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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's First Quarter 2019 Earnings Conference Call. (Operator Instructions) I would now like to hand the call over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead sir.

Craig Larson ***KKR & Co. Inc. - Head of IR***

Thanks Justin. Welcome to our first quarter 2019 earnings call. Thanks for joining us. As usual, I'm joined by Bill Janetschek, our CFO; and Scott Nuttall, our Co-President and Co-COO. We'd like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the Investor Center section of kkr.com. The call will also 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 like previous quarters, we've also posted a supplementary presentation on our website that we'll be referring to over the course of the call. And I'm going to begin by referencing Pages 2 and 3 of the supplementary deck.

Page 2 shows a summary of our 4Q metrics, and the strength of our underlying fundamentals are evident in our results and the trends that you see on this page. Perhaps most importantly, the earnings power the firm continues to grow nicely as can be seen by the charts on the left-hand side. Our AUM is now $200 billion and book value of $16.99 per share has increased 17% over the last 12 months. Alongside of this you see the management fees have grown steadily and on an LTM basis, our distributable earnings have increased 29% compared to a year ago.

Page 3 shows our results with just a little more granularity. We reported after-tax distributable earnings of $314 million for the quarter or $0.38 on a per adjusted share basis. And please remember that we report our distributable earnings after equity-based compensation charges.

Fee related earnings for the quarter were $222 million, and fee paying AUM on a year-over-year basis has increased 23% to $148 billion, reflecting our Europe V fund entering its investment period. And finally looking at these metrics on a trailing 12-months basis, you see strong growth across the page with LTM year-over-year growth ranging between 13% and 29%.

Now before I turn things over to Bill to talk about our results, I'm going to spend a few minutes on our ownership profile and the transformation we've begun to see in our shareholder base since we changed our corporate structure. As you likely remember, as a partnership, we concluded that our stock had become challenging to buy and challenging to own. So on this call a year ago we announced a series of changes. Most significantly, to make the stock easier to buy, we converted from a partnership to a corporation and this was effective on July 1st of last year.

As a corporation, we became eligible for more ETFs and indices and broadened the opportunity for us to appeal to longer term oriented institutions. And from a tax standpoint, all of our public shareholders have just gone through the final time that they'll receive a K-1.

To make our stocks easier to own, we made some additional changes, all focused on simplification. We simplified our public reporting with a focus on distributable earnings instead of ENI as our primary earnings metric. And we've given updates on our monetization activities during the quarter to help make DE easier to model. We felt that with both the simplification changes and the conversion, we'd have the opportunity to appeal to a broader universe of investors. So what have we seen as a result? Well, at this point we've seen a significant increase in institutional sponsorship and positive trends as we look at the composition of our ownership.

Page 4 summarizes our ownership as of December 31, 2018, which is the most recent information that's available to us compared to our ownership profile a year ago. And you see a few things from this. First, looking at the bottom part of the page, you see an increase in overall institutional ownership. The total number of shares owned by institutions that file 13Fs has increased by almost 50 million.

Most interesting to us though is the composition of those 13F filers. You see a sizeable increase in the investment management piece, with increased ownership both from mutual funds and passive strategies, with a meaningful decline in shares owned by hedge funds and broker dealers that are largely hedge funds that own us on swap.

We feel that the composition of our ownership has improved significantly. In the dialogue we're having with our shareholders, as we've talked about on prior calls, tends to be more focused on our opportunities over 3 to 5 years instead of over a number of months. And perhaps most importantly, it still feels like we have a long way to go before this transition will be completed. We're still introducing ourselves to new firms and new investors.

In summary, if we can continue to perform the way that we have over the last 12 months and at the same time see continued progress in the transition of our shareholder base, we think that combination really has the opportunity to be powerful for all of us.

And with that, I'll turn things over to Bill.

William J. Janetschek ***KKR & Co. Inc. - CFO***

Thanks Craig. Let's start with investment performance. Please take a look at Page 5 of the supplement, where we summarize growth investment performance across strategies for the trailing 12 months. In private equity, our flagship funds appreciated 10%, and our private equity portfolio as a whole appreciated 15%. These statistics compare favorably to the MSCI World, which was up 5% on a total return basis.

Our real asset strategies are performing, with our more mature real estate infrastructure in energy flagship funds up 8%, 11%, and 8% respectively. And in credit, our alternative and leveraged credit strategies have appreciated 7% and 4% respectively on a blended basis.

On the heels of this investment performance, let's turn to Page 6 and review overall where our funds stand today. Of the $123 billion of carry eligible AUM that we manage, the lion's share, or 99%, is at or above cost. And roughly 71% of that AUM or $88 billion is above its respective hurdle and is either paying or in position to pay cash carried today.

One of the most interesting aspects of this page is that this $88 billion figure increased from $57 billion a year ago, a 54% increase. So when you look out over the next few years, as our younger funds and strategies continue to season and work their way through their preferred returns, we have a significant opportunity to see realized carry generation across a much more diverse number of funds and strategies in addition to traditional private equity.

Let's turn to monetization activity in the quarter and carry generation. As reported in our monetization update earlier this month, activity this quarter was driven primarily by strategic exits, including the sales of Sedgwick and United Group, as well as a secondary at GoDaddy. On a blended basis, the PE exits were done at 3x our cost. And with the GoDaddy transaction, we have now exited this successful investment. In aggregate, over its whole period, GoDaddy returned 5.6x our cost.

Turning to fundraising and the AUM roll forward, capital inflows totaled $6.3 billion in the quarter and $30 billion over the last 12 months. Activity in the quarter was diverse, with inflows across multiple strategies including private market SMAs, real estate credit, Europe PE and a number of credit strategies including CLOs, leveraged credit, private credit and BDC capital.

Capital inflows over the trailing 12 months contributed to $58 billion of dry powder at quarter end. Importantly, we also have $20 billion of capital commitments that become fee paying when they are invested at a weighted average rate of 100 basis points, providing direct line of sight towards future management fees.

In terms of new investment opportunities, this was an active deployment quarter for us. We invested $5.5 billion across businesses and geographies. Public market deployment was $2.2 billion, coming primarily from investments made in direct lending and private credit. And in Private Markets, we invested $3.3 billion. Approximately 1/3 of that deployment was in Asia across a handful of private equity opportunities as well as our first core investment in that region. We invested $700 million in both infrastructure and Americas PE, with the remainder falling across Europe PE, real estate and growth equity strategy.

Moving to capital markets, transaction fees for the quarter totaled $60 million. Unlike the third and fourth quarter of 2018, we did not close on any large investment opportunities with meaningful equity syndication, so transaction fees in the quarter moderated. The fourth quarter for context happened to be a record syndication quarter for us and activity in Q4 was very concentrated, with the 3 largest transactions driving 75% of capital markets revenue.

The underlying trends though in capital markets remain consistent with what we've now discussed for some time. The business is global with a healthy component coming from non-KKR-related transactions. This quarter 30% of revenues came from outside the U.S. and it was a particularly active quarter working with third parties. Over half of our revenue this quarter came from non-KKR affiliated transaction and our pipeline in the second quarter is quite active.

In terms of book value, book value per share increased to $16.99 as of March 31, a 17% increase over the last 12 months. Our largest balance sheet holding First Data saw its stock price rise 55% in the quarter. Our book value benefited not only from the GP interest we have in the 2006 Fund, but also through the direct co-investment that the balance sheet made alongside our fund investment.

So bringing all together, our after-tax DE came in at $314 million or $0.38 per share as Craig noted. We continue to operate with an attractive 50% segment operating margin and we maintained our low 40% comp ratio coming in at the low end of the range at 40% this quarter.

Before I turn it over to Scott, there are 3 additional things I'd like touch on. The first relates to EV where we've closed a $5.3 billion amount including $4.9 billion of third-party capital. The fund positively impacted fee paying AUM as at March 31 and will contribute to management fees in the second quarter. Based on third-party capital raised to date, Europe V will add about $45 million to annual management fees on a run rate basis.

The second point is on taxes and relates to our conversion from a partnership to a corporation. The tax basis step-up that resulted from the conversion depended on the basis of our shareholders at the time of conversion, information that was confirmed as part of the K-1 process that was just completed. I'm happy to report that the total tax base to step up came in at about $2.9 billion, ahead of the $2 billion we discussed at our Investor Day.

In total, if you assume a 23% tax rate, this will result in approximately $700 million of tax savings over 5 to 15 years, $200 million more than previously discussed. These savings are spread pretty evenly between tax-deductible goodwill that you'll see over 15 years and a step up in the basis of balance sheet assets and accrued carry at the time of conversion that will reduce cash taxes as those assets are sold.

And finally, we increased our share repurchase authorization back up to $500 million and have used $15 million of that authorization in April.

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

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Thanks Bill. And thanks everybody for joining our call today. This morning I want to spend time reminding you how young we are as a firm and the significant growth we expect as a result. It may sound strange for a firm that celebrating its 43rd anniversary tomorrow to say it's young. But in our case it happens to be true.

Take a look at Page 7 of the deck. It shows how our AUM has grown over time. Since the beginning of 2016, so in just over 3 years, we've raised over $100 billion of capital organically, which compares to the $120 billion of AUM we managed in total at that point in time. We've seen meaningful growth. What it also shows is that we first started to grow in asset classes outside of private equity in the 2004 time frame. So we were only in PE for our first 28 years. It's really been in the last 15 years that our non-PE businesses were started.

And during that 15-year period of time building businesses, we also went global and created our capital markets business and our balance sheet. Today, private equity represents about 35% of our AUM and it's still growing as evidenced by Europe V fund which as of March 31 was about 50% larger than its prior vintage. The other 65% of the assets we now manage are from all of the efforts started since 2004.

And if you turn to Page 8, you'll see another phenomenon with our younger businesses. It takes time, typically 10 or so years to achieve real scale when you build businesses organically. But when businesses reach that inflection point, the scaling can be dramatic. On the slide you can see what happened after year 10 for 4 of our efforts. The AUM and revenue charts speak for themselves. And the P&L scaling is even more extreme given that carry usually starts to be realized sometime between years 5 and 10. From our vantage point, what we find particularly exciting is that the vast majority of our strategies are less than 10 years old and are approaching that inflection point.

Take a look at Page 9 and look down the right-hand column of the page. You'll see 22 strategies listed here and the age of each. Of the 22, only 4 are more than 10 years old; 18 of the 22 have not fully scaled or reached their inflection point. If we perform we believe all of these strategies will scale over time, most of them quite meaningfully. And the P&L will scale as the asset scale and the carry begins to be realized. And critically the headcount and expenses required for the scaling are for the most part already here and already reflected in our P&L. So as you think about us, please keep this dynamic in mind.

Given this, in any period our fundraising activities are going to be a mix of younger and more mature strategies. Last year as an example, we had our $7 billion Infra III Fund and the first close of our 5th European PE fund, which combined total over $12 billion of new capital raised in 2018. This year we have fewer fundraises across our larger mature flagship strategies. We do however have multiple important raises for younger strategies, including real assets and credit in Asia, technology growth, impact, special situations, European real estate, energy and European credit to name just a few.

This is in addition to leveraged credit in our hedge fund partnerships, which are in the market fairly consistently. So think multiple smaller raises this year. It's also worth noting that as we stand here today, Asia III and Americas XII are each approximately 50% invested or committed given that we expect to have both our Americas and Asia private equity strategies raising capital next year in addition to continued scaling across a number of our businesses globally.

So we expect to see more aggregate capital raised next year than this year given the large raises planned for 2020. But this year it's critically important for starting and scaling a number of our businesses. And we'll keep you posted as we progress.

Given the youth of our business and the picture on Page 9 of the deck, you can see why despite our 43 years of history we feel like we're in the early innings as a firm and why we've been growing so quickly with our fee paying AUM of 23% over the past year.

We appreciate your support and interest and we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Craig Larson ***KKR & Co. Inc. - Head of IR***

And Justin, we would like to ask everybody if you wouldn't mind please limit yourself to one question and one follow up if necessary to make sure we can work our way through the queue. Thanks in advance.

Operator

Yes sir. Our first question comes from Bill Katz from Citi.

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

Bill, maybe I want to start with you just coming back to the incremental DTA associated with the Section 754, something we've been spending a lot of time ourselves lately, can you give us maybe an updated guide around how that sleeves into the tax outlook for next couple years? And did that at all change how you're still thinking about the ultimate dilution?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Sure Bill. Well, at a very high level again, the step-up that we reported was roughly at $700 million and again, approximately half of that it could be amortized over a 15-year period. The other half is going to be really tied to the asset sale, either on the balance sheet or in the funds particularly. So it's really hard to time when we're actually going to get that benefit. And so we actually gave some color over the last couple of quarters that when we were a PTP as opposed to a full C-Corp, our tax rate was about 7% and that just rough justice the number if over a 5-year period advanced 3%, that would migrate up to that roughly 21% number.

But again because it -- half of it is tied specifically to asset sales, it's really hard to predict and so in any particular quarter you might see the tax rate be 9% when you're expecting 12% and it might be 14% when you're expecting 11%. And so again the only thing that we'll do is we'll keep you posted as we further advance the planning around our tax position and no other color other than that, Bill.

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

Okay, that's helpful. Let me -- I don't know if you or for Scott, just curious as you think about your commentary between the capital raising for next year and then Slide 9 which has sort of the array of funds versus years, how do you sort of see the dynamics between capital return and growth? Just sort of wondering as you continue to scale your assets and diversify both the AUM as well as your fee related earnings drivers, does that in any way sort of change the dividend payout or sort of just general capital return dynamics?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

You mean at the public company level, Bill?

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

Yes.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

So I don't think it changes how we've been articulating or thinking about it. I think the point that we want to try to get across to everybody is if you look at that Slide 9 and you look at the 18 or so strategies that are less than 10 years old, the average life of those is somewhere between year 4 and year 5. And I think what we're trying to make sure everybody understands is that we see significant opportunity to scale those platforms, meaningful growth ahead for those businesses and a lot of those businesses were managing Fund I, maybe Fund II.

Some of them are really new businesses that have been created in the last 12 months. So I think the bigger point we want to make sure everyone understands is that we see significant growth in those businesses, those end markets are quite large, especially for areas like infrastructure and real estate. And so the opportunity ahead is dramatic for us and that's one of the benefits of having the relative youth across a large percentage of our activities globally. It does not necessarily change how we think about the overall capital allocation policies at the company itself. But I think the bigger point is we think about management fee growth, fee related earnings opportunities for growth and then the opportunity to meaningfully increase our carry from here, we see a lot of runway.

Operator

Our next question comes from Alex Blostein from Goldman Sachs.

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

Wanted to follow up with a question around management fees. I think I heard you guys say that the Europe V $45 million was run rate for the year once fees are fully in. Could you guys just highlight again whether or not any of that was already in the first quarter? And then I guess bigger picture, beyond sort of the larger flagship funds that you guys highlighted that sounds like you will start fund raising in 2020, what do you expect to be the main drivers of management fees from here kind of in this interim period?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Alex, this is Bill. As it relates to E5, it went into the investment period on March 31, April 1, and so the management fee will actually come through our P&L in the second quarter. So no management fees are reflected in the first quarter. And again based upon the capital we raised right now, the run rate management fees on that are going to be approximately $45 million. In between now and 2020, as we continue to raise capital, but more importantly remember we've got $20 billion of dry powder that -- that capital that's already been raised, as we invest that capital in the ground, you should see an uptick in our management fees. So that we've got as far as tailwind between now and 2020. And then as it relates to larger fund raises out in 2020 depending on obviously the size of the fund, the management fees will be dictated based upon the size of the funds that are actually raised.

Craig Larson ***KKR & Co. Inc. - Head of IR***

And Alex, it's Craig. Why don't I just run through where we're fundraising currently to give you a sense? We're fundraising for a number of our European strategies, so that's private equity, opportunistic real estate and credit. In Asia we're fundraising for strategies outside of private equity within real assets currently and we're also fundraising across our impact, energy, real estate credit, one of our growth strategies. And at the same time we have areas where we look to raise capital on a more continuous basis. That includes our CLO business. We actually priced a U.S. and a European CLO earlier in April, the leverage credit platforms in the U.S. and Europe as well as the BDC and the hedge fund partnerships.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Yes, the only thing I'd add, Alex, is if you look for example last year, we raised about $34 billion. I mentioned the $12 billion of that was for Infra III and Europe V, but that leaves an excess of $20 billion that we raised for the non-flagship strategy. So we expect a meaningful amount of activity this year despite the big PE raises coming next year.

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

Great. Thanks for all the detail. My second question was just around some of the activity you guys highlighted earlier. It sounds like the pipelines are pretty active and the capital market conditions remain pretty open and you've seen pretty meaningful appreciation in your portfolio companies this quarter. Any update on sort of expected realizations you see so far in Q2? I think, Bill, in the past you guys kind of talked about what to-date known sales might be as we think about 2Q-3Q?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Sure Alex. Remember, I mean we're not even through April and so when you think about what's actually been closed or what's been signed to be closed, that number right now as we stand here today is a little north of $200 million. And when you think about other opportunities, when you take a look at the PE portfolio that we've got, roughly about 30% of that is in public securities. And so you mention that the capital market is open right now and so there's a lot of ways to drive monetization in between now and the end of the quarter.

Operator

And our next question comes from Gerald O'Hara from Jefferies.

Gerald Edward O'Hara ***Jefferies LLC, Research Division - Equity Analyst***

Maybe just picking up on Slide 4 and sort of shareholder base evolution comments and metrics provided here, all very helpful and insightful, but perhaps you could elaborate a little bit on where you see the continued opportunity to evolve this where you might think it is with respect to the evolution in terms of I don't know maybe kind of mid-innings, late innings? And ultimately where you might see it going in the future?

Craig Larson ***KKR & Co. Inc. - Head of IR***

Hey Jerry, it's Craig. Look, I would focus on the mutual fund line, if you look at both the mutual funds as a percentage of our float, we're still meaningfully underweight relative to that statistic if you look at that across S&P 500 financials. And on the flipside of that, you still look at that hedge fund and broker dealer percentage in terms of percentage of our float and I think there's still room for that meaningfully to come down. So the real focus from here is going to be on that mutual fund line in addition to that other institutional one.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Yes, the only thing I'd add, Jerry, is if you look at the date on that slide, it's December 31 and as a reminder our conversion was really just at July 1 last year and I would argue we lost the better part of a couple of months to holidays and volatility at the end of the year, so I'd say we're still very early innings.

Operator

And our next question comes from Devin Ryan from JMP Securities.

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

Actually just have a follow-up on that point around the shareholder base evolution. Appreciate the update there. I'm just curious whether as you're out meeting with investors and we're still seeing kind of that shift towards investment management, if there's any themes or kind of difference in themes or feedback from kind of a newer crop of investors relative to the old crop that may be shaping how you're thinking about you running the business, whether it be capital return, buybacks, anything else that you feel like is important to continuing kind of this progression towards a higher percentage of call it mutual fund ownership?

Craig Larson ***KKR & Co. Inc. - Head of IR***

Hey Devin, it's Craig. Look, you won't be surprised to hear me saying this, but I love all of our shareholders equally. I think the demand that we found and we feel in answer to your question, if you look at the hedge fund and the broker dealer piece, I think the typical investment horizon for that group does tend to be in a couple of months. And I think we felt this in the fourth quarter when volatility enters the market that group can go risk off-- all go risk off together and you have -- you can get offside from a supply demand standpoint. And I think that's something that's really impacted the volatility in our stock and the stock of our peers for that matter.

On the flipside of that, the conversation when we're having with mutual funds and those other institutional investors really does tend to be much more focused on a 3 to 5-year time frame and there's much less focus on what the DE contribution was from a secondary we priced a week prior and instead there's a focus on something like Slide 9 as people try and understand, gee, and look at these businesses that you're starting, what's the end market and what could that opportunity be in 3 to 5 years? And so that thinking is one that really is a lot more aligned to how we think about the firm and the business. And that really is a really stark difference as it relates to the dialogue that we're -- dialogue that we're having.

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

Got it, okay, terrific, thanks for the color there. And just a follow up on some of the expansion, the non-PE strategy is obviously having some success in coming from smaller base, but I'm curious what you're seeing with your LPs? And whether you're expanding the base of LPs or kind of growing relationships as you add more product and so you're kind of widening the net? Or whether you're seeing kind of the demand and growth just coming from your existing LP base existing relationships where you're just gaining more market share, a higher percentage of their wallet? I'm curious kind of where you are on kind of LP expansion?

Craig Larson ***KKR & Co. Inc. - Head of IR***

Yes, Devin, so we -- if we look back at the statistics we've shared over time, in around the 2007-2008 time frame we had 285 LPs. That number has been approaching 1,000. And so I think we've seen 2 things. One, an expansion in the absolute number of LPs and at the same time, there's a real opportunity for us from a cross-sell standpoint. So I think it's -- as we build these newer strategies, it's really a mix of the 2, and we'll often have LPs that have known us for a long period of time that are embracing the opportunities that we see. But at the same time, there are new relationships and strategies that could be more appealing relative to the larger benchmark strategies that we're known for. But I think we still see lots of room for improvement and continued growth on both of those.

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

Got it, great.

Operator

And our next question from Michael Carrier, Bank of America Merrill Lynch.

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

Given the big rise in carry eligible AUM that's paying now, can you provide me some color on the age of the funds within the $88 billion? And then the exit outlook ahead, Bill, I think you mentioned 30% or Craig, 30% public. That's one helpful metric, but just any type of color to try to get our arms around maybe the realization outlook just given where your funds are now?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Hey Michael, this is Bill. I couldn't give you an average age per se of what makes up the $88 billion, but what you've actually seen is, to state the obvious, we're 1 more year older in all of these funds, and those funds that were investing, now we're getting closer to their harvest period or if you have a fund that with the J-curve with the management fees up front actually now we are through their preferred returns, when we're at the opportunity now to sell an investment, we have the ability to pay that cash carry. So, again, what will end up happening is of all of the businesses that we have and all of the funds that we manage, as those funds continued to mature and performance is there, you will hope to see an increase in the carry-eligible AUM just continue to grow. But what we wanted to highlight on Page 6 of that supplement is just to show the power of another year of maturity and the growth in that carry eligible AUM growing from that $57 billion to the $88 billion.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Yes, one thing I would add, Michael, I think at our Investor Day last July we talked about the fact that our carry plus incentive fees, it's been around $1.3 billion or so trailing 12 months at that point and we saw a path for that to go to $2 billion over time. And I think what we're trying to tell you with this slide is it's not just a someday someway path, it's actually beginning to emerge in the numbers as these strategies season and these funds continue to generate performance. And if you look at Page 11 of the press release, gives pretty good detail on a number of the vehicles that we're talking about in that $63 billion in the right-hand side of the chart. So I think that the punch line from our standpoint is we see even more evidence that the path from the $1.3 billion forward to $2 billion is something we're working our way down.

William J. Janetschek ***KKR & Co. Inc. - CFO***

And then just one more bit of color on Page 8, and actually on the balance sheet, we've got right now net accrued carry on the balance sheet of approximately $1.5 billion.

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

Okay, good color. And then, Bill, just a small thing, the fee credits this quarter seemed a bit higher than what we typically see. Anything unusual in there? And maybe just provide a little color on what tends to drive that?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Well, the big driver is actually in private markets, the transaction fee. So if the transaction fee is up to the extent that we have fee sharing with our LPs, so we'll go -- the fee credit, transaction fees are down, likewise the fee credit will be smaller. During the quarter there was nothing of significance that would have changed that real allocation between how much is the fee we actually record and the sharing that we have with our LPs.

Operator

And our next question comes from Brian Bedell from Deutsche Bank.

Brian Bertram Bedell ***Deutsche Bank AG, Research Division - Director in Equity Research***

Just to start on Slide 8 and 9, the 10 year -- the scale slide, so maybe just to start with the capital markets business perfectly that seemed to scale and your -- after year 10 and moved out substantially higher 2017 and 2018. Obviously we had a soft quarter here in 1Q, but if you can sort of -- maybe hard to sort of predict of course, but if you can sort of give some color on what you think a range -- maybe a quarterly range of what the capital markets fees could be over say the next few years just to sort of get a -- I guess a comfort of whether we've reached that scale point and we're more like year 11 there in perpetuity or do we have risk of going back to sort of levels that year 10?

Craig Larson ***KKR & Co. Inc. - Head of IR***

Hey Brian, it's Craig. I guess a couple of thoughts on that. First, since as it relates to the quarter and Bill touched on this, but remember Q1 was a really difficult market environment, so if you look at new volumes in Q1, volumes were down pretty meaningfully. So institutional leverage loan volumes, global equity issuance, both down about 40% year-over-year, so it was a lighter quarter in terms of overall activity in the capital markets. And so I think we look at Q1 for us and actually think we did a very good job in a very difficult quarter.

As Bill had mentioned Q4 was a record quarter for us, had 3 pretty significant event type of financings. So I think the issue going forward is remember those events, financings are going to happen periodically, but you're not going to see those every quarter. So we said historically when you try and think about the framework of capital markets, a couple of data points. One, you look at the activity we had last year as an example, transactions where a year of fees of $20 million or more, so those are the larger more event type of transactions represented a little over half the revenue. So I think it gives -- that helps give you a sense of what can happen periodically.

At the same point in time, when as the AUM of the firm grows and as the strategies grow and as the -- those strategies season as our fund sizes grow, the opportunities set for us from a capital markets standpoint grows and grows, grows alongside of -- grows alongside of our overall presence. So I think we look at the growth in capital markets in terms of the part from our portfolio companies and think that regular way opportunity is one that's going to expand. If we transact more, that means there should be more opportunities for us from those event driven type of opportunities. And then if you think of the third party piece, that's another piece that's growing right alongside of this. And Q1 was an example of where that third party piece was a pretty high number for us. So I think we look at the overall performance of capital markets, feel really good about that trajectory and how the business is positioned and that's even in the framework of a quarter like we just saw in Q1 where volumes were actually down quite a bit.

Brian Bertram Bedell ***Deutsche Bank AG, Research Division - Director in Equity Research***

Yes. Okay. That's good color, thanks. And the follow up would be maybe just Slide 9, some of the newer strategies, Scott, you mentioned 18 of these are still on the newer side. Maybe if you can, again, maybe difficult to predict of course, but for some of the ones that are moving into that past the 5-year phase and moving closer to that sort of scale period, what kind of -- have you guys tried to assess what type of -- what level of AUM you think you could rate over say the next 5 years and some of the categories if you have conviction, and I guess I'd be focusing mostly on things in Asia as well as Europe?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Yes, sure. I'd say Asia non-private equity is almost all brand new. So if you look at infrastructure, real estate and credit for Asia which are high priorities for us this year, you can see that those businesses are all in the process of being started right now. So I'd say significant upside from 0. And so we're in the process of building teams and starting to think about how to begin those activities, and some of those activities are already underway. But very early days for Asia non-private equity.

I'd say for Europe, if you look at Europe real estate, if you could look at Europe direct lending, both of those efforts 4 years or so old, massive opportunity for growth in both. We're still as a consequence of that finishing Fund I. So we haven't even seen the Fund I to Fund II dynamic in any material way for Europe in credit and real estate on the more private market side. So significant opportunity for growth there too.

I think when we are all together last July at Investor Day, we put up a slide, Joe and I did, where we talked about our goal across all of the efforts that we're - to be top 3 in each of the businesses in which we focus. And the end markets here are so large and our youth is such that we see massive opportunities for scaling across virtually every line item on this page. And Europe and Asia non-private equity would very much be front and center.

William J. Janetschek ***KKR & Co. Inc. - CFO***

Just one bit of color again about Asia, when you think about infrastructure and you think about real estate, a lot of these platforms are already established. You already have the infrastructure that's already built. So as we bring on new mandates geographically in Asia, the profit margin from growing that type of business is obviously quite accretive for us.

Brian Bertram Bedell ***Deutsche Bank AG, Research Division - Director in Equity Research***

And do you sense any capacity constraints in those areas? I would imagine those markets, like you said Scott, are very -- the end markets are huge. Are you concerned at all about too much money getting raised and chasing to few opportunities in Asia and Europe in your Asian and European strategy?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

The short answer is "no". I'd say the level of interest in investing in alternative assets in Asia in particular is significant, and there just aren't that many players. So we're having a number of good dialogues across the region. As you know, we've got a real footprint, 8 offices, a significant investment in talent across the entire region which we're augmenting. So we are not running at any capacity limitations. It's really just giving our portfolio the time to season so we can get onto raising Fund II in Europe, and being out telling our story and accessing capital across Asia.

Brian Bertram Bedell ***Deutsche Bank AG, Research Division - Director in Equity Research***

Okay, great. That's great color.

Operator

Our next question comes from Glenn Schorr from Evercore.

Kaimon Chung ***Oppenheimer & Co. Inc., Research Division - Former Associate***

Hi, this is Kaimon Chung in for Glenn Schorr. Just had a big picture question. Just want to hear your thoughts on the competitive landscape with the potential for regulated big banks to reenter as competitors in a more meaningful way, particularly if the -- if re-proposed Volcker Rule goes their way, and also some big traditional asset managers have been making strategic moves either in venturing or expanding in the alternative investment space, what impacts do you see on the business activities, investment performance and also maybe talent recruitment and retention?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Great. So on the first, the question about the banks reentering the lending space, we haven't seen a big impact thus far on our efforts from that. I think we're reading the same media reports that you are. But when we look at the activities that we're undertaking in senior secured direct lending, which is probably where it would be most likely to show up, we have not seen that as of yet. We continue to find meaningful opportunity, especially at the large end of the market, big companies with $80 million, $90 million, $100 million of EBITDA plus. We have not seen a meaningful change in the competitive landscape to-date.

In terms of the second question, the traditional asset managers moving into alternatives, there has been some activity in the space. It's received quite a bit of attention. It has not had an impact on our business to-date.

Kaimon Chung ***Oppenheimer & Co. Inc., Research Division - Former Associate***

And as a follow-up and maybe just shifting gears, just curious on what you plan to do with the proceeds of First Data once fully monetized? It's a chunk investment, I think it's like 14% of your balance sheet.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

I wouldn't distinguish the First Data investment from any others. I think if you look at what we've been doing with our balance sheet, we've been using it to seize new strategies for the firm and to invest into helping to scale a number of the businesses listed on Page 9 of the supplemental deck. In fact you'll continue to see us do that. We've got $5 billion or so of unfunded commitments to our existing fund vehicles. So a lot of the liquidity on the balance sheet, both the existing liquidity and liquidity that emerges over time, will be used to fund those commitments and to invest further into growth. And what we're doing is focused on using the balance sheet to make sure that we drive fee related earnings growth and the opportunity for carry to grow as well.

And just a clarifying point, the First Data transaction, there's been a merger announced between First Data and Fiserv. Just to clarify that in that transaction, we will be receiving stock of Fiserv, no cash proceeds day 1.

Operator

And our next question comes from Chris Harris from Wells Fargo.

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

A few questions on expenses. The comp ratio was right in line with your guidance this quarter. Does that 40% guidance still hold for the year? Or could you guys potentially do better than that? And then related, can you provide an updated view on the outlook for non-comp expenses for the duration of 2019?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Sure Chris. Well, what we said was when we tried to simplify our story and just really just highlight from an expense point of view just compensation, occupancy and operating expenses, we said that we were going to try to target a low 40%s comp ratio. And so when you think about what we've reported since we've actually converted to C-Corp and simplified our reporting structure, that number has been pretty close to the 40%. You could see that in the first quarter that is 40% as well.

I'm not going to be able to tell you with specific color that we're going to keep that at exactly 40% from now until the end of the year. That will all depend upon the revenue. Obviously, we need to compensate our people in order to make sure that we don't have a retention issue. But as the company continues to perform and the revenue is there, you should expect that comp ratio to stay more or less in line with where it has been this quarter and the prior quarters.

As it relates to expenses, if you go back probably a few years, that expense number is roughly anywhere in between 8% and 9%. And I don't think this quarter is any different. As a matter of fact, if I take a look at Page 6, the other operating expenses this quarter was 9%, last quarter it was 8%, first quarter of '18 it was 8%. And so again, when you think about the expenses that we're talking about, which is compensation and occupancy and G&A, 40%-ish plus 8% or 9% is going to get 50%, which dovetails nicely into what we've been communicating in that we want to actually try to target our margins from a segment operating earnings pretax to roughly about 50%.

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

Got it.

Operator

And our next question comes from Patrick Davitt from Autonomous Research.

Patrick Davitt ***Autonomous Research LLP - Partner, United States Asset Managers***

Follow up on the capital markets questions. Are there any new investment announcements you could point to that might generate one of those one-piece syndications you've talked about? And as we think more broadly, as we watch the announcements come through, what kind of size should we look for in terms of announcements that would generate those one-piece syndications?

Craig Larson ***KKR & Co. Inc. - Head of IR***

Patrick, we don't have any specific guidance to point you to at this time. It's always a case of when you're evaluating individual transactions, you never precisely know what's going to get over the finish line. And as I know you know we work with co-investment partners oftentimes from day 1 as we're evaluating those. So there's -- as Bill had mentioned in the script activity has -- has picked up, but nothing to point you to from a specific transaction standpoint.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

But I'd say into a quarter, Patrick, we're not going to point out individual transactions. I think if you want to look more generally at newer transactions announced across our private markets businesses where there's a larger equity check and a large debt component, those would be the attributes you'd be looking for, for the larger things. I would point you to the fact though that we have of a number of things that we work on constantly which are going to not be $50 million-plus fee events, but that could be quite meaningful in terms of contribution in the quarter. But if you're looking for the large scale things, the things that we saw close in Q4, it would be large syndications on the equity and debt sides what I'd look for.

Patrick Davitt ***Autonomous Research LLP - Partner, United States Asset Managers***

Okay. And then my quick follow-up is could you update us on the revenue and EBITDA growth trends in the PE portfolio? And then maybe a broader macro update across your major geographies in terms of what you're seeing in the portfolios?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Sure. So no real change from prior quarters. The portfolio continues to perform quite well. So think high single-digit to low double-digit revenue and EBITDA growth on a global private equity portfolio basis. If we look at our credit portfolio, we're seeing also very strong revenue and EBITDA growth statistics. If you look by region, it's actually been pretty consistent. We've got a good growth across U.S., Europe and Asia regionally. Part of that of course is where we're choosing to invest because we tend to invest in some higher growth opportunities across a number of the regions.

But from a macro standpoint, the economy in the U.S. continues to perform well. We've seen some sectors that have probably been through a little mini recession, parts of industrials, automotives, et cetera. But overall when we look at the consumer and services sector in the U.S. continues to perform quite well. Asia, we've seen China bounce back, and they've done a lot to re-stimulate the economy. We're seeing that show up in the portfolio. And Europe is kind of a different story, depending on the market. But when we look at our portfolio, we're quite pleased with the performance.

Operator

And our next question comes from Robert Lee from KBW.

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

Most of mine have been asked. Just one quick one maybe going back to earlier capital management question and specifically in how you're thinking about the dividend as you grow the business, I mean, would you -- are you at all tying it into say a specific growth of FRE or management fees, or how do you think about kind of the -- growing the dividend over time? Or is that not a priority, you'd like to just keep retaining the capital for reinvestment? How do you kind of think of that tradeoff?

William J. Janetschek ***KKR & Co. Inc. - CFO***

Hey Rob, this is Bill. I'll take that one. As it relates to capital allocation, remember when we talked about the change in our capital allocation policy and going back a couple of years ago, we said that as we continued to perform well and we generate revenue, and we generate profits that we will monitor our dividend accordingly. So as we continue to grow the business, you would tend to see modest increases in the dividend over time. But away from that, we like our strategy where we retain most of our after-tax profits and continue to put that capital into our balance sheet to invest alongside our third-party investors and the capital that we manage and then on occasion use that capital for strategic activity. So again, I don't think there's any change in our capital allocation policy since we announced it going back a few years ago. And the only thing I will tell you to do is stay tuned.

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

There is no explicit tie, if that's the question. Robert, I'd say the articulated strategy is to have a dividend that we intend to grow over time, and that has not changed.

Operator

And our next question comes from Michael Cyprys from Morgan Stanley.

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

Your business has grown a lot over the past 5-10 years. Just curious if you're thinking about the earnings profile as you look forward from here, when and if the cycle does turn. I guess how can you -- how do you think about navigating through a downturn with the least impact to your earnings? And how are you thinking about the overall impact to your earnings profile?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Well, I'd say -- hey, Michael, it's Scott. I'd say if we see some kind of a market dislocation or downturn, I think that's great news for us. We've got the $58 billion of dry powder. We have significant liquidity on the balance sheet. Say when we were seeing some dislocation begin to emerge in the U.S. in November and December, we were actually getting pretty enthusiastic around here. And then obviously a lot of that reversed through the course of the first quarter. So I think from our standpoint, if we see some dislocation, we think 3 to 5 years out, that is going to be better for our long-term earnings profile than if we don't. If we see some in the near term, I think our job globally is to take advantage of it where it emerges. But I think there's a risk that we all end up being a little bit too U.S.-centric in our mindset in discussions like this.

We've seen a pretty big dislocation over the last couple of years in different parts of Asia. We've seen it in parts of Europe. We've seen it in elements of the U.S. economy already and we've been leaning into those opportunities when we have them. And I think our perspective is it's very hard to judge the investment opportunity for our business by looking at broad market indices because the 50,000-foot view doesn't do much. That's not where we operate. It's where can we find pockets of dislocation and opportunities where we think value is not really recognized by the public markets. And we found a lot of opportunities where the public markets do not like complexity, and are overvalued in growth and simplicity. And we've been investing into those situations.

And that's where you're seeing a lot of our deal flow. A lot of the noncore subsidiary purchases that we've done have come from that, where you've got public companies looking to simplify their story. And so we've been very active, as you've seen in the numbers. Despite when you look at the market indices overall, you haven't seen a big dislocation, but we tend to operate at the 5-foot level, not the 50,000-foot level. And at 5 feet, there's a lot to do.

William J. Janetschek ***KKR & Co. Inc. - CFO***

And the one good thing about our model is where we stand here today, we talked about earlier on Page 9 in the supplement, we're in 22 strategies, and we're around the world. And so there might be dislocation in some strategies, but not dislocation in the other. So from a diversification point of view, that's why our model is a lot stronger today than it certainly was 5 years ago if there was market disruption in one of those strategies.

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

Just as a quick follow up maybe just on the strategic partnership relationships that you have, if you could just give an update on those partnerships where we stand today and what the pipeline looks like for new partnerships and how you're thinking about expanding that from here?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

And just to clarify, Michael, are you talking about with limited partners that invest with us in strategic partnership format? Or are you talking about their hedge fund strategic partnerships?

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

With the LPs that invest with you?

Scott C. Nuttall ***KKR & Co. Inc. - Co-President, Co-COO & Director***

Great. Thanks for the question. Our -- one of our stated strategies is to expand that effort meaningfully. So these just for -- reminder for everybody, when we say strategic partnerships, we're talking about large-scale, very long-term recycling relationships with our limited partners. So think someone gives us capital for an extended period of time across multiple strategies and we have the ability to use that capital 2 or 3 times over the course of a relationship and it's committed up front on that basis. And we have continued to develop that dialogue on a global basis with a number of different prospects.

We are making good progress I'd say with several of those. These tend to be large when they happen and they tend to have a 1-2 year plus lead time. But we have a dedicated team focused on that internally and we're pleased that the pipeline continues to develop. And a number of those dialogues are beginning to mature in such a way that we're increasingly hopeful we'll have more to talk about, specifically in the not-too-distant future.

Operator

And I'm showing no further questions. I would now like to turn the call over to Craig Larson, Head of Investor Relations for KKR.

Craig Larson ***KKR & Co. Inc. - Head of IR***

All right. Thanks Justin. Thank you everybody for joining our call. Please follow up directly if you have any follow-up questions. We'll speak to you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.

Editor

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