going to scale our revenue, we're going to scale our fees at a pace that's, meaningfully, above our headcount growth and our operating complexity, across the firm. And we would expect more margin expansion in the future, if we're successful. So hopefully, that gives you some color on the back half of the year and what we're feeling in capital markets and how that might translate into FRE margin.

Brian Bedell

Super. Super helpful. Thank you.

Scott Nuttall

Thank you.

Operator

Next question, Brian McKenna with Citizens JMP. Please go ahead.

Brian McKenna

Thanks. Good morning, everyone. So you have \$215 billion of carry-eligible AUM that's above cost and accruing carry. Would be great to get an update on how much this has grown over the past year, specifically on the heels of strong performance and then as you continue to deploy capital.

And then is there a way to think about the breakdown of this AUM by vintage? How much is less than a few years old versus how much is older than that? I'm just trying to get a sense of the magnitude of the step-up in accrued performance fees and, ultimately, realizations over the next couple of years.

Rob Lewin

Yes. Thanks, Brian. Let me take a shot at that. We don't break out the vintage, but we could tell you that we spend a lot of time around linear deployment as a firm. And so I feel good that as you look back over the past seven or eight years, you're going to find a healthy level of dispersion, across different vintages.

I think that, to me, the metric that I look at as the best forward indicator, honestly, is the simplest one. And that's our gross accrued carried interest that, today, on our balance sheet is roughly \$7.1 billion. If you look back just two quarters ago, that number was \$6 billion.

So, in an environment where we've actually been realizing a little bit more carry than we were expecting to realize, those are pretty healthy levels of step-ups across the firm and I think paints a pretty good picture for what the forward could look like as it relates to monetization-related revenue, both carried interest but also we feel good about how investment income might ramp from here, as well.

Brian McKenna

Thanks, Rob.

Craig Larson

And just one additional statistic there, and this is not going to tie to your question, specifically on the capital that is above cost and accruing carry, but just to look at the private equity portfolio as a whole and give you a sense. Well over 50% of that, when we look at our remaining fair value, is marked at 1.5x cost or greater and roughly 30% of that capital dollars is at—roughly 30% of that, excuse me, is marked at 2x cost and greater.

So I think one of the things that our team talked about at Investor Day—Pete and Nate—was this approach we've had on linear deployment. I think that has really served us well in terms of having a more mature portfolio. And I think some of the discipline that you've seen and how we've invested capital over the last several years and, honestly, lessons that we learned dating back to the GFC have an opportunity to really pay us dividends in the years ahead.

Brian McKenna

Got it. Thank you, guys.

Craig Larson

Thank you.

Scott Nuttall

Thank you.

Operator

Next question, Ben Budish with Barclays. Please go ahead.

Ben Budish

Yeah, good morning, and thanks for taking the question. Given a lot of color around the capital markets outlook going into Q3, I was wondering if you could give us an update on the visible pipeline in terms of realizations. And along the same lines, could you talk about the \$500 million in expected realization of revenues, thereabouts, what ended up shaking out better than you expected for Q2?

Rob Lewin

Sure. Thanks, Ben. I'll handle both. Let me start with just visibility around monetizations for Q3. It's at a pretty healthy level. We are plus or minus \$500 million of monetization-related revenue for Q3 that is either—that has either happened or from deals that are signed up that we expect to close, this quarter. Just breakdown-wise, that's roughly 60% carry and 40% investment income. So that pipeline is better, today, than it's been in quite some time.

And then your question as it relates to the end-of-quarter press release we put out on our monetization update. I think that press release went out around June 20. We gave our best estimate and view of the quarter at that time. And of course, things can happen in the next 10 days, and we had a few things that ended up on one side of the quarter versus the other.

But I wouldn't say anything necessarily significant in size, one thing that is of significant size. There's a few things that added up to create the delta that you're referring to between where we landed, which is a bit over \$600 million and that June 20 press release that I believe stated we were at greater than \$500 million, through that point in time.

Ben Budish

Got it. Thank you.

Operator

Next question, Steven Chubak with Wolfe Research. Please go ahead.

Steven Chubak

Hey, good morning. So, I wanted to squeeze in just another question on cap markets. I want to look at it with a longer-term lens. It is something I pressed you guys on in the past. But just given the pipeline strength, sponsor recovery still feels like it's in the early stages. You expect to at least monetize the 100% GA ownership better. You're certainly going to see significant franchise growth, over the next few years.

Relative to the prior cycle peak, how would you frame what the capital markets' trajectory for revenues might look like? Is there a way to maybe size what under a normalized lens or by '26, what you think the fee generation potential could be in that business?

Rob Lewin

Thanks, Steven. I'm not going to give you a number. We haven't given a number in the past, but let me try and frame it. In 2021, we did \$850 million of revenue. Now the capital markets were pretty buoyant in 2021. But when you look at KKR and our platform, we do so much more across the firm. We think the opportunity to expand from a geographic perspective as the Asia capital markets mature is one that's very meaningful. That's both across Asia Pac but also in Japan, and we're building for that effort.

We're doing a lot more on the equity side of our business and the structured debt side of our business in combination, as you said, with Global Atlantic. We've talked about that being a couple hundred-plus million dollar revenue opportunity in its own right.

And I really believe that our third party capital markets business is going to continue to take share. We just have a very differentiated model in how we're approaching corporates and sponsors that we see resonate with the market, daily.

And we think we're also in a position where we're able to continue to recruit and retain best-in-class professionals to both execute and distribute those capital markets transactions. And so, while we're not going to give you sort of that number, I think we're painting a picture of a business that we think can grow, meaningfully, from the base that we're at, today.

Scott Nuttall

It's a really good question, Steven. Maybe we should invite you to our budget meetings. But to Rob's point, we're working across more asset classes, doing more in Europe and Asia, third parties up. GA, we think it's hundreds of millions of dollars of potential a year, as we get that right.

And the other thing that I would point out is our portfolio is bigger across all these asset classes and maturing, which I think is at least as big a contributor as some of the other topics. So, we're not going to give you a number, but if you're positing that it should be a lot more than it's been, I agree with you.

Steven Chubak

Well said. Thanks for taking my question.

Scott Nuttall

Thank you.

Operator

Next question, Michael Cyprys with Morgan Stanley. Please go ahead.

Michael Cyprys

Great, thank you. Good morning. Just a question on infrastructure. Saw the recent partnership announcement with HASI on sustainable infrastructure projects. It seems like an interesting deal sourcing funnel. Just hoping you could elaborate a little bit on this partnership, how you view this strategically helping KKR. And then just more broadly on infrastructure, just curious where you're seeing some of the most exciting opportunities right now for putting capital to work in the infrastructure space and how you're thinking about other potential opportunities for other partnerships, over time.

Craig Larson

Hey, Mike, it's Craig. Why don't I start? Thanks for the question. Again, much like Steven's question, would echo a lot of the broad themes in your question on infrastructure. So I think as we think about the platform and how we're situated today, we're just really encouraged with our progress, to date. Four years ago, AUM was around \$15 billion. As of June 30, we were at \$73 billion. So \$15 billion to \$70 billion, all organic, that's a CAGR of 50%.

And while you've seen AUM grow meaningfully, you've also seen our deployment stats have increased pretty meaningfully and for deployment in 2019 was \$2 billion. In 2020, it was \$2.2 billion. And over the trailing 12 months, we've invested \$8 billion. And then as our footprint increases, again, back to the last topic, capital markets, the fee opportunity there increases, as well. And the growth in innovation hasn't stopped here.

So again, we're in the earliest of days as it relates to infrastructure and private wealth. Climate, as you noted, is an adjacency where we think we can be really differentiated, given our expense today, investing behind the energy transition. And then finally, again, flagship infrastructure is very front of mind for us, as we think about opportunities.

I think broadly, as it relates to some of the areas where we're most constructive on investing, like I do think as it relates to digital infrastructure, in particular, and some of those opportunities, in particular, are ones that are very exciting for us.

If we think about our data center investment activity, and why don't I hang out there for a moment, it's been one of the core investment themes for several years. And we do believe

we're really uniquely positioned to be a major player across the space, given the combination of our capabilities, the number of pools where we can invest.

And that's not just in data center, it's also in power generation, transmission, renewables, technology, and then also capital markets plays a piece in this as well, as you heard from the CyrusOne example.

So again, just to put the numbers around things, we have four independent data infrastructure platforms, one in the U.S., one in Europe, two in Asia Pacific. The global footprint here is one that's a real differentiator and we benefit from the connectivity. So depending on the risk reward, we've got multiple pools of capital that can be relevant.

So just in this area alone, we have investments in infrastructure, Asia infrastructure, core private equity real estate, as well as our wealth strategies, \$5 billion of invested capital today with an active pipeline. And if anything, this would understate the size and scale of our footprint here.

To give you a sense, if you looked at the total enterprise value on a 100%-owned basis and included current investments together with that secured and highly visible pipeline, you'd be north of \$150 billion of enterprise value.

So the opportunities that we have in an area like this is one that's really exciting. On the power side, we have 10+ renewable developers. In real estate, we're active in both real estate equity and credit. Our credit vehicles alone this year have evaluated over \$10 billion of data center financing opportunities.

That's development stabilized, as well as ABS and CMBS. And we can be relevant here, both at the opportunistic end of the spectrum on one end and insurance on the other. And again, the capital markets team has also been active, you heard in our prepared remarks, the CyrusOne case study.

So I think it's a great example of the thematic approach that we can bring. I think it's also a great example of the connectivity you can see across the firm and in our culture and how we're able to work across teams and across geographies.

Scott Nuttall

Hey, Michael, thanks for the question. I think the two big themes to that part of your question I'd point to is digitalization. I think data centers, fiber, towers, continue to be incredibly active, across all of those areas. And if you look at recent deal announcements, you'll see that's a big theme. And then to Craig's point, it's energy transition, renewables, climate.

I think the HASI partnership that you referenced, I would think of that is a bit similar to what we've talked about in the past around our partnerships across asset-based finance and real

estate. And we have 35 platform partnerships there, the better part of 10,000 people out originating. So you'll continue to see us develop more relationships like that. It's in a similar vein.

Michael Cyprys

Great, thank you.

Rob Lewin

Thank you.

Operator

Next question, Chris Kotowski with Oppenheimer & Co. Please go ahead.

Chris Kotowski

Yeah, good morning and thank you. I heard what Scott said about the flagship funds playing a lesser role, but I'm curious kind of about the kind of expected base management fee dynamics that we should be expecting here in the next couple of quarters. So you raised \$8 billion in Infra V and you said it's up over \$10, but there's still \$7 billion left in Infra IV. So does that turn on later in the year or is that a third quarter event?

And kind of similarly with your next flagship private equity fund, so you still have, I think, \$8 billion left in the prior fund. So does that turn on like later, maybe early, mid 2025? Is that kind of what we should be expecting?

Rob Lewin

Hey, Chris, it's Rob. So in the case of infrastructure, given some activity through the end of the quarter and with some deployment early in the quarter, we're actually turning on Infra V in Q3, so you'll start to see management fees flow through for Infra V, starting in this quarter.

As it relates to North America XIII that you referenced in terms of capital still left to deploy, I think as of 6/30, we had, as far as today—but prior to 6/30, I think we had four announced but not yet closed transactions. And so we would expect to be nearing the end, but we still have time to go of our investment period. And that's why we've been out fundraising and launching for NAX4.

Chris Kotowski

And have you shared kind of the target size of those funds, or is that confidential?

Rob Lewin

We have not, Chris.

Chris Kotowski

Okay. Alright, Thank you. That's it for me.

Scott Nuttall

Thank you.

Operator

Next question, Arnaud Giblat with BNP. Please go ahead.

Arnaud Giblat

Yeah, good morning. A quick question on the opportunity set to address the individual markets. I appreciate that you're doing a lot with K-Series and new capital agreement to go after distributing private market assets to individuals. I was just wondering if there was perhaps an opportunity to complement there through distribution or through the production and the distribution of secondaries. Thank you.

Scott Nuttall

Good question, Arnaud. So at this point, yes, there might be an opportunity down the road, but it's not front and center for us in terms of the secondaries market. We've spent time in that space. We've analyzed it. Never say never, but it's not front and center part of how we're thinking about the next step strategy at this stage. We think there's plenty to do, candidly, across the asset classes that we're in.

Arnaud Giblat

Got it. Thanks.

Rob Lewin

Thank you.

Operator

Thank you. I would like to turn the floor over to Craig Larson for closing remarks.

Craig Larson

I would just like to thank everybody for your continued interest in KKR. We look forward to giving an update on next quarter in 90 days. And if you have any additional follow-ups, please reach, out directly. Thank you again.

Operator

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

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