

KKR & Co. Inc.
Third 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
Glenn Schorr - Evercore ISI
Alex Blostein - Goldman Sachs
Bill Katz - TD Cowen
Brian McKenna - Citizens JMP
Steven Chubak - Wolfe Research
Patrick Davitt - Autonomous Research
Mike Brown - Wells Fargo
Brian Bedell - Deutsche Bank
Michael Cyprys - Morgan Stanley
Kyle Voigt - KBW
Ben Budish - Barclays
Dan Fannon - Jefferies

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's Third 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 opened for questions. If anyone should require operator assistance, please press “*”, “0” on your telephone keypad.

And 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 third 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 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 this quarter, we thought we would highlight three things.

First, as you would have already seen through our earnings release, we had a strong Q3. Fee Related Earnings for the quarter eclipsed \$1 billion for the first time. And on a per share basis, the \$1.12 of FRE per share is 32% ahead of the results we reported just last quarter – which was, up until today, a record figure for KKR.

And ANI per share of \$1.38 is the second highest quarterly figure we've reported in our history, up over 50% compared to Q3 of last year. So impressive growth and delivered in a quarter where the pace of exit activity across our industry is still accelerating.

Second, you're seeing tangible signs of momentum across our operating metrics. Investment performance continues to be a bright spot as we perform on behalf of our clients and reflecting this performance, our gross unrealized carried interest balance increased 11% from just last quarter and has increased 42% compared to one year ago.

On the heels of strong investment performance, we raised \$87 billion of new capital year-to-date. This is more than double the amount we raised over the first nine months of 2023, and we remain at an early stage of our current fundraising super cycle at the same time that we're seeing continued progress in scaling across our wealth initiatives. And deployment year-to-date totaled \$61 billion, also more than double the investment activity reported over the first nine months of 2023.

And third, you're seeing tangible signs of how KKR and our business model, in our view, can deliver differentiated financial results for all of us as shareholders.

Total Operating Earnings – remember, this is our Fee Related Earnings, together with our Insurance segment, as well as the net dividends from Strategic Holdings – were \$1.47 per share in Q3. These are our more durable businesses.

So looking at this differently, Total Operating Earnings, the more durable and recurring pieces of our business, comprised over 80% of our pre-tax earnings as a firm for Q3, as well as on a year-to-date and a trailing 12-month basis. And thinking through the profile and trajectory of Total Operating Earnings, remember that we expect the net dividends from Strategic Holdings to increase materially over the coming years.

We believe Strategic Holdings will be a truly unique driver of future financial performance for KKR for years to come.

And finally, also highlighting our business model and how we work together, the results we reported in the third quarter in our capital markets business are noteworthy with \$424 million of capital markets revenues in the quarter, driven by the increased investment activity that I mentioned a moment ago.

So with that as an introduction, let me walk through our segment income statement in more detail. Management fees in the quarter were \$893 million, representing an increase of 5% since Q2 and 18% year-over-year. Again, 18% growth in management fees year-over-year. This increase was driven by fees turning on in the quarter for our flagship infrastructure fund, the final close of Ascendant, and fees from Global Climate, as well as continued success within our private wealth vehicles.

Total transaction and monitoring fees totaled \$467 million. This includes the \$424 million of capital markets fees mentioned a moment ago, a record figure for us as a public company.

Fee Related Performance Revenues in the quarter were \$57 million. This quarter was the first quarter our onshore K-Series Infra vehicle earned its annual incentive fee and as you'll recall, our offshore vehicle earned its annual incentive fee for the first time last quarter in Q2. So with good performance, we expect this cadence to continue annually for both our onshore and offshore vehicles.

In aggregate, Fee Related Revenues were \$1.4 billion. This is up over 50%, compared to the third quarter of 2023. Fee Related Compensation, as usual, was right at the midpoint of our guided range which, as a reminder, is 17.5%.

Other operating expenses came in at \$168 million. As we noted earlier this year, we would expect this line item to increase modestly over time. As an example, we do expect placement fees to increase as fundraising continues to ramp.

So putting this all together, FRE was just over \$1 billion for the quarter, or \$1.12 per share, with an FRE margin of 71% and FRE per share is up 78%, compared to Q3 of 2023.

Insurance Operating Earnings were \$308 million for the quarter. The run rate here is still at that \$250 million level, plus or minus, as we discussed on last quarter's call, as the results this quarter benefited from approximately \$50 million of earnings that came primarily from GA's annual actuarial assumption review.

Strategic Holdings Operating Earnings were \$7 million in Q3, and we expect a similar level in Q4. These figures compared to the \$62 million of net dividends reported for the first half of 2024, which were ahead of our expectations. And as we've discussed, the trajectory of these earnings

won't be linear in these early days. And more importantly, we continue to see consistent growth across the underlying businesses and are tracking nicely towards our expected \$300 plus million of net dividends by 2026 and \$600 plus million, by 2028.

And as context for the portfolio as a whole, KKR's share of the trailing 12-month revenue and EBITDA generated by these 18 businesses was \$3.6 billion and approximately \$900 million, respectively. And year-over-year, we saw 14% like-for-like growth in revenue and 11% growth in EBITDA.

The portfolio has scaled and continues to grow nicely and, importantly, again remains on track to deliver meaningful net dividends in the years ahead.

So in aggregate, Total Operating Earnings were \$1.47 per share, a record quarter, and 25% ahead of last quarter and represented 81% of segment earnings.

Moving on to investing earnings within our Asset Management segment, realized performance income was \$392 million and realized investment income was \$152 million, and we had \$88 million of net realized investment income within our Strategic Holding segment. So in total, investing earnings after compensation were \$318 million. After interest expense and taxes, Adjusted Net Income was \$1.2 billion, or \$1.38 per share, up 57% on a year-over-year basis from the third quarter of last year.

Now finally turning to investment performance and page 10 of the earnings release. The traditional private equity portfolio appreciated 5% in the quarter and 17% in the last 12 months. Opportunistic real estate was up 2% in the quarter and up 3% in the LTM.

Infrastructure continues to perform well, up 6% in Q3 and 18% in the LTM. And in credit, the leveraged credit composite was up 2% and the alternative credit composite was up 3% in the third quarter. And performance here over the last 12 months was up 11% and up 12%, respectively.

And with that, I'm pleased to turn the call over to Rob.

Rob Lewin

Thanks a lot, Craig, and thank you all for joining our call this morning. Last quarter, we highlighted that we were seeing significantly greater market activity and momentum across the firm. Those trends were clearly seen in the results that Craig just ran through. In a lot of ways, this was a quarter where the numbers speak for themselves. So I thought that I would focus on a few of the key drivers looking forward: deployment, monetization, fundraising, as well as our unique business model.

Starting first with deployment. We have seen a meaningful acceleration in activity. And if you take a step back, we have built scaled, global businesses to invest behind many of the mega-

themes that are driving global growth. We discussed this at Investor Day earlier this year, but I will highlight three particularly significant areas this morning.

Number one is infrastructure. We know that the need for infrastructure investment is massive, and our footprint here positions us incredibly well. Our global Infra business has now scaled to \$77 billion of AUM. Remember, we were just \$13 billion five years ago and all of that growth has been organic.

We are particularly well-positioned across all things digital infrastructure, and we are seeing this theme play out globally. There are really three pillars of activity here. The first is mobile infrastructure, so think of the tower industry. Second is fixed line infrastructure – fiber-to-the-home. And third are themes in the cloud, AI, storage and data center space.

Our footprint in data centers is particularly large. To give you a sense, we currently own four platforms operating across the U.S., Europe and Asia. And looking on a 100% owned basis, because we don't own 100% of all of them, the total enterprise value of those platforms and their contracted and highly visible pipeline is over \$150 billion.

The second theme that I wanted to highlight this morning is credit. The credit markets that we participate in is a \$40 plus trillion market, and we are seeing the benefits of a scaled, global platform with \$240 billion plus of AUM. Our Asset Based Finance team, as an example, continues to be particularly active. In total, AUM across our ABF platform exceeds \$65 billion. That's up 40% versus last year and we have a real leadership position across an area that has significant market tailwinds.

And finally, Asia remains one of the most dynamic parts of the world. We've had a meaningful presence in the region for close to two decades and are, by far, the leading alternatives platform on the ground today with nearly \$70 billion of AUM. We are incredibly well-positioned to generate significant scale and value for our enterprise over the next decade plus.

We are particularly excited about the opportunities in Japan across multiple asset classes. Japan is a market where, today, we have real leadership. We opened our first office in the country in 2006, so almost two decades ago. Together with KJRM, we have over 200 people in Tokyo helping us source and originate investment opportunities up and down the capital structure.

Global Atlantic has now closed on two reinsurance transactions within the last 12 months. And in aggregate, we have \$25 billion of AUM across all of our strategies in Japan. Taken together, our footprint provides us with a lot of confidence around competing in the local markets and further scaling from here.

Turning next to monetizations. We've seen an uptick here given readily accessible debt markets, the improved tone across global equity markets and increased M&A volumes. To give you a sense of this, the total gross proceeds from monetization activity in our Private Equity and Real Assets

businesses year-to-date have been approximately \$13 billion. That is up over 60% from the same time last year. And as we look ahead, presuming the market backdrop remains constructive, we expect you'll see a further acceleration of activity across the industry. And against this backdrop, we feel very well-positioned.

One of the areas that we watch closely as a management team is the maturity of our portfolios. Today, we are in a very good position, which reflects our discipline, we think, around investment pacing and linear deployment.

First, we have a number of public positions with meaningful embedded gains. As of quarter end, six of our sizable positions were trading between 4x and over 30x cost. Just looking at our Private Equity portfolio overall, over 60% of fair value is marked at 1.5x cost or greater, with approximately 30% marked at 2x cost or greater. In addition, our Real Assets businesses are currently under-earning as our portfolios continue to mature. In total, our gross unrealized carried interest stands at \$7.9 billion at quarter end. That's up 40% year-on-year.

And looking more broadly, if you include our balance sheet investments – so as a reminder, this does not include core private equity – the total embedded gains are \$10.9 billion, which is also up 40%, year-on-year. When you factor in that we have been monetizing at a healthy pace relative to the industry, this stat really does speak to the strength of our investment performance, as well as the health of our global portfolio. And I think all of this really positions us well to generate future investing earnings.

Turning next to new capital raised. This totaled \$24 billion for the quarter, bringing us to over \$85 billion year-to-date. In the quarter, nearly half of this activity was driven by Credit, as our business has grown alongside the capabilities of Global Atlantic.

Two additional topics of note here. First, our K-Series vehicles saw strong fundraising, with over \$2 billion of new capital raised in Q3, driven by our private equity and our infrastructure strategies.

And looking at K-Series across all four investing verticals, we are now at \$14 billion of AUM. That's up from \$5 billion a year ago. We're continuing to launch our products and new platforms and are still ramping on those that we've been added to already. We remain really encouraged by our progress to date, with a tremendous amount of opportunity still in front of us.

And second, over time, we have talked about long-dated multi-asset class strategic partnerships that have recycling provisions. Given the breadth as well as the connectivity across our firm, we are uniquely positioned to create these types of partnerships. This quarter, rather, we closed on a \$3 billion real asset strategic partnership with a large sovereign wealth fund, which we expect will positively impact both our infrastructure and real estate platforms for two plus decades.

Before I conclude, I did want to spend a few minutes on a couple of elements of our model that I think are really unique and also operating at a very high level.

First, on Global Atlantic. On the last couple of earnings calls we talked about GA operating with elevated levels of liquidity after the large block transactions closed at the end of last year, as well as early this year. We have seen increased coordination and investment activity across several of our asset classes, including now infrastructure, real estate and credit. We remain encouraged by the quality of the deal flow that we were able to match up against some of the very long-dated liabilities that we have taken on.

And the second area I wanted to touch on was that you really saw the power of our business model this quarter with our capital markets business producing record revenues of \$424 million. This reflected activity across infrastructure, traditional private equity and credit, as well as existing portfolio company opportunistic financings and third party transactions. While the quarter did benefit from a few sizable fee events, as well as timing, around 100 different transactions contributed to the outcome this quarter, which demonstrates the breadth and diversification of our business.

Now, we don't think \$400 plus million is the new quarterly run rate for our capital markets business, but this quarter really illustrates the degree to which our model is built to capture very significant economics. We have built this part of our business very deliberately, and being able to achieve these types of outcomes is not a surprise.

Just to close out, our management team remains incredibly excited about the potential of our firm and our ability to inflect up in a recovering deal and exit environment. And as we look to the rest of the year, we will continue to stay just as focused on scaling our businesses and taking full advantage of the unique capabilities that our model presents.

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

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please press “*”, “1” on your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. And we also ask that you limit yourselves to one question and the requeue if you have a follow up.

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

Craig Siegenthaler

Good morning, Rob, Craig. Hope everyone's doing well. My question is on the Infrastructure business. So, very strong returns, best performing business over the last 12 months and also in the quarter. And Infra also contributed to about 50% of your capital market transaction fees which were also at record level. So these are really big numbers for Infra where return targets and size are both smaller than PE.

So two questions here. Big picture, what's driving the outside performance? And is it sustainable into 2025? I know there is at least one large lumpy item in the capital market transaction fee line.

Craig Larson

Hi, Craig. Thank you for the comments. Why don't I start? Rob, I'll let you pick up on the capital markets piece at the end. Look, in terms of the franchise as a whole, I thought Raj—and again, thank you for the kind introduction. I think Raj did a great job reviewing our Infra business and the opportunities we see at our Investor Day, just a little over three months ago. And I guess five months ago, at this point.

And I think as we look at how the business is situated, we've got a series of very distinct market segments. We've got the Global Infra series, Asia Infra, Diversified Core. We now have the Infra vehicles customized for private wealth investors. And that's even with climate as another strategy that's adjacent where there's lots of opportunity. And Rob mentioned a couple of statistics that really are super impressive.

Five years ago, AUM was \$15 billion. As of 9/30, we're at \$77 billion, all organic. And so I think what you're seeing here is a business that continues to grow in scale. We do think there are scale advantages as it relates to the business and the formation and the outlook from here. The performance has been one that's very strong.

You're going to have, again, puts and takes in any individual quarter. I think when you look at individual, when you look at performance over the trailing 12-month basis and you look back historically, you've seen this dynamic where you've seen consistent performance over time. And of course, performance is really going to be the key driver of outcomes here.

And I think when you look at our Infra I and our Infra II fund series, those are very mature funds for us. You've seen a very consistent series of results and I think you're seeing that same pattern of performance as Funds III and IV then mature and you're seeing just performance progress from the time that those investment periods first began.

Rob Lewin

Craig, I'll pick up on just the capital markets question real quick. Obviously, a really strong quarter for us in capital markets. I did mention that we had a couple or few chunkier transactions, which is really to be expected in quarters of high levels of deployment and activity. But I also note that

we had over 100 different transactions contribute to the quarter, and I really do think it shows the diversification and breadth of the business model.

And you mentioned it, a big quarter as it relates to infrastructure, but obviously we have lots of other parts of our business that contribute a great deal to our capital markets business over time, whether that's private equity, traditional core private equity, aspects of credit, what we're building across Global Atlantic, our geographic breadth. So, lots of different ways for us to positively impact the P&L.

Operator

And the next question comes from the line of Glenn Schorr with Evercore. Please proceed.

Glenn Schorr

Thank you. I'm curious if we could talk a little bit about Asset Backed Finance. I know it's a very active quarter. You mentioned the 45% or so growth to \$65 billion, but I was looking for a little more color of where do those assets sit, which product strategies? And then, where are you sourcing the assets from? What's coming from your direct origination channels? Where are you growing platforms versus forming some partnerships? Just a little more behind the scenes would be great. Thanks.

Craig Larson

Hey, Glenn, it's Craig, why don't I start? Scott may have a couple of things to add at the end. But you're correct, that part of our business has been super active. So, as you heard from Rob, \$66 billion of AUM, up 40% over the last 12 months. And the great thing about having a business of that scale is we can be relevant at a whole bunch of different levels of risk reward.

So insurance activity, when we look at Global Atlantic together with our other insurance clients, so this is really investment grade, really single A-rated credit. If you look at our origination here, this is both on a funded and committed basis. Origination was \$22 billion year-to-date. So on a run rate basis, we're at a \$30 billion annual pace, more than double our pace of activity in 2023.

And on the platforms, I'm glad you mentioned across KKR as a whole. Look, we have 35 platforms, including real estate, helping generate differentiated origination for us, 7,000 people waking up every day, looking to help source proprietary origination. It's a real advantage for us.

And then on top of that activity, you've got flow, you've got partnership, you've got big corporate deals. And so, I think you've seen a number of transactions involving our team with a lot of really big brands in finance. PayPal, Discover, would be examples that come to mind. So it just feels like there's a lot of momentum behind the business and, honestly, a lot more for us to do at the same time.

Scott Nuttall

Hey Glenn, it's Scott. Thanks for the question. In terms of where it sits, that part of your question, a variety of places. So we have funds, separate accounts, obviously Global Atlantic. These are great assets for the GA balance sheet and third party insurers. And we've also been able to create structures that allow us to deliver this on an investment grade basis and a non-investment grade basis, depending on what the underlying client wants.

And I think Craig did a great job summarizing. The only other thing I would point out: this is a very large market. It's about \$5 trillion on its way to \$7 trillion. So a significant opportunity for growth ahead. So \$65 billion is just the start.

Glenn Schorr

Thank you for all that.

Craig Larson

Thank you.

Operator

And the next question comes from the line of Alex Blostein with Goldman Sachs. Please proceed.

Alex Blostein

Hey, everybody. Good morning. I wanted to ask a question on the Real Assets segment, but maybe a little bit more broadly. Really strong fundraising momentum there, and I know there's been a lot of focus in Global Infra, but this quarter it seemed to be pretty broad-based. You talked about climate and real estate in the prepared remarks in the press release.

How are you thinking about sizing these other flagships, so climate, North America, real estate? And it also looks like you're pretty far along in European and Asia real estate, APAC infra. So, maybe a little bit more holistically, how are you thinking about fundraising outside of the mega kind of flagship infra fund there? And then specifically within real estate, what are you hearing from clients on the ground as far as demand for that product goes? Thanks.

Craig Larson

Alex, why don't I start? It's been really great within Real Assets since we split out that business line a couple of years ago to see the development of both of those businesses. Infra at this point is approaching \$80 billion. Real Estate is at \$80 billion, pretty equally split between real estate equity and real estate credit. And in terms of the opportunities for us to continue to grow, build and scale, honestly, it's one of the things that we love talking about in how we think about how we're situated. If you go back again to some of the things you've heard us talk about over time, over 80% of our strategies and our view are yet at scale.

And so, if you think of real estate, in particular, we've got over a dozen independent vehicles that are growing, building, scaling and just creates a tremendous amount of opportunity. And I think

on the investment side and dialogue from LPs, I think one of the most encouraging signs, if anything, relates to operating trends over the course of this year. It does feel as though—again, you would have heard this in the market—but it does feel like valuations—knock on wood—bottomed a year ago or so.

You've seen us vote with our wallets, if you will, like investment activity over the last 12 months in real estate has increased significantly for us. To give you a stat within real estate, year-to-date total deployment is approaching \$12 billion. The first nine months of 2023, we were at about \$5 billion. And I think when we think of that investment activity and the progress we've seen operationally, we feel really good about that decision to lean in. So lots of momentum, lots of opportunities for us looking forward.

Scott Nuttall

Hey, Alex, it's Scott. Just on your question, so I would say just higher level, in infrastructure and real estate credit, along with private credit and areas like ABF, we've continued to see a lot of activity and interest from a fundraising standpoint. Allocations have been created, commitments are being made. I would put climate in that category. It's a younger strategy, but I put it in that same category. So don't have a target to give you today but, obviously, the investment need is significant. And we think that can be a really large-scale business for us over time.

Real estate equity, as we talked about last quarter, the perspective has been evolving in the markets. Our view is that the real estate markets bottomed in the last half of last year. Part of the reason that we've leaned in so much this year, and you heard stats from Craig, is our view that the bottom was behind us. And I think that perspective is starting to be shared by others.

So, we are hearing sentiment shift on real estate equity. I think with rates starting to come down, you're going to hear more of that. So we've been leaning in, and I think there's beginning to be a perspective that this is a good time to invest. And over time, you'll see that show up in our Americas, Europe and Asia funds, we believe. But sentiment is definitely turning, and it may take a little bit of time for the capital to start to show up. But we feel like we're in a good spot today, and we have those strategies in the market.

Alex Blostein

All right. Thanks so much.

Craig Larson

Thank you.

Operator

The next question comes from the line of Bill Katz with TD Cowen. Please proceed.

Bill Katz

Thank you very much. Good morning, everybody. I appreciate you taking the question. Maybe just to look at the wealth management opportunity a little bit which is scaling very nicely, and appreciate you gave a little bit of snippets in the prepared commentary.

I wonder if we could unpack that a little bit further and maybe just talk about where you're seeing the best traction, which vertical? You mentioned that you're sort of getting onto more platforms, a few new ones yet coming. I wonder if you could talk a little bit about where you are in sort of the arc of those, if you will. And then I was wondering now with three months closer to get updated a little bit on any sort of early stage opportunities or fund design with Capital Group. Thank you.

Craig Larson

Hey, Bill, it's Craig. Why don't I start? First, just stepping back for a moment for everybody. So as of September 30, we have around \$75 billion of AUM from individuals. And that does not include policy holders at GA. So if anything, that \$75 billion is probably understated when you think about the breadth of our presence and the activity that we have. And the majority of that has been capital from high net worth, ultra-high net worth individuals, over time, who have been investing in our funds. And over time, that capital from individuals has been a low double-digit percentage of new capital raised for us.

And then most recently, as you noted, we've introduced our K-Series suite of products. We've got products currently that are being marketed across the four investing verticals for us: private equity, infrastructure, real estate and credit. They're all in different stages of their evolution, \$14 billion today, \$5 billion a year ago. It just continues to feel like we've got lots of great momentum. We think—we look at the market share statistics in terms of capital raised year-to-date and feel great about our position, albeit with a lot of wood to chop from here.

I think recognizing—I think in particular, we felt real strength in private equity, as well as infrastructure. And I'd say that it is both with those asset classes and that is international, as well as domestic. So when you look within those two vehicles, AUM is probably a 60/40 split between the U.S. and outside the U.S. That feels like a really healthy balance to us. So I think when we look at that opportunity, it's multiple asset classes and its global.

I think the other—just the other point to highlight, we have launched those vehicles ahead of the fundraising that we've launched for our private BDC. So I think when you look in the industry, you've seen a lot of capital that has been raised in the private credit opportunity and private BDCs. That is one of the pieces that I think we're going to, in particular, see lots more growth and momentum and opportunity for us, as we continue to see growth across a number of platforms, a handful of larger ones which are in the very near-term.

And then, Scott, I don't know if you have anything to add on Capital Group.

Scott Nuttall

No, I think first off on the wealth management topic, I think there's a lot of different parts of our firm, Bill, that we've got a lot of growth ahead and the potential is far greater than what's showing up in the numbers. And I think Craig covered it well, but we are getting onto a number of different platforms every quarter. We've now launched in all four product areas. But the full run rate is not in the numbers yet.

So, we think you're going to continue to see gaining momentum across everything we're doing in wealth. You're also seeing this across a bunch of different parts of the firm, including the real asset space. We talked about capital raising and infrastructure, but these businesses, in terms of what's showing up in the P&L, the carry, the investment earnings, they're not showing up yet, but they're going to show up.

And so I think we've got a lot of different parts of the firm that we see embedded growth. There's latent earnings that will continue to show up and latent AUM that will continue to show up as we continue to scale here.

On Capital Group, we shared earlier this year that we're going to start with two credit vehicles together. That's very much on track. We are also spending time on product design across the other product verticals and alternatives. And so, you'll hear more about that in future quarters.

Operator

And the next question comes from the line of Brian McKenna with Citizens JMP. Please proceed.

Brian McKenna

Thanks. Good morning, everyone. So, it was great to see the nice step up in accrued performance income during the quarter. I'm assuming a lot of this was driven by strong investment performance, but were there any funds that flipped into carry during the quarter or any newer strategies that are starting to contribute more meaningfully to the accrual? And then with respect to the \$3 billion of Asset Management embedded gains on the balance sheet, how should we think about just the timing of monetizing this over time?

Rob Lewin

Hey, Brian. It's Rob. Thanks for the question. What you saw in the quarter in the \$7.9 billion of accrued carry, I'd say that that is much more broad-based performance where you're really starting to see us inflect up. It comes from our Real Assets portfolio, in particular, Infrastructure, of course. If you look at our flagship infrastructure funds, we went from \$1 billion to \$3 billion to \$7 billion to \$17 billion plus. And so, as we scaled and performed, you're going to see that accrued carry build and then, importantly, now you're starting to see that realized carry start to flow through the P&L, as well.

As it relates to the balance sheet embedded gains, listen, I think that's going to be a function of the monetization environment and when you're going to see that flow through the P&L. Right

now, we are seeing more opportunities to be able to create access for our portfolio companies, which is where largely most of that embedded gain on the balance sheet sits. And so I would say, if the environment remains constructive over the course of 2025, we would expect to be able to generate some more material balance sheet related realizations through the next 12 months.

Brian McKenna

Okay.

Scott Nuttall

The only thing I would add, Brian, is just—and thanks for the question—from a higher altitude comment standpoint, as we've talked about in the past including at the Investor Day, it takes about 10 to 15 years to scale AUM in our business. You've got to get to Fund III, Fund IV. As you know, we used to have five or six strategies at KKR. I was looking at our fundraising sheet, last week.

We have 57 line items this year, just to give you a sense. So it's 10 to 15 years to get to scale. And then it's oftentimes five to 10 years after you get to scale that you start to see carry and investing earnings show up at scale. And remember, we went from that six line items to 57, since the end of the financial crisis.

So as you think about the momentum we have behind us, to Rob's point, and just what's coming, the \$1 billion to \$3 billion to \$7 billion to \$17 billion, as an example, in Infrastructure, that's not really in our earnings yet from a carry standpoint. We have that happening in a lot of different places across the firm, which is part of the reason you hear such confidence in our voices.

Brian McKenna

Got it. Thanks guys and congrats on another great quarter.

Rob Lewin

Thanks a lot, Brian.

Craig Larson

Thanks, Brian.

Operator

The next question comes from the line of Steven Chubak with Wolfe Research. Please proceed.

Steven Chubak

Hi. Good morning.

Craig Larson

Good morning.

Scott Nuttall

Good morning.

Steven Chubak

So, I wanted to ask a follow-up question just on the fundraising outlook. If we benchmark fundraising trends year-to-date versus the target \$300 billion that you outlined at Investor Day, you've already fundraised \$85 billion, tracking ahead of goal, despite a limited contribution from flagships.

And just given the constructive tone on this call, improving momentum, both institutional and retail, just was hoping to get a bit of a mark-to-market on whether that target feels conservative, given some of the tailwinds that you're seeing. I recognize it's supposed to be a multi-year target, but any perspective you can offer just given some of the strength and the recent fundraising momentum would be helpful.

Craig Larson

Hey, Steven. Why don't I start and Scott or Rob I'm sure may have another couple of thoughts. I think first in terms of the \$300 plus billion, I think you're correct. Look, we feel great about the momentum that we have and the execution you've seen today. We don't have a new number for you today but I think if anything, our confidence level on the \$300 plus billion, just given everything that we've done, if anything, just would have increased.

Now I think in terms of some of the statistics, because you're right, it is worth spending a moment just on the implications from a flagship standpoint, because in the last couple of years, that activity has been pretty modest. So just for a little bit of background, when we refer to our flagships, these are really our largest fund complexes across KKR. So think Americas PE, Asia, Europe PE, Core Private Equity and Global Infra. And over 2020 and 2021, over \$60 billion of new capital raised came from our flagships. It was almost 40% of our fundraising. And those numbers more recently have been quite modest.

So in 2022 and 2023, we raised \$150 billion, but only \$6 billion came from the flagships. Again, \$6 billion versus that \$60 billion. And so now over the LTM, you're starting to see some progress, \$118 billion in total, \$11 billion coming from the flagships. So a nice start, but as we think about the balance of 2024 and 2025, just given continued activity across Infra, as well as our Americas and Asia PE strategies, we just think that activity has the opportunity to be meaningful and incremental to what you've seen from us.

And so, when you think about us as a whole, we've got flagship opportunities, we've got continued scaling in institutional fundraising, as you would have heard. Again, back to 80% of our strategies not yet at scale. And then on top of that, we've got the continued scaling and the opportunities we have in wealth, both through K-Series and Capital Group. And that's alongside the opportunities we have at Global Atlantic and Global Atlantic sidecars, for that matter. So

there's just a lot for us to do. It feels like we have a lot of momentum. And again, thanks for the question.

Scott Nuttall

Yeah, the only thing I'd add, Steven, is we do feel quite positive. We really like our setup. Not surprisingly, you're really good at math. So I would just—I would lean even more into the plus.

Steven Chubak

Well said.

Operator

And the next question comes from the line of Patrick Davitt with Autonomous Research. Please proceed.

Patrick Davitt

Hey, good morning, everyone.

Craig Larson

Good morning.

Patrick Davitt

I'm going to be a Debbie Downer and ask an election question. We usually take the view that elections don't matter much either way, but one looming big change that could come this time is clearly tariffs, markets appear to be pricing that in to some extent. So aside from inflation and rate impacts, do you have any initial thoughts on how the existing portfolio could be negatively or even positively impacted by tariffs and or a trade war? Thank you.

Craig Larson

Yes, Patrick, I'm not going to surprise you. We spend most of our team time here focusing on things that we can control. That's not one of them. But at the same time, we also do have a team here that's focused on scenario planning across multiple different areas, whether that's the existing portfolio or new portfolio. As you said, I think there's going to be some pluses and minuses depending on the geography of our portfolio companies, the sectors they're in, what their cost base are made of.

There's all kinds of different inputs and so we're watching it, closely. I think it's fair to say that our teams are ready to react and we're also ready to react to the extent that we end up in an environment with a little bit more volatility. We've got a lot of dry powder to be able to invest into that.

Scott Nuttall

Yes, the only thing I'd add is this isn't a new effort here. We've been focused on this for the last several years. So as we've been constructing portfolios, we've been doing it with the mindset that this could happen, over time.

Operator

And the next question comes from the line of Mike Brown with Wells Fargo. Please proceed.

Mike Brown

Hi. Good morning, Scott, Rob and Craig.

Scott Nuttall

Good morning.

Mike Brown

I wanted to ask on the fee rates, I guess, typically on the Real Assets and Private Equity segments. So in Real Assets, it looks like the fee rate ticked up, and it sounds like that was probably driven by a turn on of fees from the Global Infra Fund. Could you just maybe quantify that impact or maybe help us understand the right run rate for the go-forward? And then in Private Equity, it looks like the fee rate came down a little bit. Anything to point to there? And then can you remind us, are those K-Series products? Are they on fee holiday and if so, when does that end?

Craig Larson

So, I'll try and take that in a piece and maybe start with the last piece. Some of our K-Series products do have a bit of a fee holiday that's baked in depending on the product. And so, that's a little bit of what you're seeing in Private Equity, but I think the Private Equity fee rates have come down a couple of basis points over the past three quarters. The other thing to factor in is our Core Private Equity strategy, as that's scaled, that's going to come in at a little bit of a lower fee rate, as well.

Real Assets, to your point, what you're seeing, in particular, is the turning on of Infra V in the third quarter which would have contributed. But I would say, more importantly, Mike, the right way to evaluate these types of trends is over a longer period of time, because there's a lot that can happen intra-quarter. And overall, we feel really good about our aggregate fee rates and how they've stood up, even with the introduction of a number of new products that come in naturally at a little bit of a lower fee rate.

Mike Brown

Okay, great. Thank you for the color.

Craig Larson

Thanks a lot, Mike.

Operator

The next question comes from the line of Brian Bedell with Deutsche Bank. Please proceed.

Brian Bedell

Great. Thanks for taking my question. Just going back to capital markets, obviously, a very strong improvement. Obviously, Telecom Italia helped with that. But as we look into the fourth quarter, not sure to what extent you can give any color on the potential and whether that could be another strong quarter.

I know \$424 million is not the run rate, but could it rival the next best quarter, which was \$320 million in 2021. And is Discover something that could potentially close in 4Q and give you fees. And I think also just North America I think was more than half or around half of the fees this time, so over \$200 million. I think it was up from about \$130 million. So was there anything especially lumpy in North America that was contributing to the third quarter?

Rob Lewin

Yeah, sure. Brian, thanks for the question. Obviously, a really great quarter for us. And there's a lot of reasons for us to feel really positive about our capital markets business. And you would have heard us say this in the past. This is not the type of business that is great to evaluate on a quarterly basis. Certainly, as a senior leadership team, as we evaluate performance, it's much more on an annual basis. And maybe, as we talk about the future, it's instructive a little bit to go back in history a bit on this business.

If you look at our capital markets business in 2021, we generated roughly \$850 million of revenue. Now obviously, the capital markets were buoyant through that 12-month period of time, but it was a record fee number for our business.

Now if you look at 2022 and 2023, when capital markets were largely shut across that 24-month period of time, our capital markets business still generated \$600 million of revenue, plus or minus, in each of those two years. Now, we're actually more proud of that performance, because I really do think it shows the durability of the franchise.

And as you look at 2024, the year started off a little bit slower. You had some catch-up on activity. It's in part the reason why you saw a spike that happened through the third quarter. But as we look at the year in aggregate, our expectation is that we're going to be up 50%-ish, plus or minus, relative to 2022 and 2023. So it should be a new record year for us on the capital markets side, assuming no deals we expect to close in Q4 don't end up getting pushed.

But we're really constructive around that 4-year trajectory and journey, and it really helps inform our views of the future, both around the durability of the franchise in down markets, but really our ability to inflect up, continue to grow as KKR does more, continue to grow geographically.

We've talked about the very big opportunity that we see existing between GA and our capital markets structured finance team is working in partnership together. And I really do think our third party capital markets business is a unique model and very differentiated approach to the market that will continue to market share, over time.

So we're, as you can tell, really constructive on the business, but it's not really the type of business that I think is great to evaluate quarter in, quarter out.

Brian Bedell

Fair enough. Thank you.

Rob Lewin

Thank you.

Operator

The next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed.

Michael Cyprys

Hi, good morning. Thanks for taking the question. I was hoping you could update us on your progress building out the climate strategy. Maybe you could talk about some of the steps you're taking to build that out, types of investments you're making in the portfolio, what sort of return targets you're looking at. And how do you sort of envision expanding this strategy over the next several years? It seems like there could be opportunities across asset classes and, clearly, across the globe. So just curious, your thoughts there, thank you.

Craig Larson

Hey, Mike, it's Craig, why don't I start? Thanks for asking about that. Look, there's a massive need for capital here. And so, if the physical economy, excuse me, is going to align with the net zero pathway by 2050, the capital needs are massive—\$200 trillion—so think about that. That's \$7 trillion, annually, of required investment for the next 25 plus years. And it's renewable certainly, but it extends far beyond that. It's energy, it's transportation, it's building, it's agriculture.

And in our view, when you look at the capital that's been formed to date, it almost feels barbell. So on the one hand, you have lots of climate strategies that are dedicated to core power and renewables. So the very mature part of that framework, or climate technology, the very early stage. And so, in our view, there's a real sweet spot between these two extremes.

And at the same point in time, it lends itself very well with our experience and the things that we've been doing as a firm in infrastructure, in particular, for 15 years now. So, it's become a front-burner topic for us. We're at \$2.5 billion round numbers. We're continuing to fundraise. It's a very front-burner topic for our team, so more to come here over time, but we think this does have an opportunity to, yes, become an opportunity for us that can move the needle in the long-term in the framework of our program.

Michael Cyprys

Great. Thanks.

Craig Larson

Thank you.

Operator

And the next question comes from the line of Kyle Voigt with KBW. Please proceed.

Kyle Voigt

Hi. Good morning. Maybe just a question on GA. Just given some of the recent shifts in the macro environment and given timing dynamics with deploying the significant capital you've taken in over the past few quarters, I was wondering if you could provide an update on the glide path to getting back to the 14% to 15% pre-tax ROE target, and is 2026 still the right timing for that?

Rob Lewin

Hey, Kyle. Thanks a lot for the question. At the most important level, which is how we're performing across the enterprise, how we're going out and sourcing low-cost simple liabilities at scale, how we're taking those liabilities and then putting them to work, we feel like we're operating at a really high level. And so, as we think about our ability to generate meaningful ROE and, ultimately, operating earnings for our shareholders, I know that we continue to be on a really great path.

The question as to how we operate and at what level of ROE is going to depend on a whole number of factors that we're watching, which including how quickly we grow and in what kind of way that we grow. Let's take our institutional business as an example. We've talked about the block business. We've been really active, have found some really exciting opportunities, as you know, in Q4 and Q1 of this past year to put to work a material amount of capital.

Now in those transactions, we underwrite IRRs to 12 to 18-month redeployment periods. So you're taking on the full cost of those liabilities, but not yet generating the full asset return for some period of time priced into the IRRs, which we think are really attractive but not going to come through operating earnings initially.

So, I think there's multiple different things that will impact your question, but you've followed us now for some time. I think you know that as a management team, we're always going to lean in around upfront investment for longer term gain. And so, as we think about the long-term ROE for this business, undoubtedly, we continue to feel like 14% to 15% pre-tax as the right level to model going forward. But at the same time, we don't have a specific timeline that's going to depend on these variables that we went through. But we do feel really great how our teams are working together, and no doubt it's been elevated since we bought 100% earlier this year.

Kyle Voigt

Thank you.

Scott Nuttall

Thank you.

Operator

And the next question comes from the line of Ben Budish with Barclays. Please proceed.

Ben Budish

Hi. Good morning, and thanks for taking the question. I was wondering if you could talk about the sale out of the Core Private Equity portfolio. In the past, you've indicated that those were really businesses you wanted to own for a very long time and let their earnings compound. So could you talk about the circumstances that led to that sale? To what extent what might that be something that recurs?

And then on the other hand, I think the comments for your longer-term kind of dividend income expectation was predicated on—I think in the near-term it's predicated on the existing portfolio, but longer term, you assume kind of more additions. So I guess kind of both sides, the circumstances of the recent sale and how you think about monetizing other assets and then how you think about kind of deploying capital and adding assets to that portfolio. Thank you.

Rob Lewin

Yeah, great. Thanks a lot for the question. So we're always going to be focused on portfolio optimization, so it's possible that you could see some names come in and out of the portfolio over time. But the overall plan of long-term holds within our Strategic Holding segment is unchanged.

As it relates to FiberCop specifically, this was a portfolio company that we actually owned in partnership with Telecom Italia. And so, when we closed on our much broader transaction with Telecom Italia in July, we ended up cleaning up the capital structure and the legacy holding ended up getting cashed out. So that's why you see the monetization flow through in Q3 of this year.

As it relates to our guidance, the \$300 plus million of operating earnings by 2026, \$600 plus million by 2028 and \$1 billion plus by 2030, if anything, our conviction level as a management team and our ability to achieve those numbers has only gone up since we initially provided that guidance first last November and then updated at our Investor Day in April.

Ben Budish

Okay, got it. Thank you very much.

Scott Nuttall

Thanks, Ben.

Rob Lewin

Thank you.

Operator

And the next question comes from the line of Dan Fannon with Jefferies. Please proceed.

Dan Fannon

Thanks. Good morning. I wanted to follow up on both the capital markets and the GA opportunity. Just curious, given the strength you just posted in the third quarter, how much has GA contributed or a percentage of that activity? And how much is obviously still on the come as you build and integrate that business more?

Rob Lewin

I think the very short answer, Dan, is it was a solid contributor in the quarter, but not all that material in the context of \$420 plus million of revenue. That said, we've talked about believing that the opportunity in that line of business for us is in the hundreds of millions of dollars over time, and that perspective is unchanged.

Dan Fannon

Great. Thank you.

Rob Lewin

Thank you.

Operator

And the next question will come again from the line of Mike Brown with Wells Fargo. Please proceed.

Mike Brown

Great. Thank you for taking my follow up. I wanted to follow up on the wealth channel discussion, earlier in the call. I guess, kind of getting more focused on the potential opportunity for private assets in the retirement or DC channel, and maybe perhaps the more near-term opportunity would actually be model portfolios.

But I guess—understanding that's kind of all largely unknown today— I'm interested to hear about what's that long-term opportunity for KKR? How important is it to be a first mover into 401(k)s? And is partnership integral for success here? I'm just kind of curious if the partnership you have with Capital Group could actually give you a bit of a leg up here. Thank you.

Craig Larson

Hey, Mike. It's Craig. Thanks for asking about it. Look, so the majority of new dollars going into 401(k) plans are going through target date funds. I believe that percentage is north of 60%, and we've talked to some participants who've indicated that percentage is actually well north of 60%.

And at the same time, you probably won't be surprised to hear that we think there's a lot of industrial logic to introducing alternative strategies into target date strategies, as individuals invest behind their continued retirement. So we expect that's where you'll see alternative strategies first introduced. It's a massive market. It's one that we do view as being a really interesting long-term opportunity for KKR in the industry. And you're correct. Remember, we've got our partnership with Capital Group. We've got a big target date fund business.

And don't forget about GA here. Annuities, we think, are also going to be very relevant within the framework of these pools over time, as well. So look, it's a topic that has mind share at our firm. There's no question about that, but it's going to take some time. So I don't think you need to adjust your Q4 2024 fundraising numbers for us. But yes, over time, we do think this is a driver that will feel very tangible in the framework of our firms, as well as our industry.

Mike Brown

Thank you, Craig.

Operator

And the next question will come again from the line of Patrick Davitt with Autonomous Research. Please proceed.

Patrick Davitt

Thanks for the follow up. A quick housekeeping item. Could you give the updated visible realization pipeline numbers, please?

Rob Lewin

Yeah, of course, Patrick. So we've got a pretty good amount of visibility into Q4, right now. So call it plus or minus \$500 million of monetization related revenue. Again, that consists of revenue that has already happened or revenue that has signed up and we feel really confident will end up closing. Importantly, and this is a little bit different in Q4 of 2024. If you look at that \$500 million, approximately 60% of that will come through our P&L at the lower 10% to 20% compensation ratio. So the flow through to our P&L will be more significant in Q4, as a result of that dynamic.

Obviously, we're also only a month into the quarter and so, hopefully, the markets maintain the constructive posture and we're able to generate some additional monetization related revenue, through the remainder of 2024.

Patrick Davitt

Thank you.

Operator

And the next question will come from the line, again will come from the line of Bill Katz with TD Cowen. Please proceed.

Bill Katz

Great. Thanks very much for the extra question, as well. Just thinking through your commentary on the capital markets opportunity, can you remind me just the split between how much of the revenues come from deployment as you continue to scale geographically across the segments versus exit activity? And given the 70% plus FRE margin, should we presume that that related revenue effectively drops to the bottom line? Thank you.

Rob Lewin

Bill, thanks for the question. We've put some charts up there in some past presentations around the correlation between deployment and our capital markets revenue. That's going to be the largest driver of our business. I would think about the regional expansion of capital markets, particularly in Asia, as upside for what we can create over time, as well.

Historically, the third party part of our business has been roughly 20% of our revenue. In 2024, it's a little bit less than that. Really, the result of the mid-market sponsor community being a little bit more quiet on the deployment side, but we do expect that to come back and, again, feel really good about our market share.

On the topic of margins, this is an important one for us, clearly. What I've said, historically, is that we feel we could sustainably operate in that mid 60% FRE margin range, which is industry leading. But what I've also said is that's not a cap for us. And if we're able to go out and execute on our business plan, which we've got a lot of confidence we're going to be able to do, it's really all about scaling things that we've already started.

And so, we believe that we're going to be able to grow our revenue at a materially higher pace than our headcount or the operating complexity that's required to operate KKR. And so, the output of that should be, if we're successful here, additional operating leverage and an expansion of what is already industry leading FRE margins. And as you saw the spike in revenue in Q3, you would have seen that flow through.

Bill Katz

Thank you, again.

Rob Lewin

Thank you.

Operator

And the last question will come again from the line of Brian Bedell with Deutsche Bank. Please proceed.

Brian Bedell

Great. Thanks for taking my follow up. Just a quick one on the monetization pipeline coming into 2025. We had an exchange this morning that was also saying the pipeline is very strong, but they

did expect 1Q to be slow, sort of seasonally. So just wondering if you're seeing that same situation for IPOs coming into 2025, because I think you were talking about obviously the deployment momentum picking up. And then I guess maybe just the potential mix of the IPO market versus sales to other companies for monetization.

Rob Lewin

Sure. Maybe let's just talk broadly about the monetization environment, which we feel has really recovered through 2024. The backup here is pretty positive. You've had a period of really sustained strength in the leveraged finance market which is, to us, as big a leading indicator as there is. Obviously, fixed income spreads have come way in and the equity markets are as strong as they have been.

The one area of the capital markets that has been a little bit more sluggish is the IPO market, but we do expect that to change, over the coming quarters. I think just looking at our own portfolio, if you look back over the past 12 months, we've had four IPOs of size, and they include businesses in different sectors and different geographies, a growth-oriented business, some mature businesses that are slower growth.

And it's just a very small data point, obviously, but all those IPOs are trading well above issued price and, on average, they're trading close to 50% above their issued price. And as one of the probably largest equity issuers in the marketplace that's, while a small data point, I think a helpful one as we think about what the IPO market could look like, through 2025.

Scott Nuttall

The only thing I'd add, Brian, is we did see the deal market rebound in the first half, took probably the first six months to gain momentum to start to come back. So we're seeing—and there's a lot of discussion about the IPO market, which I think is highly relevant, but we're seeing that momentum continue. It's not just IPOs, but it's strategic M&A, as well.

But there's nothing that we're looking at, today—we don't look at this by quarter per se—that would cause us to think there's an air pocket coming. As the guys referenced, the portfolios mature. It's been performing well. If anything, because a bunch of our industry did not sell things last year, there's a pent-up supply of exits coming.

Brian Bedell

Yes. That's right. That's right. That's what I anticipated. Great. Thank you so much.

Rob Lewin

Thank you.

Scott Nuttall

Thank you.

Operator

Thank you. This concludes the question-and-answer session. I'll turn the call back to Craig Larson for closing remarks.

Craig Larson

I just would like to thank everybody for your continued interest in KKR. Please follow up with us directly, of course, if you have any questions. Otherwise, look forward to chatting with everybody again in 90 days or so. Thanks so much.

Operator

This concludes today's conference. You may now disconnect your lines. Enjoy the rest of your day.

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