THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

KKR - Q3 2012 KKR & Co. L.P. Earnings Conference Call

EVENT DATE/TIME: OCTOBER 26, 2012 / 02:00PM GMT

CORPORATE PARTICIPANTS

Craig Larson *KKR & Co. - IR*

Bill Janetschek *KKR & Co. - CFO*

Scott Nuttall *KKR & Co. - Head, Global Capital & Asset Management*

CONFERENCE CALL PARTICIPANTS

Chris Kotowski *Oppenheimer & Co. - Analyst*

Roger Freeman *Barclays Capital - Analyst*

Michael Kim *Sandler O'Neill - Analyst*

Howard Chen *Credit Suisse - Analyst*

Marc Irizarry *Goldman Sachs - Analyst*

Robert Lee *KBW - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's third-quarter 2012 earnings conference call. During today's presentation all parties will be in a listen-only mode.

Following management's prepared remarks, the conference will be open for questions. (Operator Instructions) As a reminder, this call is being recorded. I will now hand the call over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson - ***KKR & Co. - IR***

Welcome, everyone, to our third-quarter 2012 earnings call. Thank you for joining us. As usual I am joined by Bill Janetschek, our CFO, and Scott Nuttall, Global Head of Capital and Asset Management.

We would like to remind everyone that this call will contain forward-looking statements which do not guarantee future events or performance. Please refer to our SEC filings for cautionary factors relating to these statements. We will also refer to non-GAAP measures on the call which are reconciled to GAAP figures in our press release.

This morning we reported quarterly economic net income of $510 million and year-to-date economic net income of $1.8 billion, almost 4 times greater than last year's figure. This translates into $0.69 of after-tax economic net income per unit this quarter and $2.42 per unit for the first nine months of 2012.

The key driver here is the appreciation of our private equity funds which increased approximately 6% in the quarter, and for the first nine months of 2012 are up 20%, outperforming the MSCI World Index by over 600 basis points so far this year. Focusing on our cash metrics, total distributable earnings are $333 million for the quarter and for the first nine months of 2012 are $903 million, up over 40% relative to the first nine months of 2011. This growth originated from both realized cash carry as well as realized gains from our balance sheet.

We announced a quarterly distribution of $0.24 per unit, of which about $0.15 came from carry and $0.09 came from fee-related earnings. This is not only a record for cash carry, the highest quarterly figure simply we have gone public, but also the 10th consecutive quarter where we have seen cash carry in the distribution.

Finally, two additional items of note, the first relates to our 11th North American Private Equity Fund, referred to internally as NAXI. The investment period for the 2006 fund has officially come to a close and consequently the investment period NAXI, the successor to the 2006 fund, commenced at the end of the quarter. You will see for the first time NAXI listed on the investment vehicle summary table on page 20 of our press release and fund raising will continue here into 2013.

Bill is going to spend a few minutes reviewing the impact this has on our financials now that NAXI has turned on and the 2006 fund has moved to the post-investment period.

The second topic is Prisma. We are pleased to announce that the transaction closed on October 1 and starting in the fourth quarter Prisma will be reflected in our financial results within the public market segment. The addition of Prisma provides us with the ability to provide customized hedge fund solutions to our clients and an attractive platform which we can leverage to create new, more liquid products.

This transaction, as you will recall, is the first strategic acquisition for us and we are excited to officially welcome our newest colleagues to the firm.

With that I will now turn it over to Bill.

Bill Janetschek *- KKR & Co. - CFO*

Thanks, Craig. Good morning, everyone. We ended the third quarter with record assets under management at $66 billion, up 8% from last quarter and 13% from the same time last year. Investment appreciation contributed to a portion of the increase helping offset distributions to LPs in the quarter, but the majority of the AUM growth was due to the fact that we now include $6 billion of capital we have raised so far for NAXI.

It is important to remember that these numbers do not factor in an additional $15 billion of committed capital, $8 billion from Prisma, $4 billion from Asia II, $1 billion of the Texas Teachers mandate that we have not yet allocated, and about $2 billion of capital in other vehicles that will be included in AUM once it is invested.

As of September 30, our fee-paying AUM was also the highest we have reported totaling $50 billion and representing a 6% jump from last quarter. Similar to AUM, the addition of NAXI's third-party capital positively impacted our fee-paying AUM, which more than offset the reduction in fee-paying assets of our 2006 Fund as it transitioned into the post-investment period.

We have been getting a lot of questions about fund roll-off so I wanted to spend some time on this. Let's walk through an example using the 2006 Fund and NAXI.

As Craig mentioned, in September the investment period for the 2006 Fund ended and NAXI was activated. That said we are still able to make follow-on investments in the 2006 Fund portfolio. If you turn to page 20 of our press release, you will see $1.3 billion of uncalled commitments remaining in the 2006 Fund, and we plan to invest these funds in the future.

Turning on NAXI impacts our fee-related earnings in two ways. First, we have raised $6.2 billion of capital so far, including our GP and employee commitments, and we are entitled to a management fee on the third-party portion of that capital. As you may recall, the blended fee rate for the 2006 Fund was about 125 basis points. The management fee we receive on NAXI is closer to 140 basis points based on the capital raised to date.

Second, when NAXI turned on the 2006 Fund switched from the investment period to the post-investment period, and the management fee on the 2006 Fund is now based on invested, not committed, capital. As of September 30, the 2006 Fund had about $12 billion of remaining invested capital and we are now entitled to a fee of 75 basis points on remaining costs. Keep in mind, as we sell assets the remaining costs will go down and so will our management fees associated with the 2006 Fund.

Turning to our segment results, in private markets fee-related earnings were $45 million, up 23% from last quarter and 8% from last year. Transaction fees, including the first closing of the Alliance Boots sale, helped to increase our fee-related earnings this quarter. For the first nine months of 2012 fee-related earnings were $119 million, down 30% from the $170 million we earned over the same time last year.

This year-over-year decline was largely driven by two things. First, in 2011 we had substantial termination payments in the first quarter related to the IPOs of Nielsen and HCA, which amounted to net fee-related earnings of about $38 million. Second, the $2.9 billion of capital we invested in the first three quarters of 2011 resulted in greater transaction fees than the $1.8 billion of capital we have invested so far this year.

This 6% write up in our private equity portfolio combined with higher fee-related earnings in the quarter translated into ENI of $214 million. This is up over 20% from the last quarter and year-to-date ENI is more than 2.5 times last year's figure.

Moving to public markets, fee-related earnings were $23 million compared to $12 million in both the last quarter and last year. This growth is attributable to a significant incentive fees which contributed about $18 million to our earnings. Third-quarter ENI was $35 million, reflecting $12 million of net carried interest this quarter, primarily from our special sits accounts.

This is the largest quarterly carry figure that we have reported in this segment. However, it is only beginning to reflect the true carry potential for this business. There is an opportunity for carry to become increasingly significant over time as we continue to put more capital to work in carry-eligible funds.

Touching on capital markets and principal activities fee-related earnings were $23 million for the quarter, up 7% from last quarter but down 50% from the third quarter 2011, which benefited from over $800 million of syndicated capital. Third-quarter ENI in this segment was $261 million, driven by 5% appreciation on our balance sheet investments. Year-to-date our balance sheet investments are up 22%, significantly outpacing the 2.5% appreciation at this point last year.

The continued growth of our balance sheet results in $9.82 of book value per share, up 6% from last quarter. This is another record quarter for our book value and in total our book value has increased 20% since the beginning of the year, including a 75% increased in unrealized carry to $733 million.

On a cash basis, we had a strong quarter of realization driving total distributable earnings of $333 million for the quarter and a distribution of $0.24. Scott will review our exit activity in more detail later on but the Alliance Boots transaction and the sale of Unisteel lead to a record $0.15 of cash carry in the quarter.

Looking to the fourth quarter, we expect two realizations to benefit the next quarterly distribution. First, the most recent Dollar General secondary settled just after quarter end and we anticipate the impact to the distribution from fee paying co-invest vehicles to be about $0.02.

We also announced a $2.50 special dividend at HCA. Half of our investment is held in the Millennium Fund and it should result in cash carrying of about $0.01. Also, given the significant realizations that we have had so far this year, the accrued tax distribution is currently north of $0.35 per unit. The ultimate size of the tax distribution will depend on the results for the remainder of the year.

Since cash carry remains a big focus for many of you, I wanted to provide an update on netting holes and the progress we have made since last quarter. As we have mentioned, we refer to the netting hole as the aggregate amount by which any private investment in a fund is marked below cost net of cash profits from sales of other investments in that same fund.

We were able to pay out cash carry when investment is realized as long as the fund is marked above cost in total and the netting hole has been filled. It is important to remember that most of our active private equity funds are not subject to a preferred return with NAXI being the exception.

Back in July we disclosed the size of the 2006 Fund netting holes. At the time of our call the domestic partnership netting hole stood at approximately $1 billion and the 2006 Fund overseas partnership netting hole was filled after factoring in the proceeds from the Boots transaction. Additionally, Europe II's netting hole, pro forma for Boots, was about $1 billion.

Today the 2006 Fund continues to accrue carry because it is marked well above cost, 1.4 times cost at the end of the third quarter or 3 times on a realized and partially realized basis. When you adjust the netting hole at September 30 for the realization activity since the end of the third quarter, the 2006 Fund domestic partnership netting hole has decreased from $1 billion at the time of our last call to about $550 million today.

As you will recall, netting holes can move in both directions and this was the case in the 2006 Domestic Fund this quarter. The overall reduction was driven by the realized gains from both the September Dollar General secondary and the HCA special dividend, but offset this was a markdown in Samson this quarter from cost to 0.8 times cost, which increased the netting hole by about $150 million.

Turning to the 2006 Fund overseas partnership, this vehicle paid $0.10 of carry in the third quarter from profits associated with both Boots and the Unisteel transaction. Therefore, 2006 Fund overseas is in a cash carry position and currently has approximately $5.8 billion of remaining value.

Moving on to Europe II. At the end of the third quarter Europe II is marked at 1.2 times cost and continues to accrue but not pay carry. As of September 30, the netting hole in this fund has been reduced from $1 billion to about $850 million. The big driver here was the write up of Kion where an expected infusion of capital from a strategic investor increased our valuation from 0.4 to 0.9 times cost.

In summary, we feel really good about the progress across all of our funds, especially 2006. Today we are generally paying cash carry on $16.5 billion of private equity remaining value, which includes the $5.8 billion in 2006 overseas. We are also getting closer to paying cash carry on the other $20 billion and, remember, none of the historical private equity capital is subject to a preferred return.

I will now pass it over to Scott.

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Thanks, Bill. When we think about the third quarter we see five main things of note. The first is our distributable earnings growth. Craig touched on this earlier, but we have had a strong cash earnings trajectory in our business. Let me give you a few statistics.

Our total distributable earnings for all of 2010 and 2011 were $740 million and $780 million, respectively, of which 35% and 25% came from realized balance sheet gains. When we factor in all of the activity year-to-date, including the realizations since quarter end, our distributable earnings so far this year are $1.2 billion. So we are only 10 months into the year and we are already 60% higher than 2010's full-year results and 50% higher than 2011's.

The second area worth touching on is our level of monetization activity. Since our last call we have been very active on the exit front benefiting from both strategic and capital markets activity. On the strategic front four main things happened in the third quarter.

First, step one of the Alliance Boots sale to Walgreens closed. Second, we sold Unisteel to a strategic buyer for close to two times our cost, marking the first full exit from our Asian Private Equity Fund. Third, Tempurpedic has agreed to buy Sealy. And, finally, we announced that a Chinese power company has agreed to make a strategic investments in Kion.

Since quarter end we announced two monetizations for the capital markets. A few weeks ago we executed our fifth Dollar General secondary in the last 13 months, all of which were priced at higher valuations than the last. With this deal we have now realized cumulative proceeds of approximately 3.5 times our cost. Including the shares we still own in the company, our investment in Dollar General is valued at 4.8 times.

We also announced another special dividend at HCA. Including this dividend, KKR has received cash proceeds from HCA of greater than 1.5 times our cost, and including the stock we still own, our investment in HCA is valued at 3.9 times. Through these exits we have returned $4.2 billion of cash to our private equity funds and carry-paying co-invest vehicles since June 30 and $7.5 billion so far this year.

In aggregate, our private equity funds on page 20 of our press release are currently marked at 1.6 times cost and on a realized and partially realized basis 2.7 times. More importantly, all of our private equity funds are valued in excess of cost today.

The third item of note is fund-raising. We are pleased with the $10 billion of traditional private equity capital we have raised year-to-date. Six of the $10 billion came from the first close of NAXI back in the first half of the year, and we got to six faster than we would have thought.

We then focused our attention on the Asia II Fund raise and have seen significant interest in that fund. With another close of Asia II now behind us, we are focused on progressing with our pipeline of accounts for NAXI and we expect the final close of $7 billion to $8 billion of capital when fund raising concludes next year.

Regarding Asia II, recall that last quarter we announced a $3 billion first close which was also faster than we would have originally thought. We have seen this interest grow and are now at $4 billion of capital raised to date. We have set a hard cap for the fund at $6 billion, including the GP commitment and we have a strong pipeline.

The first Asia Fund continues to perform well and is currently marked at 1.7 times.

As a reminder, we raise capital for private equity in three different geographic areas -- North America, Europe, and Asia. This is a bit unique as most firms have global funds, so to understand how much capital we have for private equity you need to aggregate the individual geographic pools.

Year-to-date we have closed on $10 billion of capital in North America and Asia and that excludes our $6 billion Europe III Fund, our $1 billion China Growth Fund, and the $2 billion of remaining dry powder that we have for investments in our 2006 and Asia Funds. When we look at what this means for our business in aggregate, the key takeaway is that we have $19 billion of capital for our global private equity franchise so far. Of the $19 billion of total capital about $16 billion is dry powder.

So we have a significant amount of capital for our global private equity business and we haven't finished fund raising for NAXI and Asia II, which will continue to increase these amounts.

The fourth area of the update is real estate. Building on our non-private equity businesses remains a priority for the firm and our real estate franchise is a good example of this. Since our last call the team has been involved in three investments which have been funded through a combination of our North American Private Equity Fund, capital from the balance sheet, and KKR Financial. This is still a nascent business for us, but we are seeing great early traction and a strong global pipeline of opportunities.

The last area we want to touch on is Prisma. As Craig mentioned earlier, we officially closed the Prisma transaction on October 1. Prisma's assets continue to grow at a healthy rate and are now $8.1 billion, which is up from when we announced the transaction in June.

Investors have awarded Prisma $800 million since the announcement of our transaction in June and $1.4 billion since the beginning of the year. We see real value in the combination of KKR's global footprint and Prisma's focus on providing customized solutions to clients, and we have been very pleased with the support of Prisma's clients in the market for the combination.

Pro forma, all else being equal, the inclusion of Prisma in our numbers would increase our assets under management from $66 billion to $74 billion and our fee-paying assets under management from $50 billion to $58 billion. Looked at another way, Prisma increases our public market's AUM by 50% from $16 billion to $24 billion.

So when we look at the quarter there are a few things to take away. We have had continued strong investment performance, our private equity funds are up 20% year-to-date, and we continue to see strong performance in our non-private equity businesses. We are giving cash back to our investors through both strategic exits and capital markets exits, and there is more on the horizon.

We have had good fundraising momentum leading to record AUM and fee-paying AUM. And we closed Prisma, our first-ever acquisition, which gives us a great platform in the growing hedge fund business. All of this together have yielded record ENI of $1.8 billion for the first nine months and significant cash back to all of us as shareholders.

Here is another way to look at it. In the first nine months our balance sheet investments have generated $1 billion of earnings and are up 22%. Our non-balance sheet efforts between carry and fee-related earnings have generated income of about $800 million. In aggregate, this is $1.8 billion of earnings on an average $6.3 billion of book value.

So another way to think about our results is that we have generated a return of 28% on your and our book value in just the first nine months of the year.

Thanks again for joining the call. We are happy to take any questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Chris Kotowski, Oppenheimer.

Chris Kotowski - ***Oppenheimer & Co. - Analyst***

Two things, I wanted to first just make sure I understood the hand off between the base management fees with NAXI and the 2006 Fund.

So if I just go back to the 2006 Fund there was $17.6 billion earning 125 basis points, so that is roughly $220 million on an annualized basis. And you now say that 2006 is about $12 billion at 75 so that would be $90 million. Then we add $5.9 billion for NAXI at 140, that is somewhere around 80 or 85. So that would add up to about $170 million on an annualized basis.

So if that is all that happens then it seems like your base management fees would step down by $10 million or $12 million. But then if Asia II with $4 billion comes in at, say, $125 million that would be about 50. So when it all turns on it seems like it should be a wash. Am I doing my math correctly?

Bill Janetschek - ***KKR & Co. - CFO***

You are but you are a little off. Only for the fact that when you think about the $17.6 billion fund we weren't collecting a fee on the entire amount because first you have to back out GP commitment. Then don't forget there was a significant, significant commitment from KPE when the original transaction took place and we actually weren't receiving a fee on that capital.

So it is really going from 15.1 down to 12, so on a blended basis it is 15.1 at 125 going to now 12 and a little more than 12 at 75. Then right now, based upon the numbers we just walked through, that is 5.7 at 140. But keep in mind we are continuing to raise capital for NAXI and as long as we receive commitments by December 31 the way our documents work is we are going to be able to accrue the management fees for that signed commitment all the way back through October 1.

So the way to look at it is right now, all things being equal, we are probably going to be maybe in the fourth quarter down a couple million dollars for the quarter, assuming that we don't raise any capital. And we are not assuming that at all. So any capital we raise would bring us closer to this being relatively flat, which is what I said on the last quarterly call.

Now, two, and you hit the nail on the head with Asia. When you think about it, Asia is a $4 billion fund. We have already got signed commitments for Asia II of $4 billion so as it goes from Asia to Asia II that fee is the same. So, all things being equal, the management fee will be flat.

The big benefit though is Asia goes from the investment period to the post-investment period and roughly we have about $3.5 billion, or will have, of invested capital in that fund where we are going to receive a 75 basis point fee. So that is going to be very accretive once Asia goes from the investment period to the post-investment period.

Chris Kotowski - ***Oppenheimer & Co. - Analyst***

And do we have an estimated timeline on when that happens?

Bill Janetschek - ***KKR & Co. - CFO***

My guess would be that would probably be first quarter, maybe second quarter of 2013.

Chris Kotowski - ***Oppenheimer & Co. - Analyst***

Okay. Then, secondly for me, I guess I thought Kion was an interesting case study and there was a transaction announced in August. What we know from the public records is that you bought Kion initially for $4 billion according to press reports. It was marked down to, I guess, pennies on the dollar at one point.

The transaction, from the press release that Kion had, it looked like the market value of the equity at the terms of the investment was about $2.3 billion, but now it looks like you have it marked on your balance sheet slightly above cost. So I wonder what pieces of the puzzle am I missing there. Could you walk us through how that transaction worked and how we came to have it marked at where it is now?

Bill Janetschek - ***KKR & Co. - CFO***

Sure. Generally, we don't comment very specifically on how we build up our valuation for any particular portfolio company, but I just want to give you a couple of snippets to think about when you are trying to walk from I think what you think the Kion value is on that strategic investor coming in and where we are carrying it right now.

You can see that if you look at the co-investments, where we have Kion right now and where we are carrying it, it's about cost. Last quarter we were carrying it at 0.4 times. The one thing to keep in mind is this strategic came in and only is buying a 25% interest in Kion.

It was part of a more significant transaction where they also came in and bought 75%, or sorry, 70% of the hydraulics business. So it was a combined transaction. And, although we used that information in coming up with our valuation, we didn't put total weight on that.

In addition, keep in mind that this transaction didn't close in the third quarter. It is expected to close in the fourth quarter and once that transaction does close we will probably see a slight uplift in the carrying value of Kion in the fourth quarter.

Chris Kotowski - ***Oppenheimer & Co. - Analyst***

All right. That is it for me, thank you.

Operator

Roger Freeman, Barclays.

Roger Freeman - ***Barclays Capital - Analyst***

Good morning. In NAXI the 140 basis management fee I understand why that is higher than the prior one; I guess because you have the hurdle rate now. Do you view that as a premium to sort of what others are getting in the market, because it seems that competitors are -- for a general purpose private equity fund, are typically more like 125 basis points?

Bill Janetschek - ***KKR & Co. - CFO***

No, Roger, the difference between where we were in 2006 and where we are in NAXI is that when you raise the size of significance like the 2006 Fund up to a certain amount we were charging 1.5%, and over a certain amount then we were charging a reduced rate. So on a combined basis, based upon the capital that we actually did raise, of the $17 billion the blended was 1.25%.

For NAXI we aren't at that fee break right now and so the total amount of fee that are going to be receiving is the 140 that I referenced. And I wouldn't say that if you look at other managers in this space of equity being raised or commitments of that size, 1.5% is market.

Roger Freeman - ***Barclays Capital - Analyst***

Okay, that makes sense. And I guess that kind of leads to the second part of the question, which is I guess you mentioned that commitments up till December 31 will accrue management fees from October. I guess the question is why wouldn't someone wait until January then? What changes; do the fee rates change or what?

Bill Janetschek - ***KKR & Co. - CFO***

No, what is going to drive an investor to invest, and there are investors that are looking at investing in NAXI, it will be when we are actually going to be closing that first investment. Because the way our documents work is that if you are not committed in the fund when the first investment is made you actually don't get that investment.

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Roger, it's Scott. The only thing I would add to that is in a lot of instances limited partners will have a certain budget that they need to allocate within a calendar year, so that may drive people to get something done before the end of the year. But I think also really the impetus is now in place, because recall on the last call we had said that the NAXI fund had not turned on.

It has now turned on. So to Bill's point, our transactions that we will be getting done in the NAXI fund and I don't think people are going to want to miss those.

Bill Janetschek - ***KKR & Co. - CFO***

And just to be clear, because I want to make sure that based upon what Chris asked earlier, if an investor waits until December and they close in December they are going to pay a full quarter of fee just like someone who is already in the fund today.

Roger Freeman - ***Barclays Capital - Analyst***

Right, okay. Then sort of my last couple of questions here. In the public markets, actually can you give us an update on how the long/short team is doing?

Secondly, just sort of strategically with Prisma now, you look at your footprint across this sort of Liquid Markets space. Do you think you have kind of got what you need to build from there, or are their holes at this point?

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Thanks, Roger. This is Scott, I will take those. The long/short equity team has been doing well. It has been a tough year for long/short equity generally in the hedge fund space and our team has outperformed the market. And so we will be pleased with the performance.

As you know, we have only been in the business for a bit over a year. We just passed not long ago in August our one-year anniversary. So we are pleased with the performance.

Frankly, we have been focused on getting investment performance as opposed to scaling the business so the overall size of capital we manage is somewhere between $400 million and $500 million today. But we have been really pleased with the performance, especially the last several months where we are continuing to gain momentum. So more to come on that in future quarters.

In terms of Prisma and the footprint, I think we have now got, between Prisma and KES, plus our liquid credit businesses, we have got a significant amount of capital, $20 billion-plus in liquid investments and liquid alternatives. So we have got a real scale across equity and credit today.

And I think there is more to do. I think when you look at the amount of capital rotating into liquid alternatives there is a lot of opportunity for us remaining in that space. You know that we have launched or are in the process of launching a high-yield mutual fund, some closed end funds.

We have our private BDC that we have talked about in prior quarters. So we think there is a significant amount of opportunity in liquid alts, and we continue to look for teams to continue to build the firm out reasonably organically and then also potentially for acquisitions as well.

Roger Freeman - ***Barclays Capital - Analyst***

Thanks, Scott.

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Thank you.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - ***Sandler O'Neill - Analyst***

Good morning. First, just in terms of fundraising more broadly, how are you thinking about potentially coming to market with smaller, more specialized strategies versus the bigger regional private equity mandates that maybe give you a bit more flexibility to invest where you see the greatest opportunities? I suspect it is a bit of both, but how do you see that balance playing out going forward?

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Michael, it is Scott. Look, I think it is a great question and I think balance is the right word. So if you think about it we do have our three big geographically-focused private equity funds in North America, Asia, and Europe. But if you think about what we have been doing more broadly as a firm have been building out a series of other strategies that are each more modest in size and more specialized in focus.

And so just to name a few. China Growth Fund, which we raised not that long ago. Obviously focused on smaller investments in China, minority investments in particular. We have got the Infrastructure Fund which we closed earlier this year.

We have our Natural Resources Fund, which is a very specific targeted, focused investment area in conventional oil and gas. We have special situations, we have direct lending. We have got a recently launched Energy Income and Growth Fund, which is yet another strategy in oil and gas, broadly defined.

So our view is right now is we like having both. We like having the kind of flagship, bigger funds, but we also like the specialized focus of the smaller funds. Diversifies our bets, allows us to invest behind our ideas, and each of those businesses with performance we think gives us an opportunity to scale pretty meaningfully. As you know, in our business if you have good performance and the investment opportunities are there fund two and three can be meaningfully larger than fund one.

In addition to that we are doing specialized separate accounts for other opportunities to access some of these interesting investments around the world.

Bill Janetschek *- KKR & Co. - CFO*

And just to add on, I mean if you take a look at page 20, the special situation vehicles, we have raised in public markets about $2 billion. And so those vehicles are fee-generating plus carry generating and those are based upon investor demand. Let's not forget also on the public market side we also have the mezzanine fund that we closed on about two years ago.

Michael Kim *- Sandler O'Neill - Analyst*

Got it. Then maybe just a follow-up on the realization discussion. Can you talk about what you are seeing out there in terms of the IPO market versus strategic sales versus secondary sales and dividend recaps? Is it fair to kind of expect more on the secondary sale and dividend recaps going forward, just given kind of the market dynamics?

Scott Nuttall *- KKR & Co. - Head, Global Capital & Asset Management*

I would say, Michael, it is going to be a mix of all of those. I mean as I mentioned in the prepared remarks, we have seen more strategic sale activity the last 12 months than we have seen in the prior 36-plus. So there has been more strategic activity. It is going to be a bit lumpy as to when it happens, but the nice thing with a strategic sale is you can often get all your capital out so it is quite efficient.

I do think we will see some more of that, it is just very hard to predict how much will occur. And so I think the primary place where we can control outcomes is on the secondary front.

We do have a meaningful amount of our portfolio, 30% give or take, in more liquid investments, the HCAs and the Dollar Generals, Nielsens, etc., where we have already taken a company public and have started accessing the public market through secondaries and dividends to get cash back to our investors. I think you will see more of that.

Dividend recaps, we have done relatively selectively. There has just been a couple of situations in the past where we have done it and we will look at those from time to time.

Craig Larson *- KKR & Co. - IR*

Michael just to add on that -- it is Craig. HCA is actually a very good example from a dividend recap, which Bill had touched on. But we will look for those credits that are modestly leveraged that generate meaningful free cash flow and tend to be more mature businesses.

So if you think of HCA in that framework, it obviously generates significant free cash flow and is leveraged very reasonably given both its cash flow profile as well as relative to its peers.

The other point on HCA is when you think of the most recent dividend recap it is actually pretty modest from a leverage impact. HCA has about 440 million shares outstanding, EBITDA of over $6 billion, so a debt-financed special dividend of $2.50 a share would actually increase the debt to EBITDA figures by less than 2/10 of a turn.

The second point on the dividend front, which is actually interesting which I think is just worth touching on is related to that is the strength of the leveraged credit market. And they certainly have been very strong. I think you saw some of that in terms of the incentive fee that we received this quarter in the public markets business, but its strength is also we have seen beyond straight dividend recaps and the like.

We have actually been very active working with the portfolio companies to take advantage of the market conditions to refinance indebtedness within our portfolio where it makes sense. So in the third-quarter loan we actually refinanced over $14 billion of debt, and that is roughly half of what we have done year-to-date. So, again, that is just another point related to this topic that is worth thinking of.

Michael Kim - ***Sandler O'Neill - Analyst***

Okay, that is helpful. Thanks for taking my questions.

Operator

Howard Chen, Credit Suisse.

Howard Chen - ***Credit Suisse - Analyst***

Scott, I just wanted to return to NAXI for a minute. If I take a step back, the secular tailwinds of underfunded LPs and wallet share consolidations seem to be intact. You are pretty happy about the improving performance of the portfolio and you've have distributed $7.5 billion over the life of the 2006 Fund.

So if I add all those factors together I guess I thought you would ultimately land the fund size above $8 billion and we would see a progression to the $6 billion from earlier this year. Did I overate all those positives or is there some other disconnect that you all are seeing out there?

Bill Janetschek - ***KKR & Co. - CFO***

No, I think you have characterized it reasonably well, Howard, in terms of the overall backdrop. What I would tell you is that the $6 billion close that we got to in the first quarter we did get there reasonably quickly, and then, frankly, a lot of our investors started to focus on the Asia II Fund.

We had a significant amount of overlap in terms of our investor base between those two geographic areas. I think, just given how their internal processes work, some of them decided to work on Asia ahead of NAXI. Now what is going on is they are kind of got that work done.

We got the $4 billion in Asia, and remember we launched that at the beginning of this year, so that happened much more quickly than I would have anticipated. And so if you're looking back at the beginning of year I would have thought we would have a bit more for NAXI and reasonably amount less for Asia. It just happened to be that Asia got more traction much more quickly than anticipated.

Now that we are through the investment period for 2006 the focus is returning to NAXI while people finish their work on Asia II. So I wouldn't take any big, great message from it.

The $8 billion, I gave $7 billion to $8 billion. Maybe we can do better. We think $7 billion to $8 billion is a reasonable range based on what we see today, but we have through early next year to finish the fundraising process.

But if I had to even go higher up, kind of 20,000 feet, if you think about capital that is allocated to buyout funds it's quite cyclical. And so in 2006 and 2007 there was $450 billion committed to buyout funds. Last year that number was about $70 billion. And so when we think back to the 2006/2007 period and think about raising capital for larger scale funds in this new environment it is a completely new world.

And so, to Bill's point, we raised about $15 billion of third-party capital for the 2006 Fund and that $15 billion compares to about that $450 billion that was committed in those two years. So about 3%. If you look at what we have raised between NAXI and Asia II, it is $10 billion so far.

Relative to the amount of capital that has actually been invested, the $70 billion last year and a similar number this year, our market share in terms of what we are actually getting committed to KKR versus the rest of the market has gone up considerably. And so you have got that broader backdrop in which we are all operating. I would also tell you that a lot of the cash that we have been sending back to our investors has been more recent and I think some folks have been quite pleased by the performance of the portfolio.

2006 Fund is now at 1.4 times cost. Those investments are seasoning quite nicely. We have told them in the past we think we will get that fund to 1.75 to 2, and we are tracking quite well. So we are optimistic and we will keep you updated as to how things progress on both funds.

Howard Chen - ***Credit Suisse - Analyst***

That is all really helpful context. Thanks for that, Scott.

Just staying on fundraising for a minute and shifting over to the public markets, the performance across the multiple public market strategies continue to look really good. I realize some of these strategies are newer for you all, but just given all of what you just said, how do you think about scaling up each of those major strategies and really ramping up the external fundraising with the other timeline that you have for the other major funds?

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Sure, let's maybe take it in pieces. So if we focus on public markets first, we have got two components of our credit business that is worth commenting on.

One is what we call the alternative credit businesses, so you have got the mezz business which is in the process of investing its first dedicated mezz fund. And so far, to your point, the performance has been great. We will seek to raise a second fund here in the not-too-distant future depending on deal flow, but we feel good about our ability to scale that business. That is going to be an episodic fund kind of business.

The special sits business, we are in the process of raising capital for that strategy right now in a dedicated fund format, kind of the first dedicated fund because we have been operating in separate account form to date. But I think we feel quite good about the performance there. First nine months 17%, 18% non-annualized IRR in that business this year, so it continues to track quite nicely.

Again, I think as we build that business over time we will be able to raise larger and larger pools of capital.

Direct lending, another first-time fund for us. It is not a large fund but it is a nice strategy for the firm. Good economics given that it is committed capital, and that fundraising process continues. So I think with between mezz, special sits, and direct lending we see a lot of opportunity as we get the funds two, three, four to have quite a bit of growth and, frankly, not a lot of change on the expense side because we have invested ahead of revenues.

When I move to the liquid side of credit, we manage about $12 billion, give or take, there today. We have been competing for institutional mandates and winning our fair share. That is an area where, frankly, you need to have a multiyear track records and we are anniversarying some of our track records, which is quite helpful in terms of being able to get into finals pitches. And I think we can continue to scale in high yield and loans.

The institutional side we are also spending time with high net worth investors across the credit platform. Then, as I mentioned, we are starting this retail effort which we think the liquid credit strategies are perfectly suited for. Our first two strategies there are going to be focused on high yield and closed end funds.

You can see how we have grown the AUM and fee-paying AUM in the public markets business. A lot of that is just continuing to get traction across these credit strategies.

Then as you move to -- your question on public markets. As you move to the hedge fund side of the house, Prisma has got a lot of momentum and great investment performance. And so our focus is integrating the team and that has gone very, very well. As I mentioned, we are continuing to win client mandates, frankly, ahead of our original expectations.

So we see a lot of room for growth. Just keep in mind, private equity is about a $1 trillion market. If you aggregate everything we are doing in credit and hedge funds, it is about a $4 trillion market. So we have a significant amount of room to run here.

Howard Chen - ***Credit Suisse - Analyst***

Great. Thanks for that, Scott. Then just finally for me, you have been helpful in the past to just highlight the continued high single-digit revenue and EBITDA growth that you're seeing in the portfolio. From all the data that you and the team compile how are you seeing those growth rates progress in a lower GDP environment? Can you just give us a flavor for what the team is doing to think about and drive like the next leg of value creation and EBITDA growth? Thanks.

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Well, just to give you a quick update, we do track it every quarter, so our private equity funds on a global basis the businesses that we own, revenue growth of about 7% last 12 months and EBITDA growth of about 9%. That is how we look at it, which is weighted by where we have dollars of exposure on the equity side.

I would say in terms of color, US operating environment is not great. We are kind of bouncing on the bottom. Some weeks it feels a little better than that, some weeks it feels a little worse, but the overall economic backdrop is uncertain to say the least. And so we are encouraging our management teams to focus on what they can control and invest for the future.

In some cases we are making add-on acquisitions and we are investing to take market share from our competition with a keen focus on managing expenses and keeping efficiencies up. But, overall, I would say the economic backdrop more of the same just kind of blah.

Europe, frankly, looks a little tougher lately. We have had good outcomes. We -- actually the European portfolio EBITDA has held up really well.

The growth in the value of our European portfolio this year, it is marked up 38% year-to-date for our European private equity portfolio. So the companies have held in there well, but if you really look at what is going on we have exposure in northern Europe, which has been reasonably well insulated. We have very little exposure to southern Europe and so that has served us well.

But having said all of that, harder to get revenue growth, more headwinds the last few months than the prior six. It is just a more difficult operating environment generally.

Asia is a bit of a mixed bag. Frankly, some headwinds in China as we have seen that economy slow a bit. Overarching comment though, if China's GDP growth is 7% versus 9%, 7% is still pretty good.

We are focused on areas that are not export driven, so think of local consumption-led businesses, the kind of growing middle class. And so our businesses, we think, are well-insulated. Little bit slower, but nothing that we are all that anxious about. And the businesses across Asia seeing significant organic EBITDA growth, kind of teens kind of numbers.

So overarching comment is it is a bit of a mixed story, but in terms of what we can focus on, which is driving the performance of our company's 7% top line, 9% bottom line, private equity funds up 20% year-to-date, and we are continuing to see real operational value creation by focusing on investing into some of the dislocation.

Howard Chen - ***Credit Suisse - Analyst***

Great. Thanks for taking all my questions, Scott.

Operator

(Operator Instructions) Marc Irizarry, Goldman Sachs.

Marc Irizarry - ***Goldman Sachs - Analyst***

Morning, guys. I just want to go back to NAXI for a second. Scott, can you talk a little bit about sort of the mix of LPs in that fund that you are seeing and the re-up rate, and how that compares to some of the other strategies, if there is a difference in terms to re-up rate and also the LP mix?

Then the pace of commitment seems a little bit, maybe a little bit -- maybe it is happening a little bit faster but it seems like maybe the outlook is that things are going to pick up. Are you sensing that velocity of money and sort of large cap LBL and hidden private equity world is becoming more of an issue, i.e., maybe the J curve effects are playing a bigger role in how LPs are thinking about putting money to work in alternatives?

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Sure. I will try to tackle both of those, Mark. I think in terms of NAXI, look, we have had a very nice re-up rate which has led us to kind of the sizable first close and relatively quick first close that we had. As we sit here today about 27% of the LPs in that fund are new to KKR.

So when you have a new investor it tends to be smaller, so it is about 10% of the capital but about 27% of the LPs. If you compare that to Asia II, as an example, those numbers are -- 38% of the LPs in Asia II so far are new to the firm and that is also 10%, 11% of the capital.

But we have been very happy with the re-up rate and, frankly, we have also been happy that we have been able to gather new clients for the firm and build new relationship. It's just that they tend to start out smaller when it is a new relationship and so we are seeing that dynamic a bit. But I would tell you it is really quite pleasing to us that we have got several clients that have been with us for five, 10, 20, in some cases 30 years that have come into NAXI and a lot of cases Asia II as well.

In terms of the second question about what we are seeing and the broader question about large-cap LBOs, I think it is continuing to evolve. We have seen this in our industry over the course of the last 20 to 30 years that there tend to be situations in times like these after a period where larger funds get raised and it takes time to get cash back. Investors feel flush, they wonder about when they are getting their cash flows back, so the allocations to new funds get smaller.

And so we have been working our way through that period as an industry. Obviously Asia, as we talked about with $4 billion in our first fund and capping the second one at $6 billion, that is maybe an exception to what I am saying. But North American buyouts, frankly, what we are seeing is I think more and more cash going back to investors than they would have anticipated a year ago and that is going to cause people over time to allocate more to this space again.

I think a number of people have taken a wait-and-see kind of approach. I think with valuations continuing to increase and cash flow continuing to increase back to them we will see more allocations starting to occur. So I think this is -- these buyouts here is really just part of a cycle that we are used to living in and over time it will just continue to play out.

The other thing I would say is the way we think about -- we do not get as stressed given we are used to that cycle. So if you think about how our business works, if NAXI is smaller than 2006 then NAXI will get invested more quickly and then we will be out raising a successor to NAXI that much more quickly. Also, we have our capital markets business which allows us to, frankly, get economics on third-party AUM that doesn't actually show up in the fund.

So we feel pretty good about the backdrop. As long as we keep performing and giving cash back we are optimistic about where we are going.

Bill Janetschek - ***KKR & Co. - CFO***

Mark, just to give you an idea on cash back to the LPs, Scott mentioned earlier that the capital we returned to our LPs this year is roughly going to be about $7.5 billion based upon information we know right now. And that number was $6 billion last year, so we are returning capital to our investors.

Just one other point. Keep in mind that three or four years ago when we were in the cycle of raising capital we didn't have our client and partner group. Now we have got a client and partner group, a dedicated team and they are about 40 strong right now.

So as Scott said, it is cyclical. So when we actually enjoy this cycle up when we have that team to go out and raise capital the amount of capital that we have the opportunity to raise is going to be higher the next time we go through the top end of the cycle.

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

And, Mark, one more thing just so you have the backdrop. The other thing we are seeing is a continuation of the trend of investors consolidating their relationships. And so I think we are going to see more capital allocated to alternatives and they will want to do more with fewer, and that is why, frankly, it is very helpful as we sit here today to have several things to talk to them about -- P/E, credit, hedge funds, energy, real estate, etc.

Marc Irizarry - ***Goldman Sachs - Analyst***

THOMSON REUTERS

Then just along that with the client partner group, is your distribution sort of fully integrated, if you will, in terms of the ability to sort of cross-sell all those products?

Scott Nuttall *- KKR & Co. - Head, Global Capital & Asset Management*

It is fully integrated, so we have one team that focuses across all the different product areas including working with our colleagues at Prisma. We track this in terms of how we are aggregating new clients and our cross-sell statistics and those are continuing to improve. We are at 1.7 average products per customer.

Interesting thing is, if you look at the top 25 clients, they are at 3.6 products per client. So we have got a lot of opportunity there on the cross-sell front.

Marc Irizarry *- Goldman Sachs - Analyst*

Okay, great. Thanks.

Scott Nuttall *- KKR & Co. - Head, Global Capital & Asset Management*

Thank you.

Operator

Robert Lee, KBW.

Robert Lee *- KBW - Analyst*

Thanks. Good morning, everyone. I was wondering if you could -- maybe going back to Prisma and update us on how we should think about some of the flow-through of some of the financial impacts as it relates to [fee-related] earnings and potential carry. I'm going to work on an assumption that, to the extent it can generate performance fees over time, that a lot of that will accrue to the existing staff.

But, if you could, maybe just work us through some of the structure and how we should think of it financially?

Scott Nuttall *- KKR & Co. - Head, Global Capital & Asset Management*

Sure, Rob; it is Scott. We haven't disclosed much about the Prisma transaction or the economics of that business, but just to give you something to work with. So as I mentioned, third-party AUM a bit over $8 billion at the end of the quarter.

If you look at the kind of revenue economics associated with the business, it is not going to be a lot different than other hedge fund of fund businesses out there. So think on average 80 to 90 basis points all-in in terms of total fee, both incentive and management fee revenue to assets. So that will give you a little sense how to think about the top line.

Highly profitable business. It was actually structured in such a way that the team didn't keep its incentive fees, per se. What happened is that all kind of gets consolidated into KKR and then they have a big earnout over time that will allow them to participate in the performance of the business in that matter.

Robert Lee *- KBW - Analyst*

All right. Great, that is helpful. Also, just wanted to see if I could -- just to make sure I understood some of the Asia Fund fee dynamics. Bill, when Asia I flips to its, I guess I will call it its harvesting phase, it goes to a 75 basis point fee on fair value, is that correct?

Bill Janetschek *- KKR & Co. - CFO*

Remember our funds, traditional private equities either based upon committed capital or invested capital. So it could be based upon invested capital. So if we fully deploy $4 billion and let's assume that we sell and we sold some investments off of Asia as of today, that number when a crossover occurs is about $750 million of cost return to our LPs. We are going to be collecting a 75 basis point fee on the $3.25 billion.

Robert Lee - ***KBW - Analyst***

All right, great. Actually that was it. Thanks for taking my questions.

Bill Janetschek - ***KKR & Co. - CFO***

Thank you, Robert.

Operator

Roger Freeman, Barclays.

Roger Freeman - ***Barclays Capital - Analyst***

Just one follow-up. Listening to your answer to Mark's question a couple of minutes ago, this notion of investors kind of circular plan to see money, capital returned and then re-upping. Is that with your close on NAXI coming up next year, I guess first quarter, is sort of the assumption there in your minds that you are going to have a reasonable amount of realizations and capital distributions over that time period to kind of get some of those larger investors over the hurdle?

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

I wouldn't necessarily take that message. I think we are optimistic over time about giving more cash back, but what I would say, Roger, is that a lot of the events that we have had year-to-date, frankly, have given them more confidence that there is going to be more good outcomes and liquidity coming off the portfolio. And that has helped kind of have the focus go from Asia back to NAXI a bit so they understand that there is quite a bit of upside in the 2006 portfolio we believe.

The other thing that has, frankly, been the impetus is what I said about just turning on the fund. So now actually there is a reason to move because they are missing deals, and so I think it is more the combination of the residual effect of all the cash we have been giving back plus the fact that they have actually got a reason to make a decision in the near term.

Roger Freeman - ***Barclays Capital - Analyst***

Okay, helpful. Thanks.

Scott Nuttall - ***KKR & Co. - Head, Global Capital & Asset Management***

Thank you.

Operator

I am not showing any other questions in the queue. I would like to turn it back over for closing comments.

Craig Larson - ***KKR & Co. - IR***

We would just like to thank everyone for joining and thank you for your interest in KKR. We will speak to you next quarter.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the conference. You may now disconnect and have a good day.

Editor

COMPANY DISCLAIMER

The Company has not verified the accuracy or completeness of this transcript.