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KKR - Q1 2017 KKR & Co LP Earnings Call

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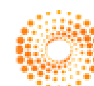

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's First Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

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

Craig Larson - *KKR & Co. L.P. - MD of IR and Head of IR*

Thank you, Nova. Welcome to our first quarter 2017 earnings call. Thanks for joining us. As usual, I'm joined by Bill Janetschek, our CFO; and Scott Nuttall, Global Head of Capital and Asset Management.

We'd like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release and our supplementary presentation, both of which are available on the Investor Center section of kkr.com. The call will contain forward-looking statements, which do not guarantee future events or performance. And please refer to our SEC filings for cautionary factors related to these statements.

And with that, I'm going to begin on Page 2 of the supplement. This morning, we reported strong first quarter results. And importantly, these results reflect many of the themes and business drivers that we've been reviewing with you over the last several quarters. In terms of our financial performance, we've had a strong start to the year, reporting after-tax economic net income of $550 million in the quarter, which equates to $0.65 of after-tax ENI per adjusted unit, and over the trailing 12 months, we've generated $1.7 billion of after-tax ENI. After-tax distributable earnings were $346 million for the quarter, and we've also generated over $1.7 billion of after-tax DE on a trailing 12-month basis.

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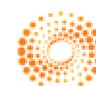

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Now while these results are strong, we actually think that the performance of the firm as a whole feels even better. This is a quarter where the power of our model where we look to marry our third-party business together with our capital markets franchise and the balance sheet to generate superior outcomes for our fund investors and the firm was quite evident. And Scott is going to expand on these thoughts in a few minutes.

And finally, we've announced our regular $0.17 per unit distribution for the quarter.

And with that, I'm happy to turn it over to Bill to discuss our performance in more detail.

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Thanks, Craig. To set the stage for our results, I will start with our performance. Investment performance for the quarter was solid with appreciation across our private equity, real estate, infrastructure and alternative credit strategies driving the quarter-over-quarter increase in both firm-wide performance and investment income. We reported $349 million of total performance income. Several exits drove over $200 million of realized carry, and we also had about $140 million of unrealized carried interest in the quarter.

Focusing on realization activity, which is highlighted on Page 3 of the supplement. Monetizations were well diversified between strategic and secondary activity. On a blended basis, the PE exits were done at 3.4x our cost. Investment income came in at almost $300 million, up nicely quarter-over-quarter and year-over-year. Performance was broad-based, and the balance sheet investment portfolio was up 5% in the quarter. Alternative credit investment performance is worth highlighting as our special sits strategy appreciated nicely.

Turning to our total segment financials. Management, monitoring and transaction fees were $375 million, up nearly 50% from Q4. Management fees were the highest we've ever reported both on a quarterly and LTM basis. If you look at Slide 4, one item of note is Americas XII, the largest Americas-focused private equity fund, which entered its investment period at the end of 2016 and is contributing to management fees for the first time this quarter. The fund held its final close in March reaching $13.9 billion in total commitment and its $12.5 billion of hard cap of third-party capital.

We also have an initial close of $5.8 billion from Asia III, including $5.3 billion of third-party capital. The fund, which positively impacts fee-paying AUM as of March 31st, will contribute to management fees in the second quarter. Assuming we reach our $8.5 billion third-party hard cap, which we're very confident we'll hit later this summer, Asia III will add over $50 million to net annual management fees on a run rate basis. Inclusive of balance sheet and employee capital, we expect Asia III to be about $9.25 billion upon its final close.

As a reminder, now that Asia II is switched to the post-investment period, we receive management fees based upon remaining cost. You'll see on the right-hand side of Slide 4, we expect a meaningful net management fee pickup with Asia III now in the investment period.

Turning to transaction fees, the $243 million we reported were anchored by a record quarter for our capital market segment. Activity here was exceptional to start the year as the team was extremely active offering financing and syndication solutions across our portfolio and third-party clients. Scott will touch on this in more detail shortly.

Bringing it all together, on a total reportable segment basis, fee-related earnings came in at $222 million, our after-tax ENI was $550 million with after-tax distributable earnings at $346 million.

Let's move to deployment. As you can see on Page 5 of the supplement, we invested nearly $5.4 billion of capital this quarter across both private and public markets. Activity was broad based by strategy with about 65% coming from private equity.

In private equity, we were most active in Asia where we deployed approximately $1.9 billion. One of the most significant investments was in Bharti, India's largest telecom tower operator, which we previously owned. We're also pleased to have closed on 2 Japanese investments, Calsonic and Hitachi Koki, both of which fit the corporate carve-out theme we've discussed historically on these calls. Given all of this activity, our Asia Fund II is now fully deployed allowing for a modest reserve.

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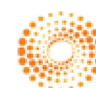

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North America PE represented only 17% of capital deployed in the quarter driven by our acquisition of a cybersecurity service provider. And in Europe, we closed on Airbus Defence Electronics, an investment we announced in the first quarter of 2016.

As a reminder, our PE funds are regional, not global. Given our recent fund-raising efforts and assuming we reach the Asia III hard cap, our global PE buying power now stands at $27 billion across our most recent benchmark funds.

We were also active across our real asset strategies as well, deploying nearly $1 billion, with most coming from Calvin Capital in our Infra II fund and Silverthorne, an investment in producing oil and gas assets in the Eagle Ford Shale in South Texas, out of our energy income growth fund.

We also remained busy on the Public Markets side, deploying about $900 million primarily across direct lending and special sits opportunities.

Finally, turning to AUM and fee-paying AUM, page 6 of the supplement highlights the growth in assets in the last 12 months. AUM and fee-paying AUM were up 9% and 14%, respectively, driven by over $26 billion of organic capital raised. These inflows have resulted in record fee-paying AUM of $107 billion and have contributed to $41 billion of dry powder as of March 31st, an increase from the prior quarter despite a significant level of deployment to start the year.

Our growth profile has been significant since 2010, as highlighted on the bottom half of the page. In this period, we've more than doubled our AUM and fee-paying AUM with our newer non-PE strategies largely responsible for that increase.

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

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Thanks, Bill. And thank you, everybody, for joining our call today. We've highlighted for a number of quarters 5 things we need to do well. Bill walked you through the first 4: generate investment performance, raise capital, find compelling investment opportunities and monetize our existing investments. These 4 are critical components of our long-term success, and we continued to feel very good about our progress on each.

Today, I'm going to focus on the fifth thing we need to do well: use our model of AUM, capital markets and balance sheet to capture greater economics for our fund investors and the firm from all of our activities. This was a quarter where the power of our model was particularly evident. In Private Markets, the balance sheet and our Capital Markets business were critical in winning a number of transactions, in some cases, allowing us to speak for entire transactions, both debt and equity. And in alternative credit, our model allowed us to speak for large, originated transactions, where we see attractive investment opportunities today.

The power of the model working can best be seen this quarter through the results in our capital markets segment. In the quarter, we generated over $120 million in transaction fees, the highest figure we've ever reported, and roughly 2/3 of our revenues for all of 2016. And we remain active in the second quarter.

Capital markets hit on all cylinders in Q1. We were active in all geographies, in debt and equity, in private equity and outside of private equity, and we were active in financings and syndications for KKR-led investments and third parties.

Let me run through a couple of transactions from the quarter that highlight our business model at work and hopefully make this more real.

Late last year, our infrastructure team became enthusiastic about Calvin Capital, a leading U.K.-based smart meter asset provider. We like the company because of its high recurring revenue, visible growth opportunity from recent regulatory changes and attractive financial profile. As we were working through the transaction, key questions surrounded deal strategy and tactics. Size was also a consideration as the acquisition required more equity than we wanted to invest from our Infrastructure II fund. We knew we needed to move fast to invest exclusively without competing proposals, and we needed to speak for the entire transaction to do that.

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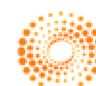

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Ultimately, given our conviction, our balance sheet and our infrastructure and capital markets insights and relationships, we committed to the entire GBP 750 million transaction, debt and equity. By doing so, we presented a fast, certain and compelling solution for the seller and created a proprietary opportunity for our firm and our fund investors. After announcement of the deal, we were approached by potential partners, and we turned them down, preferring instead to control the situation and syndicate what we couldn't keep to our LPs and third parties.

As the transaction closed in Q1, we ultimately syndicated more than 50% of the equity, and we led the debt arrangement. In effect, our more allowed us to move quickly, win the transaction, supply an attractive co-investment opportunity to our partners and create incremental economics for the firm in the process. We're using this approach with increasing frequency across all our businesses and in the U.S., Europe and Asia, allowing us to create attractive investment opportunities and scale our businesses more quickly.

We also use the model in the work we do for third parties. We completed 24 third-party capital markets transactions in Q1 alone. Formula One is a noteworthy example. By thinking creatively and leveraging our relationships, we sole led a broadly syndicated $3.1 billion term loan refinancing for Formula One, which was acquired by Liberty Media earlier this year. We extended the maturity profile of the capital structure, reduced interest expense and broadened the lender group by over 20% in an oversubscribed transaction on behalf of a very sophisticated client.

Case studies like Calvin Capital and Formula One are fun to walk through because they bring to life what we do every day.

We have several stories like these. This is important because our model gives us competitive advantages and the ability to earn greater economics relative to a fund-only approach. It allows us to create new businesses quickly using balance sheet capital. It allows us to scale those businesses rapidly by using our balance sheet and syndication capabilities to win attractive investment opportunities and act like a much larger player in the market. It allows us to supply co-investment opportunities for our LPs, helping expand our LP base and increasing their exposure to our teams. It allows us to do deals with less reliance on financing markets. We can move when others cannot. And it allows us to do all this while creating high-margin fee revenues for the firm which are increasingly global and driven by us and third parties.

It is this model, combined with our culture, that allows us to do very creative work and monetize our ideas in a significant way.

Remember, KCM and the balance sheet do not show up in our AUM. They do, however, generate significant economics for the firm, both directly and indirectly, by allowing us to lean into opportunities we like. As a result, AUM alone significantly understates the earnings power of the firm.

Take a look at Page 7 of the deck, which brings it all together. Critically, we had strong investment performance to start the year. But the model is the real story of Q1. We're using it with increasing frequency and effectiveness. That's great news for all of us shareholders and bodes well for our future earnings power.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Craig Larson - *KKR & Co. L.P. - MD of IR and Head of IR*

And Nova, just before we begin, I'd like to say, looks like we do have a lot of people in the queue, so if we could please ask people to ask one question and a follow-up, that would be great.

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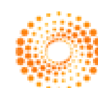

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Operator

(Operator Instructions) And our first question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr - *Evercore ISI, Research Division - Senior MD, Senior Research Analyst and Fundamental Research Analyst*

I like the big list of pending transactions on Slide 3. In the past, you've helped us kind of frame it in terms of potential DE. I wonder if you could do that.

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Glenn, this is Bill. Yes, when you take a look, there are some small, some large investments in that category that're pending. And back of the envelope, that will produce roughly about $250 million of cash earnings, either in the second quarter or the third quarter. There's a couple of investments here that might actually slip to the third.

Glenn Schorr - *Evercore ISI, Research Division - Senior MD, Senior Research Analyst and Fundamental Research Analyst*

Okay, cool. And then just -- a bigger one is I wanted to get your perspective on what's going on in retail land in terms of both direct exposure to retail and retail malls related to commercial real estate and then more how you're thinking about that as an opportunity to deploy some of that dry powder.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Thanks, Glenn. It's Scott. Well, I guess, first, let me answer the question on exposure. So if you look across our different larger pools of capital, private equity, we have about 8% of the portfolio in retail. To broadly define retail in credit, it's about 6%. So -- on the whole, we're underweight relative to the indices. And I think if you look under the hood of the different types of exposures you have -- we have, you see a lot of what we are doing is in the value-oriented space. As you know, we kind of did Dollar General several years ago. We're now out of that investment but have made other investments in this value-oriented part of the retail space, which we continue to like. So we are spending time. We do see it as a potential opportunity in different parts of the firm's investment activities, but I think you'll probably see it more in the value-oriented side. And then in real estate, we have some exposure to retail, but we think we've created attractive valuations and are upbeat about the return opportunity. So we actually see it as a net opportunity, and we're underexposed today.

Operator

Our next question comes from the line of Mike Carrier, BOA Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch, Research Division - Director*

Maybe just a question on deployment. Just given like a robust pace that guys saw in the first quarter, I just wanted to get a sense, Scott, you kind of went through some of the opportunities that you're seeing. But how are you thinking about like the multiples that you're putting the capital to work in the return profile for these investments going forward?

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Sure. Happy to take that, Mike. So if you sit back for a second, the deployment in the first quarter was $5.4 billion, and it's all detailed on Page 5 of the slide deck. If you really break that into its component parts, you see about $900 million of that was in alternative credit; about $3.5 billion, $3.6 billion, give or take, within private equity. And then if you look within private equity, you see almost $2 billion of that $3.5 billion was in Asia. And

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so the story has really been for us a meaningful pickup in Asia deployment with a particular focus on corporate carve-out transactions in Japan. And if you look more broadly and say where are we net buyers versus net sellers. In Asia, we're net buyers in private equity; in Europe and the U.S., we've been net sellers. In terms of your question about multiples, it really varies across the different markets. I would say a lot of the transactions that we're doing in Asia where we're seeing a lot more deployment as of late have been in the 7 to 9x EBITDA range with very low cost financing. So we think we're actually creating very attractive capital structures and attractive post-financing cash flow for ourselves in these carve-outs. And if you look at the U.S. opportunities, it's really going to run the gamut depending on the growth. But we are late cycle, so you'll see that we're net sellers U.S. and Europe, but we are finding some niche, idiosyncratic opportunities where our industry expertise and operational expertise we think give us good line of sight to significant value creation despite where we are in the cycle.

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

And Mike, this is Bill. Just to add a little color around pipeline. When you think about what we've got in the queue, second quarter, third quarter, back of the envelope, the total capital that we were looking to deploy it on signed transactions that haven't closed, in Private Markets alone, so not talking about Public Markets, is roughly about $3 billion. And to Scott's point, roughly only about $700 million of that $3 billion is going to be invested in North America PE. The good news in the second and third quarter, like we're showing on Slide 5, in the first quarter, is it's broad based. We have signed commitments for roughly about $600 million in Europe, $750 million plus in PE Asia. We also have a couple of hundred million signed in energy, a few hundred million in infrastructure, a couple of hundred million in real estate. So when you look across, all of the platforms are deploying a good amount of capital in the first quarter, and that trend will continue in the second and third.

Michael Carrier - *BofA Merrill Lynch, Research Division - Director*

Okay, that's helpful. And then quick follow-up. Just on the returns that you guys generated this quarter and even over the last couple, we've definitely seen improvement like year-over-year. And just trying to get a sense, when you look across the portfolio of companies, what's like the key driver that you're seeing in this? Meaning, are you seeing better revenue trends, EBITDA improving? Just any color on that because we're seeing it kind of throughout the industry, but what we see on the headlines out there, it's relatively mixed when you look at the macro backdrop.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Great question, Mike. I think what we continue to see is the value creation being driven by improved operating fundamentals in the portfolio of companies themselves. So if you look at our private equity portfolio broadly, last 12 months, high single-digit revenue growth, high single-digit EBITDA growth, which translates given the capital structures into meaningful net income growth, well ahead of what you'd see in the Public Markets. And so that trend continues. And we're seeing attractive growth, U.S., Europe and Asia, with particularly strong operating fundamentals in Europe over the last 12 months. So it's really driven by making the companies better post-investment and the growth in the portfolio themselves as opposed to multiple expansion or anything else.

Operator

Our next question comes from the line of Devin Ryan of JMP Securities.

Devin Ryan - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Just wanted to ask a question on the transaction fee strength. Appreciate the examples that you gave that helped this quarter. Also appreciate they could be lumpy, but it does sound like positive momentum is continuing there. And so I'm just curious, is it normal to see a spike-up in kind of some of the activity there just after Capital Markets have been locked up, so maybe there are some pent-up type of business that's working its way through? Or is there something else kind of internal where you're maybe putting more of an emphasis on pushing stuff through that channel? Obviously, you mentioned the economics are very good there. So I'm just curious just given how strong it was and be a little more granular.

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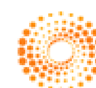

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Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Hey, Devin. It's Scott. I'm happy to get more granular. There's nothing that I'd point to in terms of pent-up opportunity or anything with respect to response to the capital markets, which have been open in the last several quarters. It's really, I think, a few different things. One is as you can see on Slide 5, we had pretty broad-based deployment around the world and across our businesses in the quarter. And that's the first thing. A lot of the capital markets business, 70%, 80% typically is going to be driven by KKR-led investments. So we were particularly active in the quarter, and that's kind of contributing factor number one. Contributing factor number two is we're using the model better. And I think we're using the model more consistently. So lot of the drivers this quarter, for example, were on the infrastructure side, which would not have been the case a couple of years ago. It was quite broad-based across the different businesses that were using balance sheet and capital markets more consistently.

The third-party business, especially around our credit franchise where we're speaking for larger debt transactions, holding what we want and syndicating the rest, that model is working quite effectively today, and I'd say more effectively than even a couple of quarters ago. So that would be the second contributing factor. And the third contributing factor is really what's happening in Asia. Our private equity business in Asia over the last several years has been heavier on the minority growth investments side where there is less opportunity, frankly, to use the entire model and machine. And what we're seeing more recently is more controlled buyout transactions, especially as I referenced in Japan where we're really able to use the whole model. And if you look in the first quarter between Calsonic and Hitachi Koki, those transactions were ones where we're able to use balance sheet, capital markets, speak for significant portions of capital and syndicate them. And so the expansion and evolution of the Asia private equity business would be a third piece of the evolution I'd point you to.

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

And Devin, just to give you more color around the transaction fees in the capital markets business, when you slice through the numbers, roughly about 55% of that revenue came from outside the United States. And equally as important, about 20% of that revenue was generated from our third-party business.

Devin Ryan - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Okay, terrific. That's great color. Appreciate it. Quick follow-up here. Just on the balance sheet, just given how strong the performance was there, can you give us a little more background on some of the drivers this quarter?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Hey, Devin, this is Bill again. The punch line is that it was a good quarter on every single platform that we manage. And so when you look at the assets, private equity was up, real estate was up nicely, infrastructure was up. On the alternative credit side, I mentioned earlier in prepared remarks, we had a very nice quarter on the balance sheet in special sits. And so it's great when things are working.

Operator

Our next question comes from the line of Alex Blostein of Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

I recognize it's still pretty early, but I was wondering if you guys could comment on the new administration's proposed tax reform with a 15% corporate level and obviously, 15% on pass-through income, what it sort of could potentially mean for your thinking about a potential conversion to C Corp. Again, I understand not a whole lot of details, but just high level was wondering if you could provide some color.

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William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Hey, Alex, this is Bill. The only thing I could tell you is stay tuned. We're doing the same thing you're doing. We're watching what's going on down in Washington at these proposals or for potential proposals come up. We certainly analyze every single one. But until we get more concrete information, there's really nothing to comment on.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Yes. Fair enough. And I guess, when I think about your -- the balance sheet strategy, I guess, just extrapolating from some of the numbers given the 5 or so percent mark looks like. The co-invest from your guidance side was somewhere in the $400 million to $500 million, which, I guess, is a high single-digit rate given the $5-plus billion dollars of total deployed capital. Is that ultimately still kind of the right way to think about how much of the ultimate co-invest you guys are willing to do over a longer-term basis? Obviously, I understand it could vary quarter-to-quarter. But kind of high single-digit of total capital deployment is kind of how we should think about it?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

You're talking about co-investment in private equity, specifically?

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Just, I guess, across the balance sheet strategy. All right. So like if you look at the total investments and see the growth quarter-to-quarter, backing out the performance, looks like it was about 7% or so of the total $5 billion that you deployed.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Yes. Look, it's a good question. I think it's going to be hard to get entirely precise on that because it depends by business, to some extent. So for example, the Americas private equity business, as you know, we made $1 billion commitment to what is a nearly $14 billion fund. So that would be pro rata. We might do some co-invest alongside the fund commitment. Asia, we've made a $500 million commitment off the balance sheet to fund. It's going to be about $9.25 billion, we believe. So it's really going to depend on the mix of what strategies are investing in an individual quarter, Alex. But I'd say for the most part in our more mature businesses, we're in this kind of 5% to 10% GP commitment range in terms of the fund investment. For some of the newer businesses, it's higher because, as you know, we seed those strategies. And then on top of that, to make the math very hard for you to do in terms of modeling quarter-to-quarter, we, from time to time, do co-investments alongside those deals and alongside those funds. And then we may seed new strategies from time to time. So it's going to be hard to give you a specific formula. I'd say that 7%, when you put all that and mix together, it's not out of the ordinary. But it's -- I can't tell you that it's going to look like that every quarter.

Operator

Our next question comes from the line of Bill Katz of Citigroup.

William Katz - *Citigroup Inc, Research Division - MD*

Just sort of wondering, on the back of the strong growth in both Americas XII and Asia III, if you look forward over the next 6 to 12 months, where do you see the greatest opportunity to generate incremental fee-paying AUM?

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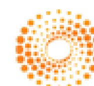

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Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Hey, Bill, it's Scott. Look, I think we have a lot of different strategies and funds in the market. So we've got to finish the loop on Asia III and finish the fund-raising there over the course of the next few months. In real estate, I'd pointed you to, because we've got both our global opportunistic equity funds in the market, and we're raising capital for our credit strategies within real estate. So that's another area where we see opportunities. Our health care growth fund is still in the market, so opportunities there. And then on the Public Markets side, we've got our private credit opportunistic fund, which is our successor to our mezz fund. Our third Direct Lending fund is in the market. And then over time, you'll see a third Infrastructure Fund and ultimately, Europe private equity. So a lot of line of sight on the more episodic fund front. And then, we've got good flows on CLOs, leveraged loans, high yield, and then our hedge fund efforts have also been bringing in capital. So I'd say it's pretty broad-based in terms of where you're going to see more scale. It's in more of those episodic funds, which, as you know, tend to have more of these lumpy closes. The other trend I would point you to is we continue to find that larger institutional investors are interested in consolidating their relationships. So they want to do more investing with fewer firms like ours. And so this trend we discussed in the past to strategic partnerships, which can be long term and large-scale, continues. And I think that's another thing that I think we'll keep you posted on, but there's increasing conversations on that front.

William Katz - *Citigroup Inc, Research Division - MD*

Okay, that's great. And as a follow-up, I supposed you're going to take my next question. I guess, there's been some news back and forth with some bigger LPs around pricing. It seems the amount of money you're raising there may not be an issue at the margin. Can you talk a little bit about how the economics, if at all, are changing in terms of some of the incremental growth that's coming in the door?

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Yes, sure. Look, I think there's lot of puts and takes in these kinds of discussions, but just take the recent private equity funds as an example. The economics are at least as good, if not better in aggregate, and the fund sizes are bigger. So there's absolutely the case that there is discussions with investors about value for service. But we found that if you keep your returns high, there's an opportunity to kind of keep the terms in place for the most part. And frankly, we will -- if someone wants to give us large size or a long-term visibility on capital, we'll consider reducing economics, but it's in the service of a better revenue picture overall.

Operator

Our next question comes from the line of Craig Siegenthaler of Credit Suisse.

Craig Siegenthaler - *Credit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

How should we think about the pace of the remaining $290 million of share repurchase authorization?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Hey, Craig, this is Bill Janetschek. As we mentioned on the last couple of calls, we're mindful of our share count. As part of compensating people we will issue shares on a pretty regular basis, and we'll use that buyback to make sure that we do not have share creep. We didn't use the buyback plan in this particular quarter technically. But as you might have seen in the press release, we ended up canceling about 1.9 million shares after quarter end, and we used about $35 million of cash off the balance sheet to retire those shares.

Craig Siegenthaler - *Credit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

Got it. And then can you update us on your appetite for C Corp conversion? And what changes are you looking for in terms of changes on the tax front that would make that option more attractive for you guys?

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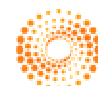

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William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

As we mentioned on a couple of calls, we're mindful of what's going on in Washington. We'll be excited to see if there is any tax legislation that is passed. And based upon what comes out of Washington, to the extent that it might make economic sense, we're always open-minded as to what we might do with our corporate structure.

Operator

Our next question comes from the line of Chris Kotowski of Oppenheimer & Co.

Christopher Kotowski - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Looking at your 2006 fund, it's -- there's still almost $10 billion of remaining fair value there, and the fund is now 11 years old. And we understand that all the like pre-crisis funds have kind of an extended life cycle. But -- and there are obviously some big chunky positions in that. And I wonder, can you remind us exactly how patient can you be in realizing those remaining investments before you have to jump through hoops with your investors in that? And I mean, do you have a couple of years left, so that you can really manage for realizing full value there?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Hey, Chris, this is Bill. You are right. The 2006 fund, we started investing in 2006. We went into the post-investment period in 2012. Typically, from that end of the fund life, we usually try to monetize those investments over the next 5 to 7 years. So just doing broad math, you should see some monetization certainly from that fund because they are mature assets over the next few years.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Yes. But I think the short answer, Chris, is we don't have a gun to our head in terms of anything forcing us to create outcomes in terms of exits. And we still see value-creation opportunities in a number of those investments, which is why we still own them. I think if you look at our portfolio overall, 35% or so of our private equity fair market value is over 5 years old, 33% of it's marked at over 2x cost and almost 50% over 1.5x cost. So we still see the upside in those investments, but some of them are more mature, and you'll start -- you'll continue to see exits. So we see a nice runway to continue to create exits.

Christopher Kotowski - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Yes. But just to clarify, the clock starts running as it were at the end date of the fund rather than when the investment was made?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Chris, every fund is different. And so some are 12 years from when the first investment was made, and some funds are 8 years after the last investment was made. I don't know the exact particulars around the 2006 fund. But to Scott's point, we have a lot of flexibility as to when we need to monetize those investments.

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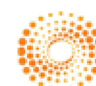

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Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Yes. And the extension, if we were to, Chris, ever end up in a situation where we're nearing the end of a partnership life, it can be extended at our option. That's typically the way it works. So there's no -- 41 years in, we've never had to monetize anything ahead of when we thought it was appropriate.

Operator

Our next question comes from the line of Patrick Davitt of Autonomous.

Patrick Davitt - *Autonomous - Analyst*

Scott, you've kind of touched on this from one of the questions, I think. But as we think broadly about how active you and some of your competitors have been as we continue to reach new market highs, I think the bad memories from some of the deals before the last time the markets were reaching new high has kind of come back. Could you kind of compare and contrast the deals you're doing at these market peaks versus those you were doing in '06 and '07? And in that vein, what gives you personally comfort that you aren't making some of the same mistakes?

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

It's a great question. Well, Patrick, I'd say -- I'd point you to a couple of different things in terms of what's different. One, the multiples that are -- that we are paying for assets as an industry have crept up. But if you look at what we're doing as a firm around the world, it's lower now than it was before the crisis '06-'07 type time frame. If you look at those multiples, they're higher than what we're doing on the average now, would be the first thing I would say. Second thing is leverage is lower. And so leverage and transactions crept up quite meaningfully. Precrisis, we're seeing transaction overall, debt-to-EBITDA lower than we had at that time, so less financial risk than at that time. The other thing I would say is the mix geographically, entirely different. A lot of those larger transactions were U.S.-based, some Europe. As I mentioned, where -- most of our deployment as of late is coming out of Asia. Newer market for us, lower multiples, different macroeconomic considerations, opportunities for global growth. So significantly different there as well. And then the last thing I'd say is I think we've all learned lessons from going through the crisis, and so we've been monetizing investments. And as I mentioned, it's important to look at the net, not the gross. We've been net sellers in U.S. and Europe and monetizing through strategic sales, IPOs, secondaries, dividend recaps and taking chips off the table at this part of the market cycle. So I think we are quite cautious about investing in this market in private equity in the U.S. and Europe, in particular, but we are finding some opportunities we like, but there's been more selling than buying. And then I think the other thing to look at is the firm overall. We're an entirely different firm now than we were in 2006. We did not have an alternative credit business. We didn't have energy income and growth. We didn't have infrastructure. We didn't have real estate. We didn't have a balance sheet. We didn't have a capital markets business. It is a very, very different enterprise than what we were then. So I think we've learned in terms of private equity, in particular, but the models evolved significantly as well.

Patrick Davitt - *Autonomous - Analyst*

Great. That's helpful. And then there's news on the tape that steal a bit of your thunder. Just curious to what extent you guys have had interactions with ValueAct yet and if you have any sense of how passive or active they intend to be.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

We have had interactions with them, and they've been great. We like having smart, long-term investors and shareholders. We welcome ValueAct's ownership in our stock and welcome their partnership. We've had discussions. I think, they understand and share the vision we have for the business of the firm. And so it's been a good set of interactions so far and quite positive in the shared perspective on where we can go.

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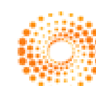

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Operator

Our next question comes from the line of Rob Lee of KBW.

Robert Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

I'm just curious. I mean, the -- and this was the same thing last quarter, but cash balances on the balance sheet are certainly significantly higher than they were just a year ago. And then obviously, you've had some realizations and maybe some debt offerings in there. But can you maybe talk to us a little bit with your thoughts around your balance sheet liquidity? Is it -- how purposeful is it that you're trying to build cash balances maybe in an attempt to be more opportunistic, should the opportunity arise? So just trying to get a little bit more color on your thoughts around that.

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Hey, Rob, this is Bill. You are right. When you take a look at the cash balance, it's pretty much in line with where we closed at the end of the year. I would say it's slightly more elevated than the cash balance we want to run our business at. But you can't look at this quarter-to-quarter. Things come in episodically, and so we continue to have fortunately some monetizations, which are putting that cash on the balance sheet. The one thing to note is that, and Scott mentioned this earlier, we are making large-sized commitments now to our funds. So we committed $1 billion to Americas XII. We just committed $500 million to Asia III. So we're sitting right now with total commitments of roughly $3 billion plus, and we're going to need to fund that. Now that wouldn't have to happen over the next year, but we're cautious with deploying capital. And knowing that we have some significant commitments, we're comfortable where cash is right now for the time being.

Robert Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Thanks. And maybe just as a follow-up. I'm just curious, I mean, I know real estate has been an area of focus. But I guess, the U.S., the real estate Americas fund is, I think, this month, at the end -- reaching the end of its investment period, it's only kind of about half deployed. So I'm assuming you have the ability to extend the investment period, or is that capital that at this point you kind of shut that down or return it? I mean, how should we think of that?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

Rob, you are right, technically, that we've got a halfway decent amount of uncalled capital. But when you take a look at the table on Page 13, it was $1.2 billion fund. We've actually deployed about $900 million. The one reason why that unused commitment number doesn't equal is that we have the ability to recycle. So we -- when you're looking at this, we do have the ability if we wanted to, to deploy another $600 million. You are right that, technically, the investment period ends at the end of May. But keep in mind, a lot of the real estate positions that we have, we're -- we make a commitment and then we build up that strategy over the next couple of years. So regardless of this number, we're still going to need a halfway decent amount of reserve capital in order to make sure we don't have a cross fund issue when we actually close real estate two.

Operator

Our next question comes from the line of Chris Harris of Wells Fargo.

Christopher Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Question on your management fees. The $208 million that you reported this quarter, how much of Americas XII and Asia III are in there? And then, I guess, maybe a better question would be how much more incremental do you expect from -- on that $208 million once you're fully baking in those 2 funds?

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William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

All right. Well, to break it down, we'll talk about Americas XII first. Americas XII management fee is in that first quarter because we had a closing on that fund, and that fund went live on January 1. So we have a full quarter of management fees in that number. As it relates to Asia III, we did have a first close on March 31, and $5.3 billion of that capital is now subject to a management fee. And so you're not going to see that in the first quarter. You'll see that uplift in the second quarter. If you'll turn to the supplement on Page 4, it will give you a little bit of guidance. On the far right, we have the Asian II only and that fee would be. Now Asia II going from the investment to the post-investment period, and Asia III coming online, and assuming we hit that $8.5 billion hard cap, which we're quite comfortable we're going to do, you're going to see an increase in management fees from Asia II and III of roughly about another $55 million. So you'll see that long-winded me -- long-winded way of me telling you Asia III in the second quarter.

Christopher Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Okay. So you could potentially see all that incremental in Q2 is what you're saying?

William J. Janetschek - *KKR & Co. L.P. - Member and CFO*

It could be possible if we have a final close on Asia III by June 30, yes. If not, then it will peak into the third quarter.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

If not, it's the $5.3 billion divided by the $8.5 billion hard cap times that number.

Operator

Our next question comes from the line of Michael Cyprys of Morgan Stanley.

Michael Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Just curious how you're thinking about M&A at the management company. If you could update us on your thoughts there. You did the Marshall Wace transaction maybe about a year ago, something like that. Just maybe your thoughts on how that's been progressing relative to your expectations and what could make sense next for KKR.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Thanks, Michael. So a couple of things. First, on the Marshall Wace part of the question, the partnership is off to an excellent start. Assets are up 50% since we announced the partnership, and we've found lots of ways to work together and create value across both organizations. So I'd say we've made a fantastic partnership thus far and ahead of expectations. In terms of M&A at the management company, I'd just tell you that our ambitions are limited. We are not focused necessarily on M&A as a growth tool. We see lots of opportunities to grow organically. We'll look from time to time at opportunities across some of our newer businesses, so I think maybe infrastructure, real estate, and we'll look in different markets around the world where we're a newer entrant. But for the most part, we've determined that growing organically is a more attractive approach for us. We will consider niche opportunities from time to time. In the hedge fund space, I'll tell you that Marshall Wace is likely our swan song, at least for the time being. We really enjoy that partnership. We're looking to build in hedge funds through Marshall Wace, and the partnership that we now have with PAAMCO and Prisma, which are the 2 largest components of our hedge fund strategy, along with Nephila and BlackGold rounding it out. So our hedge fund approach is going to be through these partnerships, which, as you know, were done off the balance sheet, so it's kind of an extension of the firm.

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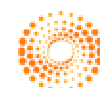

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Michael Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Great. And just a follow-up question, maybe you can talk a little bit about the retail distribution build-out, high net worth clients. Maybe you can remind us where that stands today and just how the progress has been in terms of building that out and what's next on that front.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Great question. So look, we continue to focus in this space and a couple of different fronts. So I think, as we've discussed in the past, we have -- we've built a direct high net worth effort inside the firm, which is Part 1. Part 2 is the work we do with platforms, and so we have a number of relationships where we're marketing through wirehouse and other platforms around the world, several of our products. Part 3 is that we spent time in the independent broker dealer channel, have a partnership, in particular, in credit where we've created our BDC, which is now in excess of $4 billion and have a second one in the market. And so those are really the main 3 ways that we've been building. We have also created other partnerships. What I -- some of those I'd put more in the R&D front to try to find different ways to package what we do for the retail investor and the mass affluent. And to date, those efforts have borne quite a bit of fruit. Depending on the periods you're looking at. They're anywhere from, call it, 10% to 15% of the capital we raised to in some periods upwards of 20%. And we've been raising last 12 months $27 billion, give or take. So last 12 months, it's been a 10% to 15% range. So it's been $3 billion plus, give or take, of our assets raised have been from that space. And if you look back 5 years ago, that was virtually 0. And so we see a significant amount of opportunity to grow from here through all those different efforts and more that we'll -- that we're working on.

Operator

And our next question comes from the line of Glenn Schorr of Evercore.

Glenn Schorr - *Evercore ISI, Research Division - Senior MD, Senior Research Analyst and Fundamental Research Analyst*

It's been answered already. Thanks.

Scott C. Nuttall - *KKR & Co. L.P. - Global Head of Capital and Asset Management*

Thank you.

Operator

And I would now like to turn the conference back to you, sir.

Craig Larson - *KKR & Co. L.P. - MD of IR and Head of IR*

Okay. Thank you, everybody, for joining the call this quarter. If you have any follow-up questions, please feel free to connect with us after the call. Thanks, everybody.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may now disconnect. Everyone, have a wonderful day.

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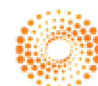

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