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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth quarter and 2009 year end 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)

This conference call is being recorded. I would now like to turn the conference over to Jon Levin, Treasurer and Head of Investor Relations for KKR. Jon, please go ahead, sir.

Jon Levin - *KKR - Treasurer, IR*

Thank you, Operator. And welcome, everyone, to KKR's fourth quarter 2009 conference call. I am Jon Levin, Treasurer and Head of Investor Relations for KKR. And I'm joined on today's call by Scott Nuttall, a member of KKR, and Bill Janetschek, our CFO.

We refer you to our website, www.kkr.com, for important information, including a press release detailing the financial results of KKR. We would like to remind everyone that the following prepared remarks contain forward-looking statements regarding future events and the future performance of KKR. And representatives from KKR may make additional forward-looking statements in response to your questions. These statements do not guarantee future events or performance. Therefore, undue reliance should not be placed upon them. KKR does not assume any obligation to revise any forward-looking remarks that may be made in today's release or call.

On today's call, I will start with a short comment about our intention to seek a U.S. listing, as announced in the press release last night. I will then turn the call over to Scott, who will discuss the current environment. Following Scott's remarks, I will highlight a few points with respect to our financial disclosure since this is the first quarterly call since the closing of the business combination between KKR and KPE on October 1st, 2009. Bill will then conclude the prepared remarks with commentary on our financial results. Then we will open the call to questions.

We announced in the press release last night that we intend to seek a U.S. listing. We are working to prepare and file a registration statement with the US Securities and Exchange Commission. The registration statement will be subject to an SEC review period. And upon being declared effective, our objective is that the existing units of KKR & Co. (Guernsey) would be delisted from Euronext Amsterdam. A new unit of KKR & Co. (Delaware) would be listed on the New York Stock Exchange. We cannot predict an exact date or even which quarter this process will be completed, but we hope that it can be concluded within a number of months from when the registration statement is first filed.

Based on significant research as well as specific feedback from many of our investors, we do not plan to maintain a dual listing in New York and Europe. We believe there are significant benefits of concentrating the liquidity of our public flows on one exchange. We are grateful to the Euronext Amsterdam Exchange for a great relationship over the past four years.

As a result of SEC quiet period restrictions, we will not be able to comment further during the Q&A session, nor do we intend to make any other public comments on the U.S. listing process prior to the filing of the registration statement with the SEC. With that, I'll turn the call over to Scott.

Scott Nuttall - *KKR - Member*

Thank you, Jon. And thank you everyone for being on the call. 2009 was a dynamic year. On one hand, liquidity returning to the markets produced an upsurge in the valuation of securities across the capital structure. Our business, like many others, benefited from the strong recovery in the financial markets.

On the other hand, the overall economy remains challenged with high unemployment, anemic housing prices in many regions, fragile consumer and business confidence levels, and an uncertain regulatory landscape. The markets since the beginning of 2010 are already telling us that creating value going forward will be more difficult than in 2009.

Creating value in 2010 will require careful and creative investment selection as well as more active portfolio management. In short, success will be driven by what investors can add, rather than simply being long the markets.

In our private equity business, the value of our portfolio increased significantly during 2009, driven by the continued improvement in the operational performance of our companies and by the increasing value of comparable companies. During the course of the year, our private equity portfolio increased in value by 34% compared to the S&P 500 Index returns of 27%. During the fourth quarter, our private equity portfolio increased by 7.5% compared to the S&P 500 Index return of 6%.

With many of our portfolio companies, earnings growth in 2009 was driven primarily by cost-cutting measures as revenue growth remains sluggish. Given our continued cautious outlook, we remain vigilantly focused on cost control, operational improvement and expanding market share at our portfolio companies.

The much improved capital markets environment in recent months has enabled us to return cash to our investors from several of our investments. We were able to complete secondary stock offerings and initial public offerings with secondary components. In addition, certain companies were able to pay dividends as a result of improved operational performance and strong free cash flow. While we cannot predict when future realizations will occur, we will continue to focus on monetizing our private equity investments when opportunities present themselves.

We saw a significant increase in investment activity in the second half of 2009 as a result of several factors. One, investors and companies were able to more confidently project earnings following a stabilization of the environment. Two, credit markets improved materially. And three, sellers were more willing to transact as valuations returned to more normal levels.

We deployed $1.5 billion of private equity capital in the second half of the year, following only $600 million during the first half of the year. The strong momentum has continued into 2010, as we recently announced two transactions in Europe that are yet to close.

Two examples to highlight the recent activity in traditional buyouts include our TASC transaction, a $1.65 billion acquisition from Northrop Grumman in the fourth quarter, and the recently announced Pets at Home transaction, a GBP1 billion buyout in the retail sector in the UK. We structured both transactions using leverage of five to six times debt to EBITDA and equity contributions of approximately 50% of the purchase price. Most importantly, both businesses are leading franchises with solid growth prospects that we believe we can improve.

We are also focused on less leveraged growth investments. Many of our investments in Asia in 2009 had these characteristics, including our investment in Far Eastern Leasing, a finance company in China, and Ma Anshan, one of the first large-scale dairy operations in China. We also recently formed a partnership called Weld North to identify growth acquisition opportunities in the consumer space.

Finally, we made an investment in WILD, a leading manufacturer of natural flavor ingredients for the food and beverage industry, to help facilitate growth opportunities worldwide. We have $14.5 billion of dry powder in our investment funds. And we see good opportunities to deploy capital in this environment in our private equity business.

Now turning to our asset management business - As in private equity, our portfolios benefited from the market recovery during 2009. We saw significant increases in the prices of securities that we own. For the full year, the unlevered return of our corporate credit investments aggregated across the various portfolios that we manage was 56%, which compares to a 52% return for the S&P Loan Index.

During the fourth quarter, our returns were 5.7% versus the loan index return of 3.8%. As discussed with respect to our private equity business, 2010 will be more about picking the right assets for their fundamental characteristics and for their growth prospects. We believe our bottom-up fundamental approach to credit investing will serve us well in the current environment.

We continue to deploy capital in both originated debt product and our more liquid credit strategies and asset management.

We are seeing debt origination opportunities, particularly with middle-market companies who have not seen their access to the capital markets come back as quickly as it has for larger capitalization businesses.

We continue to expand our capital solutions effort, which is focused on special situations investing. This strategy includes rescue financing, control and trading distressed, exit financing, and debtor and possession loans.

To provide one example, we are working on a transaction where we are leading the financing for a company with potential covenant issues. With our asset management and capital markets businesses working together, we were able to source all of the required capital, from the asset-backed revolver to the term loan to the mezzanine capital, to meet the company's requirements, while creating an interesting series of proprietary investment opportunities for our investors. We raised $800 million during the fourth quarter to focus on similar capital solutions opportunities.

In addition, we remain focused on our liquid credit strategies. Despite the movement in the credit markets in 2009, we still see compelling investment opportunities and are actively deploying capital in the leverage loan and high-yield markets.

Finally, we turn to our capital markets and principle activities segment, which we are separately disclosing for the first time. The capital markets business is meeting our goals - helping our investment team secure financing for new transactions, and helping our portfolio companies navigate capital structure refinancing and access the public market. We have found that this business has been especially helpful in the current market, where accessing capital requires creativity and deep relationships with direct pools of capital.

During the second half of 2009, we saw the financial benefits from providing these services to our companies and transactions. Our principle investments benefited from the value appreciation that we saw across our private equity portfolio. But we'll go into more detail on this later in the call.

Before turning it back to Jon, I just want to spend a minute on capital raising. The environment has improved materially over the past year. A year ago, investors were assessing the damage inflicted by the market crisis and seeking liquidity anywhere they could find it. The idea of making new commitments took a backseat. However, during the course of 2009, as markets improved, both in terms of asset valuations and liquidity, investors found their portfolios in a better place. Following the improvement in the markets, investors revisited capital deployment strategies, starting with lower-risk investments, such as investment-grade debt, and slowly worked up the risk curve to assets, such as leveraged loans and high yields.

As a consequence, we are having active discussions with investors regarding higher-yielding credit strategies, such as mezzanine and capital solutions, for which we raised $800 million in the fourth quarter. As investors continue this rotation, we are seeing increased interest in longer dated strategies, such as private equity and infrastructure. We have had some success raising capital and believe the environment is much better. However, we still believe the process to raise capital will remain challenged, requiring patience, and more importantly, performance.

The last couple years have been difficult for all of us. While the second half of 2009 showed vast improvement, we still remain somewhat cautious. We are focused on improving the value of our portfolio, remaining disciplined in making new investments, and continuing to build relationships with our current and perspective partners. Now I'll turn the call back over to Jon.

Jon Levin - *KKR - Treasurer, IR*

Thank you, Scott. First, the KKR-KPE business combination closed on October 1st so the fourth quarter, which we are covering on today's call, is the first quarter following the business combination between KKR and KPE. Therefore, we are reporting our new segment reporting format for the first time. We have three reporting segments; private markets, public markets, and capital markets and principle activities. For the most part, private markets and public markets represent historical standalone KKR, except that the activities of our capital markets business removed from our private markets segment and combined with the balance sheet assets of KPE to form our new segment, capital markets and principle activities.

In order to help investors understand the historical results, we provided first through third quarter segment pro forma information in addition to actual fourth quarter 2009 information. The pro forma results present our business as if the combination between KKR and KPE occurred on January 1, 2009. The first four tables in the press release, on pages six to nine, present the segment information in sequential quarter format so investors can understand the trend lines quarter over quarter.

The next five financial tables, from pages ten to 14, show the segment build up for each of the quarters as well as for the full year. So basically, it is the same information presented in two different formats. The income statement is generally consistent with the format we have used in the past to present historical KKR information on a standalone basis except that we have now provided more detail in the investment income, showing the investment income derived from assets on the balance sheet separately from the carried interest and also splitting the net carried interest into its component parts.

In addition to the segment income information, we have provided the following additional disclosure. First, we provided segment balance sheet information on page 15. The segment balance sheet information is presented so investors can see the effect of folding KPE into KKR. As we've said in the past, historical standalone KKR had very little in the way of a balance sheet, so most of our book value of $4.2 billion, or $6.08 per share, comes from the combination with KPE.

One new metric that I would like to highlight is our disclosure of unrealized carry on the balance sheet, which investors can see in the private market segment - The figure was $156 million as of December 31, 2009. On pages 16 to 17, we continue to show the additional detail on our balance sheet investments, as we know this information is important to our investors.

Second, we enhanced our assets under management and fee-paying assets under management disclosure with the table on page 18. We provided the September 30 figures, we then adjusted those figures for the transaction by removing the net asset value as well as the unfunded commitments associated with KPE from AUM. We then rolled the figures forward to 12/31, consistent with what you would see with a typical asset manager.

Third, on page 19, we continue to provide fund level information, which has been very well received by the investment and analyst community. We continue to think this information is a useful way for investors to think about carry.

And finally, on page 20, we show the detail behind the calculation of our distribution. This is obviously new and we plan to include it every quarter. As a reminder, KKR's distribution policy is to pay substantially all of our cash fee related earnings net of taxes, our realized cash carry, and any necessary tax distributions to cover gains on the balance sheet assets, subject to exceptions outlined in the press release and financial report.

KKR Guernsey gets 30% of these distributions, and the amount net of applicable taxes is then distributed to the public unit holders. As we have said in the past, transparency is extremely important to us. And we will continue to add elements to our disclosure based on investor feedback. Now I'll turn the call over to Bill, who will conclude the prepared remarks with some comments on our financial results.

Bill Janetschek - *KKR - CFO*

Thank you, Jon. On a quarterly basis, I am going to try to keep my comments brief by focusing on key drivers and noting specific unusual items. As of December 31, 2009, KKR's assets under management were $52.2 billion versus $50.4 billion as of September 30th. AUM grew 3.5% over the last quarter due to the increase in the fair market value of our private equity fund as well as new capital raised in our public market segment. These increases were partially offset by distributions we made to our limited partners.

As of December 31st, KKR's fee-paying assets under management were $42.8 billion versus $43.0 billion as of September 30th. Fee-paying AUM fell slightly due to the distributions we made to our limited partners and the transfer of certain limited-partner commitments from the fee-paying private equity fund to a non-fee-paying fund. These downward adjustments were almost fully offset by new capital raised in our public markets business.

As a reminder, for the older funds in our private equity business, where we are in the post-investment or harvesting period, we earn management fees based upon remaining costs so when we sell investments, remaining cost goes down until and so will our fee-paying AUM.

For the three months ended December 31, 2009, fee-related earnings were $87.5 million compared to $67 million for the quarter ended September 30th. Fee-related earnings increased over the third quarter primarily as a result of higher monitoring fees in our private equity business derived from the termination payment on one of our monitoring agreements with the portfolio company. The fourth quarter payment of $46 million, which resulted in $29.0 million of net fee-related earnings, was significantly larger than the third quarter payment on a different contract at $26 million, which resulted in $9 million of net fee-related earnings. These types of payments may happen in the future, but we do not expect them to occur on a regular basis.

Also benefiting fourth quarter fee-related earnings was increased activity in our capital markets business. We view the capital markets activity during the fourth quarter to be relatively robust. For the full year, fee-related earnings were $247.4 million. Fee-related earnings for the full year benefited significantly from the monitoring contract termination payments in the third and fourth quarter that I just mentioned as well as from the ramping of investment and capital markets activity in the latter half of the year.

Turning to economic net income or ENI, there were two drivers here beyond the impact from fee-related earnings - carried interest earned from invested capital and investment income from our balance sheet assets. Carried interest investment income is driven by the change in value of our private equity investment from quarter to quarter. Due to the fact that the large majority of our balance sheet represents investments in private equity funds and co-investments in specific transactions, the principle activities investment income will also be largely driven by the changing value of our private equity portfolio.

Total investment income for the fourth quarter was $429 million. Total ENI for the quarter was $515 million. ENI in the fourth quarter was lower than in the third quarter due to a smaller increase in the value of our private equity fund. Our private equity funds were up 18.5% in the third quarter compared to a 7.5% increase in the fourth quarter. For the full year, ENI of $2 billion was largely driven by an increase of 34% in our private equity funds.

There are two things I want to point out as it related to investment income that drives ENI - First, as you will recall, 40% of the carried interest we generate will be allocated to KKR executives. In the income statement, we show this detail. The reason that the allocations to the KKR carry pool is less than 40% of the gross carried interest has to be with net loss sharing. There is no compensation allocation taken on the income that arises from reversal of net loss sharing liabilities because the liabilities are obligations of the public company.

Second, investors will note the line item management fee refunds, which accounted for a $23 million reduction to carry interest in the fourth quarter. This is the result of how the waterfall in our private equity funds is structured. When a fund moves from negative to positive territory on a mark-to-market basis, we reverse up to 20% of the previously accrued management fees. This is because 20% of the management fees must be returned to investors because we accrue net carry. The $23 million figure in the fourth quarter resulted from our Asia private equity fund moving from below cost to above cost.

Turning to liquidity for a minute, I will provide a few key pieces of data. As of quarter end, we had cash of $557 million and drawn debt of $734 million. Subsequent to the quarter end, we paid $429 million of outstanding borrowings using cash on hand as well as proceeds from the settlement of our investment in Sun Microsystems and the dividend we received as a result of the principle segment investment in HCA.

As of February 19th, we had approximately $305 million of outstanding debt obligations. Remaining uncalled commitments totaled $1.3 billion as of year end. We expect to fund these commitments using cash on hand as well as cash from realizations that may occur in the future. We expect these capital commitments to be drawn over a multi-year time horizon.

Finally, we are making a distribution under KKR's distribution policy Jon summarized to you earlier, and this results in a distribution of $0.08 per outstanding KKR Guernsey common unit for the fourth quarter, which is subject to withholding. The details for that calculation and its record date are provided in the press release. Thank you for joining the call. Operator, we can open up the call to Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question today comes from Marc Irizarry of Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. Thanks. Hey, everybody. Scott, question for you on the pace of capital deployment -- obviously, you've got a good amount of dry powder. And my sense would be that LPs are probably interested in seeing you starting to pick up the investment pace. What is sort of the outlook as we move ahead for you guys putting out more capital? What are you seeing in terms of financing conditions or valuations? Is there anything maybe that the portfolio companies are telling you? What's sort of the outlook for the pace of capital deployment?

Scott Nuttall - *KKR - Member*

Thanks, Marc. I think we're actually seeing much more activity than we've seen frankly relative to a year ago. A year ago, the only people that were interested in transacting were companies that had to sell assets. As you'll recall, the capital markets were shut for the most part and valuations had declined precipitously.

What's really happened over the course of the last year is a few things. One, I think companies have a better hold on what they think the forward earnings are going to look like. Two, the capital markets and credit markets in particular have come back. And three, valuations have increased. So we feel like we're returning much more to a normal type deal environment. And as a consequence of that, we're seeing our pipeline of interesting investment opportunities increase quite a bit.

As we look at the investment activity in the portfolio that we've got, both in terms of transactions for our portfolio companies and also new transactions, the activity level is up a lot over the course of the last year. It's not clear at all which -- how many of those transactions will happen. But if you looked over the course of the year -- I'm looking at page six -- we put out about $1.5 billion of equity capital in private equity in the second half relative to $600 million in the first half. And then we've announced a couple of transactions since year end. So I'd say the transaction activity continues to pick up, and it feels much more like a normalized environment.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. And then just in terms of exits, obviously looks like the IPO market had its sort of shaky start through the year. But how are you thinking about realizations out of the portfolio? And any context you can give us in terms of what the pipeline for realizations looks like.

Scott Nuttall - *KKR - Member*

I mean, it's very difficult to speculate on specific exits or specific timing for companies to access the public markets or otherwise exit. Our focus is on the things that we can control. And what we're focused on doing is trying to increase the profitability of our companies and prove them operationally on a sustainable basis and basically put ourselves in a position to be able to start the exit process when the markets are ready.

There has been a lot written about the IPO market more recently. We actually think it's a fairly rational and disciplined market right now. IPO investors want to make money. They want to see the investments that they make trade up. We agree with that. And we focus on making sure when we take our companies public that we have a nice runway and visibility to improving the business going forward. And our approach is to make sure that the IPO price is the lowest price the stock ever sees.

And so we think with that approach, and with that kind of philosophy, if we can continue to create value in our companies, the exit opportunities will be there; but it's really hard to speculate at the specifics or timing.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then just a nuance question on the management fees and also on the monitoring and transaction fees -- what's the right way -- if you pulled out the Dollar General fee that you had this quarter, what's sort of the right margin to think about on a fee-related basis, particularly when it comes to your management fees going forward? What's the right margin to assume pulling that out?

And then I guess the other part of that is -- can you talk maybe about the -- it looks like if you look at the monitoring and transaction fees together that the refunds on the management fees or at least -- I'm sorry, the credits, the fee credits that you had -- implied that the margins or the earnings that you had from those fees were higher. Could you just talk about how we should think about the margin on the fee-related earnings?

Bill Janetschek - *KKR - CFO*

Well, Marc, this is Bill Janetschek. How are you? With regard to thinking about margins, as I mentioned, they're -- in the fourth quarter, we had a Dollar General termination fee, and the net impact to fee-related earnings was roughly $26 million; we also mentioned that the capital markets segment was more robust than anticipated. And so if you strip those out, you could assume that the income from those two items would have been for the quarter roughly $50 million, and you could do your own margin calculation based upon that number.

However, keep in mind that prospectively as we have these one-off items, we're going to have more revenue, and the margins are going to be higher in particular quarters as opposed to other quarters -- and, so it's really hard to predict.

With regard to how the fee-credit works with our LPs, it's really a little complicated. Let's just step back for a second and just think about the mechanics of how it works. If we have a transaction and monitoring fee, we have to take that amount and allocate it based upon the equity that's allocable to the fund and the equity that's allocated to syndicated capital, and so in each instance, for each portfolio company, the allocation's going to be quite different.

Once you take that allocation to a particular fund, there's also fund expenses that are paid for a particular fund which would reduce that credit. So the way to look at it, Marc, is if you take the transaction and monitoring fee income applicable to a fund and reduce it by fund expenses, then the net amount of 80% is what's going to produce that credit. So it's really hard to predict each quarter what a percentage of the fee credit would be on monitoring and transaction fees because there's a lot of moving pieces.

Marc Irizarry - *Goldman Sachs - Analyst*

Got it. That's really helpful. And then, Scott, if I could just go back to capital formation and some of the comments that you made on fundraising, what are you hearing from LPs in terms of fees? And do you expect that the current fee structures that exist in the private equity world are going to remain the same or change in some way?

Scott Nuttall - *KKR - Member*

Well, we're not in the process of raising a fund in private equity today, Marc so it's hard to speak with any specific recent evidence. I think the general mood is going to be to continue to push on all of the firms for private equity funds, and I think that's something that we'll see over the course of the next several years. Frankly, we have found in the past that private equity fund raising, much like private equity investing is somewhat cyclical, and over time, there has been continued pressure on economics. But what we found is that if we perform, we're still able to justify to our investors the economics that we derive from the funds, and so I think there'll be continued pressure on the margins, but really, it's all about performance. And so that's what we're focused on today. And we'll have better information for you when we're in the market for our next private equity fund.

The only other thing I would say is that as we have made a large investment as a firm and continuing to build out the number of relationships that we have with investors. We don't have many investors on a relative basis, and so our hope is that as we continue to build close relationships with investors, and many of which are new relationships for us, that any kind of pressure that we get on the fee side will be offset to some extent by adding relationships, and that's also a focus of ours.

Jon Levin - *KKR - Treasurer, IR*

Hey, Marc, it's Jon. Just to add one thought to what Bill said earlier on the margins before we get to the next question -- if you think about the reason we laid this out quarterly is to help with some of that thinking. If you look at the first quarter, which was a quarter where we didn't have much in the way of transaction fees and the monitoring fees were kind of at a more normalized level, you're looking at a low 30s fee-related earnings margin. And then if you look at the fourth quarter, where you have some of that activity, you're looking at a 45% margin, and I would just tell you that that doesn't surprise us directionally, given how we operate the business.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. I'll jump back in the queue. Thanks.

Operator

(Operator Instructions)

And we'll go next to Michael Kim of Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hi, guys. Good morning.

Jon Levin - *KKR - Treasurer, IR*

Hey, Michael.

Michael Kim - *Sandler O'Neill - Analyst*

Just first in terms of deal flow, aside from the Pets at Home deal, it seems like most of your recent activity has been in the form of maybe establishing partnerships to broaden your investment capabilities. Is this something that you view as kind of an ongoing trend? And how might that impact the long-term economics of the business?

Scott Nuttall - *KKR - Member*

Sure. Hey, Michael. It's Scott. I'll take that one. I think we're seeing actually a variety of different types of deal flow in private equity. I mean, if you think we've done the Pets at Home transaction, as you mentioned. We also did the TASC transaction, which was a business we bought from Northrop Grumman, that was completed in the fourth quarter. I'd put those in kind of the more traditional buyout realm. We continue to see a significant amount of opportunities in that space.

However, we're also seeing opportunities for growth equity investments and for what we call kind of leverage buildups or partnership opportunities, which would be the Wild transaction and a number of things that we've done in Asia.

So I'd say it is fairly typical that we would look at both types of transactions - traditional buyouts and more growth equity or partnerships. I would say it's this part of the cycle that doesn't really surprise us because we've been through this before, so we tend to see opportunities for partnerships; and if you think in the past, we've done buildups in different spaces in the past, which have largely been done during periods of economic recessions where the markets have been more difficult.

I wouldn't take it as indicative of any long-term trend that's different from what we've seen in the past. If anything, frankly, we've been pleasantly surprised by how quickly the more traditional buyout activity has come back. And so we're really seeing both types of activity today, and as the markets have come back, we're seeing even some potential public-to-private transactions, which we would not have expected to come back this fast as well. So I wouldn't take any long-term message from it. I think it's normal course. And we're pleased, as I said with the volume of deal flow and the quality of deal flow that we're seeing.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then maybe just a follow up on kind of the exit activity -- do the recent issues in the IPO market perhaps impact your plans in terms of potentially coming to market with a new fund at some point down the road?

Scott Nuttall - *KKR - Member*

No, I think our perspective is that we've got capital left to invest in our 2006 fund, which is our North American fund. And as we invest that capital, we'll be returning to the market at some point. It's hard to predict when. But the level of activity in the IPO market doesn't really impact our thinking with respect to timing. We've found that if we can increase profitability and pay down debt and evidence value creation for our investors, that matters a lot and that's what we're focused on doing.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then just finally in terms of kind of the fair value of your funds in aggregate, looks like they're just about back to remaining cost. I know that you're planning on paying out essentially all the cash earnings of the asset management business in the form of this quarterly distribution, but does that suggest we could start to see maybe some sizable step ups in the distribution once you do start to exit more investments?

Bill Janetschek - *KKR - CFO*

Michael, this is Bill. With regard to cash realization, to the extent that we actually receive cash carry, our policy is that that amount will be distributed to our unit holders. However, keep in mind that as we exit particular portfolio company investments, we have to look at exits on a fund-by-fund basis, and the way our funds work is that if we have an investment in a particular fund that is below cost and if we exit an investment at a gain, we need to allocate that gain to that netting adjustment in order to fill that hole so that all investments in a particular fund are at cost or above. Once that happens, as we exit investments prospectively, we will have ENI carry and cash carry at the same time. Once we've received that cash carry, our intention is to distribute that cash to our shareholders.

Jon Levin - *KKR - Treasurer, IR*

And just one thought to add to what Bill said there -- so it doesn't affect in terms of the waterfall of carry. We get the same -- we get 20% of the gains from dollar one but the waterfall -- because we don't have a hurdle or preferred return in our funds -- but the waterfall is such that we fill holes before we take the cash. So it's not a magnitude of carry question; it's just the timing.

Bill Janetschek - *KKR - CFO*

Right. It's just all about timing.

Michael Kim - *Sandler O'Neill - Analyst*

Understood. Okay. Thanks for taking my questions.

Scott Nuttall - *KKR - Member*

Thanks, Michael.

Operator

And we'll go next to Michael Loungo of Liberum.

Michael Loungo - *Liberum Capital - Analyst*

Hi, folks. Good morning. Thanks for the call. And thanks for the good disclosures this quarter. You announced quite a few initiatives and investments since Q3 2009, the Pets at Home, WILD, the Northrop Grumman deal, and others. And while I know it's difficult to give specific guidance on the expected impact of these deals of your numbers, could you at least give us an idea, under the new segment organization, what areas of the Company these deals are expected to touch and maybe the nature of the revenue streams that would come out of sort of a Northrop -- the deal you did for the Northrop segment? Just to give us an idea of investing going forward under the new segmentation of the Company, what sort of revenue streams are available to us as you make new investments?

Jon Levin - *KKR - Treasurer, IR*

Sure. And this is Jon. Hey, Michael.

Michael Loungo - *Liberum Capital - Analyst*

Hi, Jon.

Jon Levin - *KKR - Treasurer, IR*

I think -- think about a -- the transactions you're referencing are what we would call kind of traditional private equity investments. So you can think about the capital to make those investments would come out of our private equity funds, which sits in our private market segment, and hopefully, if we do our job over time, those transactions will generate carry in the future.

THOMSON REUTERS

In terms of the upfront activity of actually making investment, I guess there's a couple things that can happen. We can take a transaction fee for the fund putting capital to work of which we would keep 20% of that, and 80% would go back to the LPs, unless there was some syndicated equity. We can at that time enter into an arrangement with the company for a monitoring fee, which would be an ongoing fee paid to the private market segment.

And then the last thing to really think about is to the extent that our capital markets business was involved in the transaction, and TASC being a good example there, where we may help organize or arrange or place or underwrite whatever you -- whatever the -- depending on the situation. Part of the upfront financing, we can generate revenues from that as well. And that would show up in the capital markets and principle activities segment. Is that helpful?

Michael Loungo - *Liberum Capital - Analyst*

Yes, very much so. And maybe we could touch on another transaction that falls outside of one of your portfolio companies, the Manchester United bond offering. So this appears to be a deal that was outside of the private equity -- traditional private equity business. Can you give an idea of what sort of revenue streams came out of a transaction like that?

Scott Nuttall - *KKR - Member*

Modest, with respect to a transaction like that -- Michael, it's Scott speaking -- and that modest amount of revenue would show up in the capital markets and principle activities segment.

Michael Loungo - *Liberum Capital - Analyst*

Okay. So they are largely advisory fees; there's no sort of capital at risk type fee earnings in the future on that transaction.

Scott Nuttall - *KKR - Member*

Correct.

Michael Loungo - *Liberum Capital - Analyst*

Okay. Another question on the monitoring fee -- the termination fees -- can you distinguish between how those fees are shared with LP investors in a traditional private equity fund versus syndicated equity or a co-investment equity opportunity.

Scott Nuttall - *KKR - Member*

Sure. Michael, it's Scott again. Just to give you a sense, as a general matter of course, the monitoring fee follows the capital invested and where it's invested from. So if it's coming from a private equity fund as a general matter, 80% of the related monitoring fee for that capital will go to the investors, for the LPs. And 20% will come to the general partner. And what will show up as the net line in our income statement will be that 20% net number.

Michael Loungo - *Liberum Capital - Analyst*

Okay.

Scott Nuttall - *KKR - Member*

If there is any capital that is coming from a non-traditional private equity fund, if it's coming from syndicated equity, as an example, it really depends on the arrangement that we have with the syndicate. In some of those situations, fees are shared 80-20. In some of those situations, we'll get a much higher percent than 20% of the monitoring fee. And so what you really see is a blend of funds and syndicated equity, which rolls through the income statement. So each situation's a bit different.

Michael Loungo - *Liberum Capital - Analyst*

Okay. And just to be clear on the Northrop deal as well as the Pets at Home deal, those are both financed -- the equity portion is financed through the traditional private equity funds?

Scott Nuttall - *KKR - Member*

To a large extent -- majority extent, yes. There may be a small amount of syndicated equity, but you're largely correct.

Michael Loungo - *Liberum Capital - Analyst*

Okay. Thank you. And then the distribution-- it looks like the results are reported gross of any tax consequences. So maybe this, the first quarter as a combined company, can you talk about how your cash and book taxes will look going forward?

Bill Janetschek - *KKR - CFO*

This is Bill. With regard to how the taxes are reflected, if you look at page 20 on the distribution schedule, what we do is we report our earnings gross. And then what we do is we take into account the fee streams. To the extent that a majority of the distribution is driven by fee-related earnings, the fee-related earnings are going to be subject to tax, and we will calculate what that taxable amount will be on that earnings stream.

To the extent that we're going to have cash carry, that cash carry as a distribution is not subject to tax in the PTP, and those economics are going to flow directly up to our shareholders. So if you take a look at the distribution calculation this quarter, you can see that the blended tax rate is approximately 36%. That's a little higher than -- sorry, that's a little lower than the anticipated tax rate on fee-related earnings of approximately 40% in any given quarter, the reason being is that in this particular quarter, we had some closing expenses that reduced that effective tax rate down to 36%.

But again, prospectively to the extent that we actually have a distribution, which is driven in large part by cash carry, the effective rate on the total distribution is going to be quite lower.

Michael Loungo - *Liberum Capital - Analyst*

Okay. Great. Okay. Very helpful. Thanks, guys.

Jon Levin - *KKR - Treasurer, IR*

Thanks, Michael.

Operator

And our next question comes from Macrae Sykes of Gabelli & Company.

Macrae Sykes - *Gabelli & Co. - Analyst*

Good morning. Just, Scott, a question for you -- I just read a recent article in the FT, talked about seven private equity firms preparing to submit bids for a financial services company. And then when I calculate the dry powder at KKR -- I think it's about $15 billion -- and other competitors, there's a substantial amount to do deals. So I guess I have two questions here. First, in light of the dry powder pressure from LPs to use capital and less confident corporate environment, do you think that private equity can achieve post recessionary returns similar to the past? Or do you think this cycle will be different?

And then specifically to KKR, do you think that private equity LP pressures to use committed capital is likely to drive higher prices? Are you seeing any evidence of that? And does this mean that there might be less opportunities for KKR?

Scott Nuttall - *KKR - Member*

Sure. Thanks, Macrae. I think first with respect to the cycle and returns, as a general matter, as I commented before, we're seeing a significant increase in our level of potential transaction activity. And as a reminder, most of what we spend time on are proprietary situations, relationships that we've been developing for a long time, so a period that -- press written on different auctions and how many PE funds may be around an auction. But we spend a significant amount of our time trying to develop relationships that we have a competitive advantage.

And we're seeing those relationships really bearing fruit and paying off as we've kind of entered this part of the cycle. As I said, people are in a mood to transact to a much greater degree than we've seen in the last couple years. And so we're actually feeling pretty good about it.

I think in terms of the question about this part of the cycle and the returns that we can get, we're seeing quite compelling opportunities. If you think about this part of the cycle, in the past, the returns have tended to be on average a bit higher than the long-term average for the industry, and I'd say that's consistent with what we're seeing. So it's hard to be specific. but I think as a general matter, yes, we see opportunity. Yes, we see an ability to continue to drive returns.

And on the price question, I think what you're seeing is that for good assets where there are real growth prospects that are visible and an ability for private equity firms to drive value creation, people are paying attractive prices to get those assets; but we have seen in the past that you're better off paying a good price and potentially a full price for a good asset than a cheap price for a not-so-good asset.

And so although we are seeing transaction activity pick up, we think people are being relatively disciplined, and on situations where there's a real attractive opportunity, there's some competition. But that competition is usually focused on the assets that -- where the real driver of value creation is something that's quite visible and achievable.

So we're not seeing transaction prices go through kind of historical averages. We're actually thinking that the market's quite disciplined and rational. And the good news is that despite a year ago where we saw the market just really stop functioning because prices and multiples had fallen so much, we're now seeing that as multiples have come back closer to historical averages, transaction activity is picking up. So I think what we'll say overall is it's been disciplined and rational. And I think we'll continue to see it that way. And I think our view is that the transaction activity will continue at a reasonable pace.

Macrae Sykes - *Gabelli & Co. - Analyst*

Great. So just -- so in terms of the pressure by LPs or the management of private equity firms in general, you don't necessarily think that that will materially affect pricing going forward. It's just sort of the pressure to put capital to work or sort of creating sort of a new bubble here. Or do you just see that continuing to be rational going forward?

Scott Nuttall - *KKR - Member*

I think we think it's going to continue to be rational. You need to understand how private equity funds are structured. There tends to be a five- or six-year commitment period over which capital can be drawn. So while there is -- we have $15 billion of dry powder or $14 billion of dry powder today give or take -- we have several years over which we can invest that. So as a general matter, we don't feel pressure to put capital to work. And I think as a general rule, the industry as a whole has several years left to run in those commitments. So I don't think that that's going to yield another bubble or a view that there could be a bubble in terms of private equity forced spending to push up valuations. We're not seeing that today.

Macrae Sykes - *Gabelli & Co. - Analyst*

Terrific. Thank you.

Scott Nuttall - *KKR - Member*

Thanks.

Operator

And we'll take a follow up from Marc Irizarry of Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. Thanks. Just a couple follow ups -- first, Bill, can you tell us what -- you told us what the commitments were, the $1.3 billion in GP commitments. What's the cash balance? You gave us I think some of the debt that you paid down, a good amount of debt and so far year to date. What's the cash balance to go along with the debt that you gave us?

Jon Levin - *KKR - Treasurer, IR*

Hey, Marc, we didn't update that cash number for the as-of date when we gave the debt number. But I think it's fair to say that most of that debt pay down that we did subsequent was using cash that we derived from the settlement of the Sun investment as well as the HCA dividend, so we didn't have to use a lot of cash on balance sheet to make that pay down.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then just in terms of the public market segment and your non-private equity businesses, if you look at the gross new capital raised and the distributions, can you just talk about -- that would imply that you had some net inflows there. What's happening in terms of flows into that business? I mean, you brought in what looks like over almost $1 billion in new money on a gross basis. Where are you seeing that money coming into? And then also, what are those distributions? Where are those coming from?

Scott Nuttall - *KKR - Member*

Hey, Marc, it's Scott. The preponderance of the inflows in the quarter came from the capital solutions effort that I mentioned during the opening comments. And if you look at page 19 of the press release, you can see that laid out in terms of the fund investments page. That was the preponderance of the capital raised in Q4 in the public market segment.

As a general matter, we are continuing to see interest in that strategy, which is largely our distressed and rescue capital strategy, and we're also spending time with investors on our more liquid credit strategies, including high-yield and leveraged loans.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. And then in the capital markets businesses, Scott, can you talk about the synergies between maybe your debt capital markets business and your ability to transact and close deals? Are there some synergies now that you're moving into the debt capital markets business that you're seeing that maybe weren't there before? Is it helping you close any deals?

Scott Nuttall - *KKR - Member*

Absolutely. I think we're seeing it help us close transactions, both in our private markets business and our public markets business. So when we look at a private equity investment as an example, we will in a lot of instances have our capital markets team involved from the beginning, helping to source the entire capital structure, both equity and debt. And as we've been building more of our originated debt strategies, specifically in our asset management business, Marc, we are also having our asset management teams work with our capital markets teams.

So I referenced the transaction we were working on now, where we are actually sourcing the entire capital structure for the company, including mezzanine capital and term loan and revolver. And we'll put a portion of those investments into our funds on the asset management side and syndicate the rest through our capital markets business, which is allowing us to provide that company with a holistic kind of one-stop-shop solution. So we're actually seeing quite a bit of synergy in capital markets across all of our investing activity.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. Thanks.

Scott Nuttall - *KKR - Member*

Thank you.

Operator

And we'll take our next question from Lee Cooperman of Omega Advisors.

Lee Cooperman - *Omega Advisors - Analyst*

Thank you. Appreciate the call. I was wondering if you could spend some time talking about your plans for KKR Asset Management. And how does KFN fit into that and whether you're better off operating as two entities or better off operating as one entity, given the inherent conflicts that might exist operating two entities?

Scott Nuttall - *KKR - Member*

Hey, Lee, it's Scott. Thanks for the question. I think we continue to see quite a bit of opportunity to grow our asset management business. We've mentioned in the past what we're doing in capital solutions or distressed area, what we've been doing in the mezzanine area, and then also continuing to build our liquid credit strategies, and that continues to be our focus.

KFN, as you well know, is one of the investment vehicles that funds those strategies in our asset management operation, and that vehicle, much like other vehicles that we have, is investing across a number of the things that we're doing in the asset management business. The only distinction is it's a permanent source of capital for the firm as distinct from the more private funds which have a life associated with them.

So we don't actually see it as a conflict per se. We actually have allocations, policies, and procedures between the different pools of capital. And at least for the time being, our view is that KFN is a separate entity that just happens to be a publicly traded entity, is a good strategy and approach, and for us, it works. It's basically a public version of a separate account that's investing across what we're doing, and it gives investors the ability to have liquidity on their investment that's distinct from the private strategies that we implement.

Lee Cooperman - *Omega Advisors - Analyst*

You don't think you put yourself in a position of always being a guarantor of what they do because they are participating in many of your deals?

Scott Nuttall - *KKR - Member*

We don't. I think, as you've seen, as we went through the last couple years of the credit market disruption, the firm did end up back stopping some rights offerings and other things for KFN and now has it back very much on a steady footing. But we don't view ourselves in that role at all actually. The investments that KFN has in KKR private equity companies are a limited portion of that portfolio. And our perspective is that, as those companies have performed well and that portfolio has performed well, which has helped the KFN portfolio basically recover over the course of the last couple years.

Lee Cooperman - *Omega Advisors - Analyst*

Thank you very much. Good luck.

Scott Nuttall - *KKR - Member*

Thanks, Lee.

Operator

And we'll take a follow up from Michael Kim of Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hi, guys. Just one follow up -- I know it's still early, but any initial thoughts on how the proposed Volker rule could play out, particularly as it relates to potentially prohibiting some of the banks from running private equity businesses? Is this maybe an opportunity to potentially acquire some of your competitors that may be embedded within the investment banks?

Scott Nuttall - *KKR - Member*

Thanks, Michael. It's Scott. Look, I think it's not real clear to us what's going to happen with the Volker rule. I'm not sure we're going to have any specific insight on that that will be incremental to your own. The way that we think about it, we're kind of focused on the things we can control. We very much can't control the outcome of that debate. Certainly, we can't see it being a bad thing for us. If it were to happen, I suppose there'd be an opportunity to potentially in terms of potential talent that we could bring on board or portfolios we could manage. But we're really not focused on the outcome of that. We can't see it as a negative. It might be a slight positive. But we don't think it's really going to have big impact on our business.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Fair enough. Thanks.

Jon Levin - *KKR - Treasurer, IR*

Thanks, Michael.

Scott Nuttall - *KKR - Member*

Thanks, Michael.

Operator

And that concludes the question and answer session. I'd like to turn the conference back over to management for any additional or closing remarks.

Jon Levin - *KKR - Treasurer, IR*

Thank you, Operator. And thank you, everyone, for your participation on today's call, and we'll see you next quarter.

Operator

With that, that does conclude today's conference, ladies and gentlemen. Again, we appreciate everyone's participation today.

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