THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

KKR - Q4 2014 KKR & Co LP Earnings Call

EVENT DATE/TIME: FEBRUARY 10, 2015 / 3:00PM GMT

CORPORATE PARTICIPANTS

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

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

Scott Nuttall *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

CONFERENCE CALL PARTICIPANTS

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

Bill Katz *Citigroup - Analyst*

Patrick Davitt *Autonomous Research LLP - Analyst*

Chris Kotowski *Oppenheimer & Co. - Analyst*

Brian Bedell *Deutsche Bank - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

Glenn Schorr *Evercore ISI - Analyst*

Robert Lee *Keefe, Bruyette & Woods, Inc.l - Analyst*

Michael Carrier *BofA Merrill Lynch - Analyst*

Devin Ryan *JMP Securities - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth-quarter 2014 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded.

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

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

Thank you, Andrew. Welcome to our fourth-quarter 2014 earnings call. Thank you for joining us. As usual, I am joined by Bill Janetschek, our CFO, and Scott Nuttall, Global Head of Capital and Asset Management. We would like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release. This 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.

This morning, we reported fourth-quarter and full-year 2014 results. Economic net income per unit was $0.05 in the fourth quarter and $1.84 for the full year.

Turning to our cash metrics, we reported fee and yield earnings of $208 million for the fourth quarter and $733 million for the full year, which is up 69% year-over-year. Total distributable earnings were $376 million in Q4 and $2 billion for the year, which translates into $0.44 of distributable earnings per unit net of taxes for the quarter and $2.47 per unit for all of 2014, which is 25% above the full-year figure for 2013.

And in terms of the distribution, we've announced a fourth-quarter distribution per unit of $0.35, which brings our full-year distribution to $1.90 per unit, which is up 36% from the $1.40 per unit we distributed in 2013.

And with that, I will now turn it over to Bill to discuss our performance in more depth, and then Scott is going to walk you through how we think about this performance in the context of our 2014 results.

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

Thanks, Craig. Before I walk through our segments, let me take you back to the KFN acquisition, as I think it helps frame our performance this quarter. One of the key reasons we acquired KFN was to generate more recurring cash income from our balance sheet, and we continue to see this through our financials.

As Craig highlighted, our fee and yield earnings continued to grow nicely. And focusing on our distribution, fee and yield earnings contributed $0.18 towards our fourth-quarter distribution. At the same time we increased the size of our balance sheet and today have $11 billion of cash and investments. And as we mark-to-market our balance sheet investments, changes in these mark have a dollar for dollar impact on our investment income and our ENI.

So in quarters where there is volatility, there is potential to see swings in our ENI, and that is what you saw this quarter. And we're going to walk you through it.

As we walk through ENI, it is important to remember that mark-to-market moves do not impact the cash flow of our business and cash flow remains our focus. Let me begin with our segments.

In private markets, our private equity portfolio appreciated 2.7% in the fourth quarter, outperforming the MSCI World by 160 basis points and resulted in gross carry of $233 million. That said, overall investment income within private markets came in at a loss of $92 million, driven by the lower marks on our balance sheet energy investments, which resulted in a net unrealized loss of a little over $200 million.

Scott is going to touch on our energy investments in a few minutes. As a result, we reported fourth-quarter ENI in this segment of $77 million, bringing the full-year ENI figure to $1.3 billion.

Touching on public markets, ENI in this segment was negative $11 million in the fourth quarter, down from $48 million last quarter. Similar to Q3, unrealized losses within public markets were driven by the mark-to-market write-down on our CLO portfolio on our balance sheet in the quarter, and this unrealized loss offset net interest and dividends, which were up about 17% in the fourth quarter.

Moving to capital markets, we reported fourth-quarter ENI of $21 million. We had higher transaction fees in the third quarter, largely from the First Data equity syndication which caused the ENI decline in that segment. However, for the full-year 2014, KCM revenues were up about 50% to $218 million. We continue to benefit from diversification in this segment as about 40% of these revenues are from outside the United States and 30% are from our third-party business.

We reported a December 31 book value of $12.07 per unit, which is up 11% on a year-over-year basis. Keep in mind, the 11% increase, or $1.24 per unit, is after paying out over $2 per unit in the distributions during the year. So our balance sheet is compounding at an attractive rate. Overall, our balance sheet generated a cash ROE of 21% for 2014.

As Craig mentioned, our distribution in the fourth quarter is $0.35 per unit, which includes $0.18 of field and yield earnings, $0.15 of realized carry, with the remainder coming from realized balance sheet gains. In the third quarter, which was the first full quarter with KFN in our results, fee and yield earnings also contributed $0.18 towards our distribution.

So from a cash standpoint, despite the challenging environment, the businesses continue to perform and the more recurring part of our distribution held steady.

On the realized carry front, our sale of Versatel and WILD in the fourth quarter at 2.8 and 3.3 times cost, respectively, contributed to the majority of the $0.15 of cash carry that we reported.

In addition, I'd like to give you a preview of the first-quarter distribution based upon where we stand today. Since December 31, we closed on the second step of the Alliance Boots transaction where we received 30% of the proceeds in cash and 70% of the proceeds in stock. We also sold Fotolia, a Europe III investment, to Adobe at two times our cost after owning the company only 2 1/2 years. We estimate that those exits will contribute approximately $0.22 to the first-quarter distribution. $0.20 will come from Boots, and of that amount $0.14 will come from realized carry and $0.06 will come from balance sheet gains. The other $0.02 will come from the realized cash carry associated with the Fotolia transaction.

Finally, in terms of AUM and fee paying AUM as of December 31, our assets under management were $99 billion and fee-paying assets under management were $83 billion. Both figures benefited from $500 million of investment activity in Direct Lending II and first closings of $2 billion of capital in Infrastructure II, and $1.6 billion in Europe IV.

Since December 31, we raised an additional $700 million for Europe IV, bringing the total fund size to date to $2.3 billion. And keep in mind these figures do not reflect approximately $6 billion of committed capital that will be included in AUM once it's invested.

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

Scott Nuttall *- KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Thanks, Bill. I'm going to talk about four topics today: the fourth quarter, the full-year 2014, the energy opportunity, and how our businesses are developing.

Before I hit those four, let's talk about our business model.

We are a bit different. Our model of marrying third-party capital, which always comes first, with our balance sheet and capital markets businesses allows us to generate more cash flow and return for all of us as shareholders from every investment we make. To put a finer point on it, our balance sheet and capital markets businesses generated over $1 billion of our $2 billion of cash flow last year. And the AUM we managed for third parties generated about $1 billion, or the other half of our total cash flow.

Given our model is different, we think you should analyze us differently. Ours is not just an AUM-driven model. We do not believe that attractive opportunities are endless.

Given that view, when we find an opportunity we like we want to monetize as much of that opportunity as we can for our fund investors and for all of us as shareholders. Our model allows us to do that. We believe the best metric to judge our performance is our total distributable earnings, our total cash flow that we generate.

For the fourth quarter our cash flow was $376 million, and for the full year it was $2 billion. As Craig and Bill mentioned, our cash flow was up 40% in 2014 over 2013, and our distribution per unit was up 36%. In addition, the more recurring component of our distribution, our fee and yield earnings, was up over 50% year-over-year.

So on our most important cash metrics we're making good progress. With that, let's turn to the fourth quarter.

Compared to our expectations we performed well on all metrics except for economic net income, which was impacted by unrealized mark-to-market declines in our balance sheet energy and credit portfolios. We also saw a write-up in our two largest investments, First Data and Walgreens Boots Alliance.

First, let me hit on energy. At the end of Q3 we had approximately $900 million of our $13.5 billion total balance sheet in energy-related investments. Those assets were more heavily weighted to our natural resources strategy, which we acquired as part of the KFN acquisition, and some seed assets from our energy income and growth strategy.

Those two strategies purposely take commodity exposure and use hedging programs to seek to protect our near-term economics and cash flows. The underlying assets themselves are performing. The on-balance sheet energy portfolio generated $90 million of cash in the quarter and over $120 million of cash for the full year. And Q4 included gains of $35 million from the sale of a drilling investment at an IRR over 50%.

So, for the metric we care most about, the energy portfolio was a strong contributor to total distributable earnings, accounting for 14% of the cash flow from our balance sheet of the year while representing only 7% of our total balance sheet investments.

We marked down the energy portfolio at year-end as a result of the precipitous decline in crude oil, natural gas, and natural gas liquid prices. Keep in mind that public oil and gas companies with market values below $1 billion fell, on average, almost 50% in the fourth quarter.

Valuations as of December 31 were largely derived from a discounted cash flow analysis. The net result of this approach is a $240 million write-down of the energy portfolio in the quarter in private markets, where those same assets generated $90 million of cash flow in the quarter.

As a result of our approach, the valuations are sensitive to the underlying commodity price assumptions at a point in time. So we expect our mark-to-market to move with commodity prices, both up and down. While we believe mark-to-market is important, we're going to remain focused on underlying asset performance, including the cash flow we're all getting from the portfolio.

The second area worth mentioning is credit. We had about a $120 million write-down in our balance sheet credit portfolio this quarter. About $70 million of this was from the CLO equity we have on balance sheet, and the rest was non-CLO credit assets that we hold. The contributing factors where loan market declines in the quarter, a small amount of energy exposed assets, and credit selection. Here again, the portfolio is generating good cash flow for us -- $40 million in the quarter and $118 million for the year.

So those are the two big contributors to our lower ENI this quarter. The third important contributor in the fourth quarter was First Data and Walgreens Boots Alliance. We wrote up our investment in First Data by 12% and we also saw an increase in value in Walgreens in the quarter. These two items combined contributed approximately $230 million of earnings in aggregate in Q4.

Now to the second topic of the full-year 2014. 2014 was a great year for us. I mentioned the 35% to 40% increase in cash flow and our dividend, but we also saw an 11% increase in our book value per share and a 55% increase in our fee and yield earnings.

We generated strong returns in exits for our fund LPs, had a record year for our capital markets business with revenues up 50%, and generated a 21% cash return on equity. Private equity performance continues to be strong. Our private equity portfolio outperformed the MSCI World in 2014 by over 700 basis points, and as highlighted, our key investments are performing.

If you look at our other, non-PE strategies, returns for 2014 were also strong. Infrastructure was up 13%, real estate was up 17%, and in public markets our Direct Lending, Mezzanine, and Special Situations Funds had annual returns of 8%, 14%, and 24%, respectively.

And critically, we were able to use our model of balance sheet, capital markets, and third-party capital to increase our participation rate in the value we created, improving our monetization of our best ideas for all of us as shareholders.

Now I'm going to move to the third topic, energy. We're getting asked a lot about energy and the opportunities we are seeing today in the wake of materially lower commodity prices.

Our teams are very busy working with companies and management teams that need capital and a thought partner. We believe the opportunity is immense and that expertise and relationships, both of which we have, will be critical components of success. Our energy and infrastructure platform is now approximately $10 billion across our funds, separate accounts, and balance sheet. Of this $10 billion, about $5 billion is dry powder. And we are attacking the opportunity in a cross-firm manner.

We have created an energy SWAT team centrally with members of our energy, infrastructure, special situations, and broader credit and capital markets teams working together to develop distinctive opportunities and optimize the investment of our available capital. While it is still early, we're already active in a number of situations, thus far focusing most heavily on private credit opportunities and drilling partnerships.

We went into this downturn very well positioned. If you look across the firm, direct energy is about 2.5% of private equity fair value, and on the credit side it's approximately 4% of our AUM. Direct energy is also now 7% of our balance sheet investments.

Across our energy-focused pools of capital, we have $1.4 billion invested and $2.5 billion of dry powder, so we are well positioned to take advantage of the opportunity. The summary is we have substantial capital in addition to the talent, resources, expertise and access to get this right. Now, we need to be smart, patient, but not too patient, and capitalize on this environment. More to come in future quarters on that.

The last thing I want to discuss is how our business is developing. As many of you know, in addition to having a unique business model, we've been in the relatively unique position of building a number of new businesses over the last few years.

Since 2010, we have created the following businesses and funds: Natural Resources, Infrastructure, Energy Income and Growth, Mezzanine, Direct Lending, Special Situations, Real Estate, and China Growth. Those eight strategies, or first-time funds, manage $10 billion of committed capital.

Performance has been mostly strong. Carry is starting to be generated and we're in the process of raising Fund II for a number of these efforts, including Infrastructure II, where during the fourth quarter we closed on $2 billion and are working towards the final close of $2.5 billion to $3 billion; Direct Lending II, and Special Situations II. We also expect several other successor vehicles to get launched this year on the back of good performance and a strong fundraising environment.

In addition to the Fund I launches, over the last few years we acquired Avoca and Prisma and took stakes in Nephila and BlackGold. These investments were accretive and we're pleased with the performance so far. And we're still creating new strategies adjacent to the businesses we've started or acquired, with the near-term launch of our European Direct Lending and European Real Estate efforts, and two new products in our hedge fund platform. And we continue to invest in growth selectively, recently hiring a real estate credit team to further expand our real estate platform and efforts.

Lastly, as you know, we've been building a broader sales and marketing team over the last five years. Since we began that effort we've grown from 300 investors to 825 or so. In addition, we've been increasing the number of investors who trust us in multiple products.

In effect, we've been building new relationships, largely by marketing first-time funds, over the last few years. We have a lot of opportunity on the distribution front to find new investors and to cross sell to existing investors, with the backdrop of successor funds, good performance, and a strong fundraising environment.

Our firm is at an inflection point. We think we're scaling our newer businesses at an opportune time, we're generating strong performance and cash flow from our private equity and capital markets businesses, and our model of balance sheet, capital markets, and third-party capital is working.

Thanks for joining our call. Operator, please open the line for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Craig, is there anything you would like to add before we open the line?

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

Yes. Thanks, Andrew. Just looking on the screen, we have quite a few people in the queue, so everyone could please ask only one question and then get back into the queue if you have any follow-ups, it would be helpful.

Operator

(Operator Instructions). Michael Kim, Sandler O'Neill.

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

I know you gave some guidance in terms of thinking about the distribution for the first quarter, but aside from fee-related earnings and realized investment income from KFN, which both seem pretty steady, just trying to frame the longer term upside opportunity, if you will, related to realized cash carry and realized investment income off the balance sheet away from KFN. Just in the context of some of the tailwinds around sizable embedded gains across funds that are seemingly continue to mature.

So any color related to that would be helpful.

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

Sure, Michael. This is Bill. I'll give you just a little more color around the distribution for 2015. It's hard to predict, but as you did mention, one of the main reasons why we did that KFN transaction was to have that more recurring distribution component.

And so, as you know, in the third quarter that amounted to $0.18. In the fourth quarter it was $0.18 as well, and so hopefully, based on continue to perform, that would be a more regular component of our distribution. Then, added to that, would be these realizations. And so we mentioned the Boots transaction, as well as Fotolia.

But what we also have in the queue when we made this comment either last quarter or the quarter before, was we are seeing some strategic opportunities and we announced the Zimmer/Biomet transaction, and that is expected to close probably in the second quarter.

And if you might have noticed a week ago, we announced a Big Heart Pet Brands transaction with Smuckers, where that is a part cash, part stock transaction. And once that monetizes, from a cash side, targeted in the second quarter, that will add to the recurring, hopefully, as we have more of these sales either strategic or secondaries throughout 2015.

I also want to point out, if you look at our private equity portfolio, right now about 20% is in public securities. And now that we have the Boots Walgreens transaction pro forma for that, it's about 30%. So during the quarter if the secondary market is available, we also have ways to monetize some of our positions that way.

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

Great. That's helpful. Thanks for taking my question.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

It's Bill Katz. Thanks so much. Just coming back to the performance metrics in terms of managing credit. Just sort of curious, when you look across your peers you give some good absolute returns. I was sort of wondering how you performed at a relative basis, and what if any impact might this have on capital raising in 2015? Obviously paint a very optimistic brush, but I'm wondering tactically if there's any headwinds here.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Bill, it's Scott. I think if you break it into individual components, the overall credit performance we have had continues to be top quartile versus -- across virtually every strategy we manage. And so we see a good fundraising pipeline for our credit efforts. We mentioned the Direct Lending II close, Special Situations II is in the market, and we've actually been very active issuers in the CLO market as well. So, I would take the marks in Q4 as moment in time marks.

The overall loan market was down in Q4. So, if you look through the credit marks, we had about a $70 million write-down in our CLO book. Given we have about $1.5 billion, give or take, of CLO exposure on the balance sheet, that's 4 to 5 points in the quarter. Most of which, frankly, is explained by just the market trading off of it, given the leverage in those underlying structures.

So credit, I'd say good fundraising pipeline, and we are optimistic about our ability to scale in that business, both on the CLO front and alternative front.

In energy you really have to break it into its component parts. The strategies that led to the markdown in the quarter are relatively small strategies for us in terms of our third-party AUM. So you're really talking about our Energy Income and Growth Fund, which is about 25% invested. So we have a lot of dry powder to invest into this dislocation, and we think that that is going to provide us with some very interesting return opportunities on a go forward basis.

And if you look at the portfolio broadly across our direct energy exposure, even the $700 million or so direct energy that we have on balance sheet, that portfolio was really down net 15% for the year. So we generated a lot of cash flow. We had some positive marks in positive quarters.

So if you isolate Q4, obviously you get one answer, but I think if you look for the whole year you get a different one. And our perspective is that we feel pretty well positioned, given how much dry powder we have across the franchise in energy.

Bill Katz - *Citigroup - Analyst*

Things for taking my question.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

It looked like there was a pretty big uptick in the dividend and interest income sequentially from the third quarter. Was there any kind of one-time item in there that drove that, or is the reinvestment of the KFN assets starting to kick into higher yielding type strategies? I don't know if you'll walk us through maybe what the key drivers of that improvement were.

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

Sure, Patrick. This is Bill. Some of that was performance and some of that is just recurring distributions from the assets that we're managing. Obviously you said it, that to the extent that that portfolio gets larger and we're generating the same return, that distribution will be higher quarter over quarter. But there really isn't anything big embedded in that number, which would be something I'd want to call out.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Great, thank you.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Just looking at page 11 and the press release and your on-balance sheet energy exposure, the cost basis -- we see that the fair value went down, but the cost basis went up by about $104 million in the most recent quarter. So, I'm wondering, A, can you break that down? Was that one investment? Was that a bunch of different things?

And then, B, given all the cash flow that you're going to be generating from Boots and Biomet and, God willing, US Foods in the coming year, how much of the cash that's created by those maturing investments would you be willing to reinvest in the energy sector?

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

Chris, this is Bill. I'll take the first.

So when you look at energy, you are right: you can see the cost going up by roughly $100 million plus. That's really two of the strategies in our energy platform. One is what we call PDP, proved-developed-producing. And we've actually invested roughly about $60 million in that strategy with FDL, a new relationship we have in that space. And then the other $40 million plus is investments that we're making side-by-side with the Energy Income and Growth Fund in, what I would say, drilling assets.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And then just as a point of clarification, the Alliance Boots gain that you cited for the first quarter, that's just on the cash portion, isn't it? And can you remind us of how much of the shares you're going to own both on balance sheet and in the funds?

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

Yes. And so, the number that I gave you as far as that distribution, the $0.20 I mentioned, is just in relationship to the cash. I mentioned in prepared remarks that, when the transaction closes second step, 70% was in stock and 30% was in cash. And so the number I gave you just represents that 30% tranche.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Chris, it's Scott. Just one thing to add on, just to clarify. So if you look at page 11, which you brought us to, really energy shows up in a couple of places. First is in the private equity section. So if you look at the funds, energy is about 3% of our look through exposure for our balance sheet in the private equity funds, Direct Energy. If you look at the co-invest line, which you see shows up at about $3.1 billion of fair value, energy is less than 1% of that co-invest line.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

And to be clear, Samson is now held at $0.05 on the dollar, and so that's been written down over the course of the last 18 plus months. So that economic write-off is largely behind us. And then the other place it obviously shows up is the $695 million we have in the Direct Energy line in that table, which really is a combination of the assets that Bill talked (technical difficulty).

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, great. Well and then, maybe you can't say, but in the case of First Data you've been willing to make follow-on investments in attempts to restructure the balance sheet. And is that an option for Samson, if you can say?

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

We're really not going to comment on individual companies.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, thank you.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Maybe, Scott, if you could walk through some of the drivers of the -- I guess just a little bit more granularly, the drivers of the write-downs on the CLO book, the $70 million, and then the non-CLO credit assets. I think you mentioned the loan market declined to energy and then credit selection on that $50 million. If you could just maybe get a little bit more granular on that. And then what you think the outlook is coming into the first quarter for that.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Sure. Thanks, Brian. So I think -- here's how we think about it. Let's focus on the CLOs first.

As I mentioned, we've got about $1.5 billion of our balance sheet in CLO equity. It's a combination of newer transactions and then an older runoff book. So they're levered at about 5.5 times, on average. And in Q4 what you really saw was, as I mentioned, a $70 million write-down, which equates to 4 to 5 points in the quarter. That same portfolio generated about $40 million of cash flow in the quarter, which is in line with our expectations.

So think of it as about $30 million net.

So the mark-to-market, most of it was market movements. So if the loan market is off 50 or 60 basis points and you think about sitting underneath 5.5 times levered, you can get a sense for how much comes from just the market trading off on a broad basis. But also there's some positions that, frankly, we like more than the market, and the market traded down a bit in the quarter. And that explains the rest. But we're still believers in those underlying names.

For the total year the CLO performance has been very strong. We generated $120 million of cash flow from the CLO portfolio for the eight months since the KFN acquisition closed. So if you think about that on a cash yield basis, it's about 11.5% cash yield for the year.

So, I'd say overall that KFN portfolio, including the CLO equity, has cash flowed in excess of our expectations since closing.

In terms of the non-CLO exposure, there's really nothing too much to point you to. There's one or two investments that have derivative exposure to the energy markets that we marked, we think, appropriately, and we think ultimately, hopefully will prove to be conservative. It's a moment in time. None of that is realized.

What we're really focused on is the cash flow that we're getting from that overall book, which overall credit portfolio last year generated about a 9% cash yield with the CLOs we talked about and alternative credit performing quite well.

More broadly on CLOs, though, Brian, I think one thing that we are focused on and I think particularly optimistic about, is it with that risk retention rules being adopted in Europe and the US, our balance sheet strategy we think positions us well.

Brian Bedell - *Deutsche Bank - Analyst*

And it sounds like you're continuing to actually try to grow that business on your balance sheet. Is that a fair statement?

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Yes. We think we have an opportunity to grow that business and also generate more third-party fee-paying capital with the equity that we have exposed to that business. So we could actually, hopefully over time, raising more third-party assets against the equity that we have underneath these CLOs. So we were quite busy as an issuer last year, and I think you'll continue to see us be active this year.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, great. Thanks so much for taking my question.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

I was just wondering if you could talk to some of the balance sheet philosophy in the quarter, just in terms of the moving pieces: off the balance sheet, realizations, deployment. And then anything you could comment on the forward look in terms of redeploying it to some of the higher ROE-generating investments, particularly around the KFN, as those investments mature.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Sure. It's Scott. I'll take that, Michael. I think the general philosophy that we've implemented is one of thinking about how do we generate a very attractive cash return on equity by deploying our balance sheet and raising third-party capital side by side. So the general approach we've taken is to look at the cash ROE of every single investment that we make. And if we can generate, as an example, an investment opportunity, which we think can have a 15% return and we can raise capital alongside, that investment that pays us a fee and a carry. If you take the 15% and you have the fee and the carry attached, you get to a 20% plus cash return on equity by investing in our capital side by side with our limited partners.

And so, our balance sheet doesn't work in competition with our limited partners. There's no prop team at KKR. It really just invests alongside our limited partners.

And so that's the approach that we've taken, and we focus on generating an attractive cash ROE, and have a diversified set of exposures. And as you look at page 11 of the press release, you'll see how we've diversified the book across our different asset classes.

But the simple way to think about it is our balance sheet is our own largest investor in everything that we do.

What we have been doing is also operating the business with some liquidity and some liquid investments where we can access more liquidity. So, to your point, when we see dislocations like we're seeing right now in the energy space, we can rotate capital into those opportunities, both to be able to capitalize on short-term investments that we think are attractive, and also to seed new strategies that allow us to hopefully accelerate the third-party capital raising that allows us to exploit the opportunity. And so that's how we've been approaching it.

The KFN transaction gave us more capital with which to implement that strategy and more liquidity with which to do so as well. And so, so far it's behaving as expected.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay, thanks.

Operator

Glenn Schorr, Evercore ISI.

Glenn Schorr - *Evercore ISI - Analyst*

So I guess my question is looking for a walkthrough, kind of like the way you did for energy for us, across Europe. You have several funds. They are in the build mode. Curious on how much [dry] powder you have across the funds and what you're seeing given the what I would call just economic malaise and some volatility over there.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Oh was the focus -- Sorry. You cut out there for a second, Glenn. The focus is on Europe?

Glenn Schorr - *Evercore ISI - Analyst*

On the European Funds, the dry powder that you have across the funds, and your investment outlook across the funds, given just what I would just call economic malaise.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Yes, absolutely. I'd be happy to take you through it.

So let's maybe go through it. Let's do the high level first and then I'll take you through by business.

I'd say the economic picture in Europe is a bit more positive than it's been. And so we've got low oil, low euro, expansionary monetary policy, consumer sentiment seems to be getting a bit better. And so, the overall macro picture feels a bit better. The risk is obviously much more political, but we think a lot of that is priced in.

We're seeing opportunities in private equity. We need to be selective, given that the markets are competitive, but we're seeing opportunities there. And where we see a big opportunity is in private credit in Europe, which I'll come back to in a minute to how we're thinking about that.

So a lot of opportunities coming out of the low oil price, particularly benefiting our credit business.

Real estate, both the Continent and Germany, are also attractive. And so we're continuing to be quite active on the ground in Europe.

To your question about how are we set up to be able to take advantage of the opportunity, it's in a few different ways. The first pertains to our private equity business. And so, we had finished investing our Europe III Fund last year and we're in the process of raising Europe IV. Bill mentioned where we stand in terms of that capital raise, but where we are today, ex investment from employees, is about $2.3 billion, give or take, that we've raised thus far for Europe IV. We have been seeding that fund on the balance sheet and doing some investments on balance sheet that are getting dropped into that fund now that we've had a first closing.

If you think across private markets, we are also investing in Europe through our infrastructure funds. And so we've got available capital in Infra II, where we've thus far closed on $2 billion. We've also been investing there through our real estate funds. And our first Real Estate Fund has actually filled its European basket, and so we've been quite busy.

And as I mentioned, we'll be -- we're raising some money for Real Estate Europe in the dedicated format. And before then, we'll probably be doing some of those transactions on balance sheet before dropping those down into a fund.

If you go into the credit side of the business, we have quite a bit of available capital. Our Special Situations strategy has an ability to invest heavily in Europe. And if you look at the first Special Sits Fund it was a significant area of investment for that fund, which has performed very nicely so far.

We're raising a European Direct lending vehicle because we think the private credit opportunity is so significant. And then, over time I think we'll have other alternative credit pools that will allow us to access the opportunity on the ground.

So, we think we are particularly well situated. We've got the teams in Europe working together cross-functionally and cross-asset class to take advantage of the opportunity. And we'll be judicious, but we have capital to take advantage of what we think will be an interesting few years.

Glenn Schorr - *Evercore ISI - Analyst*

I appreciate all that. One just quick follow-up. On the European direct lending vehicle, who is the target market? What size client base are we looking at?

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

I guess it depends if you're talking investors or companies --.

Glenn Schorr - *Evercore ISI - Analyst*

Investments being made, sorry. Loans being made.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Okay. Think of it as similar to our US direct lending strategy. So it's largely going to be middle-market corporates that have not -- good companies, bad capital structures. Their traditional lending institutions are busy elsewhere, and so we've been able to build some of those relationships and step in on the private credit front. But think of it as midmarket corporates largely.

Glenn Schorr - *Evercore ISI - Analyst*

Okay. Thank you for all that.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods, Inc.l - Analyst*

In public markets, I guess one or two things. It did look like the -- I think you way you disclosed it, the redemptions from fund investors -- it looked like they picked up in the quarter. And I don't know if there -- if you maybe give some color around which strategies maybe you saw some pickup there. If there was maybe seasonality that drove it. And I guess related to that, maybe an update on Prisma, its performance last year, and if that's at all impacting some of the fund retentions.

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

Rob, this is Bill. Before we actually go into fund redemptions and distributions, I just want to highlight that we actually did raise $2.2 billion during the quarter just in public markets. And that came from the mix of additional capital being raised through Special Situations, as well as CLOs, Direct Lending II, and we actually raised about $400 million in that number for Prisma.

What you see on the distribution side is -- and I'll give you high-level components. We had a maturity of the CLO for $600 million. We actually have now committed funds on the public market side. And as we sell those investments and we return both gain and cost, you see that reduction as well. And that's a component of that distribution of roughly about $300 million.

But more to your point, we actually saw reductions in Prisma of about $900 million this quarter.

I do want to point out, though, that in the first quarter we actually saw an inflow coming in for Prisma in the first weeks of $400 million. So when you think about it -- and that's why I went through the contribution as well -- it's $300 million in the fourth quarter, plus another $400 million in the first couple of weeks in the first quarter of 2015, with redemptions of $900 million. So, we lost a little capital to manage, but still feel quite optimistic about the Prisma strategy.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Yes, the only thing I'd add, Robert, is look, I think a lot of that in the Prisma numbers is just timing. We had -- actually, it was the same investor for a lot of the money that redeemed out of one place in their structure, and invested new money out of another.

It just so happens the redemption fell in Q4 and the investments is falling in Q1. So I think that's probably why the book is a little elevated relative to what you would expect.

Robert Lee - *Keefe, Bruyette & Woods, Inc.l - Analyst*

Great. Thanks for taking my question.

Operator

Michael Carrier, Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

I guess this is for either Scott or Bill. When we think about the balance sheet investments, just want to get a sense -- and I know a quarter doesn't make a trend and if we look over the past two to three years, returns have been very attractive.

But when you guys are making those investments how do you think about either concentration limits, hedging in certain exposures? If we're going to be in a more volatile environment, I'm just trying to understand how you guys look at the balance sheet versus investments in funds, given a certain strategy that LPs are looking for.

And then just one follow-up on that. Just given the nuance and the difference in performance on investment income versus performance fees, just wanted to understand what drove that. Meaning, was it just the certain exposures on balance sheet versus the funds? Or was there anything else driving that?

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Great. Michael, this is Scott. Let me try to take that. I think the way that we look at the balance sheet investments is, one, we have an asset allocation policy that we put in place. We have a balance sheet committee of the firm that oversees how the balance sheet is deployed.

And really a lot of what we're doing with the balance sheet is investing alongside our limited partners in fund format. So, we're making investments in those vehicles, tracking the ROE, as I mentioned in the answer to an earlier question.

We do have concentration limits within that asset allocation policy, and we have been obviously looking at how we are exposed across the portfolio. We do call out for you in the table a couple of the bigger exposures. For example, First Data and Walgreens are two of our biggest investments on the balance sheet, so where we go above a certain number, we want to make sure we call that out for you.

Hedging is something that we have used both at the strategy level -- and I mentioned that we do use hedging as it pertains to our Natural Resources and Energy Income and Growth investments.

And that we'll also periodically do hedging for the balance sheet as a whole. And so, we do implement those strategies.

I guess the way I think about it is it's hard in our business with our firm to look at any given quarter. If you think about what happened last year, the book value per share went from $10.83 to $12.07 over the course of the year, so it was up about 11%. And that's after we paid out, it was about $2 in cash dividends for the year.

So, away from those dividends, the balance sheet would be $14 plus of book value per share.

And so, although we did have marks in the quarter, we tend to look at how we're doing point to point, year to year, and we're actually very pleased with how the balance sheet has been performing, both on an absolute basis and then also how it's facilitating our ability to raise third-party capital and monetize our capital markets' capabilities as well, where we also use our balance sheet. So that gives you a little bit of flavor for it.

In terms of the investment income versus performance fees, Craig, why don't you take that?

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

Yes, sure, look. I think, Mike, if you look at -- when you think through the carry funds, and when you look at invested capital within the real assets, you actually see the largest component of that is our infrastructure investments. It's actually -- is actually a little over half of the total amount of invested capital. And so, one of the stats that Scott had talked about in terms of the script and the performance of infrastructure was highlighting that infrastructure, those investments were actually up 13% in 2014.

So what we actually have when you compare that versus the balance sheet on page 11 is, you do see a little bit of a mix. So when you look on page 11, you see that we're more heavily skewed in terms of the balance sheet investments more towards direct energy as opposed to the infrastructure piece. So I think that probably is the central thing as it relates to the difference you're seeing.

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

And Michael, just real quickly. When you think about performance fees and you're talking about balance sheet, you see an increase in performance in PE, and so that's going to drive the performance fee.

However, when you take a look at the two assets that we're managing third-party capital, it's KNR and it's Energy Income. Both of those funds -- Energy Income is pretty close to cost. It's a new strategy. KNR is actually below cost.

And so, as those assets are marked down for the capital that we're managing, you're not going to see that hit our performance fee. So as Scott mentioned, when you look at balance sheet performance we made money in PE. That was offset by energy. When you look at our performance fee, we still carry on on our PE but didn't have the right down with respect to any sort of performance fee offset on those energy assets.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Got it. Okay, it makes sense. Thanks a lot.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

More broadly on the excitement around the investment opportunity in energy, I guess I'm curious, is there a house view on where prices are going? And how do you get comfortable that you're not catching a falling knife by throwing a lot of money into that market right now?

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

It's a great question, Patrick. I think house view -- no, we're not in the business of protecting commodity prices per se, but I will give you a little bit of color. That it does feel to us like we're in the second inning in terms of how this is playing out, and so we're being cautious. As I mentioned, we have organized this internal SWAT team across businesses and across geographies to make sure that we're attacking this holistically.

I think one of the ways to make sure you're not catching a falling knife is focus on where you are investing in the capital structure. And so, the two areas where we've been most busy thus far is in private credit, where largely the opportunities are of the second lien variety. So, you are behind a first but you're still somewhat secured. And we feel that a lot of the structures that were going to be able to put in place there will protect us against a commodity price path that's very hard to predict. But so, we're trying to move up the capital structure.

And the other thing that were doing is working on drilling partnerships where there are some market participants who have drilling rights and don't have access to the capital to actually begin the drilling. And without drilling they'll lose the rights. And so, we think we can structure those deals as well to protect ourselves, relative to the underlying commodity.

Really, if you look back, 2012 through 2014 was largely a time to sell into the energy froth. And now, we're viewing it as largely a good time to invest, but we want to be cautious about how we do it, so we're making sure we're doing it in a way where we are protected.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Thank you.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods, Inc.l - Analyst*

Scott, I just really wanted to follow up. You had, I guess, in your original comments had mentioned about the expansion in the number of LPs, and more LPs buying multiple products. Maybe drill down into that a little bit. Would be interested in a little bit more incremental color, how you're seeing the demand, US versus non-US. How that's shifting for you guys.

Also be interested in getting a little more color on how maybe the LP set or investor's set is shifting itself may be away from US public pensions. What's the contribution currently from high net worth and maybe sovereign wealth funds, that type of thing.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Sure. Thanks, Robert. I'd say a couple of comments.

One, we have been investing heavily in building out our relationships around the world. We finished the year with about -- literally 824 investors. That was up about 19% year-over-year. We've got a cross-sell stat that is still 1.6 products per investor. That has actually held quite steady over the course of the last few years. Which, if you think about it, is hard to keep it steady if you're adding all these investors, usually with one product.

So we've been able to keep it at 1.6 times and hopefully, we can continue to achieve that or grow it.

If you look at some of our bigger investors, our biggest investors actually on average have between 3.5 and 4 products with us. And so we think there's a lot of opportunity on that cross-sell statistic. Another statistic we look at is what percent of our investors are actually in more than one product with us today, which is just another way of looking at the progress we're making.

And there again, we see a lot of opportunity. We have about a third of our investors in more than one product. So if you think about that 1.6, it's heavily concentrated in the third, and then we have two-thirds that are in one product with us. So we think that we have a lot of opportunity to continue to increase the total number of investors we have and also increase the number of products that we are selling to the investors that do trust us today.

In terms of the LP set and how it's shifting, a couple comments on that. I think we have always enjoyed great relationships with pension funds in the United States. We continue to see a lot of support from that group, which we are grateful for.

But if you look at where we've seen a couple of developing trends, one has been sovereign wealth funds. So, there's been more activity in Asia, Middle East, parts of Europe, in that regard. And then also, the retail or the individual investor, those high net worth, mass affluent. And that statistic, it's worth sharing, over the last two years just shy of 20% of the money we raised -- I think it's 19% of the money we've raised globally has come from individuals. Direct high net worth and through platforms.

And so, we continue to see that opportunity continue to grow. And so I would say overall, the global set is increasing and -- number of investors around the world, if you look where we raise money, has become increasingly global, and it's moved from just institutions to institutions and individuals.

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

Rob, it's Craig. If I were to just add on in terms of some of the other broad trends that we're thinking of when we look at the fundraising numbers, I guess I'd point to four things within that.

It was certainly an active year for us. we raised a little over $14 billion in fee-paying AUM. The first point I'd say is really the breadth and diversity, which I think you got a good sense of from Scott. Only about 10% of that actually came from one of our benchmark private equity funds, because we weren't fundraising for North America or Asia private equity, so that only includes that initial close from Europe IV.

And when you look at that, about $9 billion of it came from public markets, which almost definitionally are newer strategies for us. That's up from $7.9 billion the year before.

The second thing is on Europe IV, which we've spoken about, but it's -- we're pleased to have the first closing on E IV. And Bill mentioned that the $1.6 billion that's in the numbers, with subsequent closings we're at $2.3 billion, or if you include employees at about $2.5 billion. So that's nice to see.

Third point -- and this is actually an important one -- is one of the things we talked about for some time is the scaling of our first-time funds and the opportunity that we have with performance to scale these. And there's some good data points. So, Infra I was a $1 billion fund. Infra II, we've now raised $2 billion, and we're working towards a final close of $2.5 billion to $3 billion. Direct Lending II we've held a second close and we're already at 2.5 times Fund I. Special Situations II, early days. We're pleased with our progress. And obviously Special Situations as a strategy has been among our best performing. Special Sits I was up 24% in the year.

And then the fourth thing are those additional statistics, the number of LPs up 19%. It's a great stat. We see continued flows into CCT, our private BDC, which as of year-end was just over $3 billion. And that's all with shadow AUM, as Bill talked about, being at about $6 billion.

So you put that altogether and I think it's a good story.

Robert Lee - *Keefe, Bruyette & Woods, Inc.l - Analyst*

Great, guys. I appreciate the color. Thanks so much.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Most of my questions were asked, but just a question on transaction fees. I know they were light in the quarter with very little in private markets. And that can be lumpy, but how should we think about the backlog and trajectory there?

And then within capital markets, can you maybe give a little more detail around the outlook for that business, looking out over the next year? I know it's a smaller driver, but you're coming off of a big year of growth. So any additional perspective or context would be helpful.

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

Devin, this is Bill. I will tackle the first part of that question, which is transaction fee. You are right. The transaction fees this particular quarter in private markets was pretty light, owing to the fact that we deployed only approximately $800 million in the quarter. And of that $800 million, only $300 million came from private equity.

We did deploy capital in energy, and in energy we typically don't take a transaction fee. And that's why, even though you're looking at an $800 million number, the ability to take a transaction fee is actually even on a much lower number.

As it relates to the first quarter/second quarter, we generally don't give a lot of guidance, but we do have several investments that we have signed either in the fourth quarter or the first month of 2015. And I would say that the total enterprise value of those transactions is roughly about $2 billion. So as those investments close, you'll see the transaction fees flow through our P&L.

As it relates to capital markets, I'll turn that over to Scott.

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Yes, Devin, it's hard to give you much guidance on the capital markets revenues, frankly. The thing about the business, 70% last year was related to KKR deal activity, and 30% was our third-party business. So it's going to move in line with frankly our deal activity as a firm, private equity and other asset classes, and also how we do in terms of continuing to build relationships with third parties.

We have invested in origination capabilities on the third-party front, so we're hopeful we can continue to scale our efforts there. But it's just very difficult to give you any sense for where things go until we see how the pipeline develops and how deal activity develops for the firm to the course of this year. But we'll keep you updated in terms of color.

Devin Ryan - *JMP Securities - Analyst*

Okay. Fair enough. Thanks a lot for the detail.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

You talked about this a little bit. I'm curious, Scott, when you think about the cash ROE opportunity for the balance sheet in 2015, you obviously have some investments versus realizations and some mix of dynamics going on as well. What do you think is a reasonable target for 2015, given all these cards?

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

We don't have a target, Bill, per se. And as you know, we don't share guidance or our budgets. I think what I would point you to is a couple of things.

One, as we talked about, there is an increasing percentage of our cash flow which is now something that you can more or less count on quarter to quarter. And if you look at that fee and yield earnings statistic that we shared with you, that $0.18 that we shared, we think that is something to continue to stay focused on and we're focused on continuing to grow that. So the baseline of recurring cash we have will continue to grow. And so, that's something that we're quite focused on as a firm.

The second thing that I would point you to is how our private equity portfolios continue to mature. Over 50% of our private equity portfolio is now marked at 1.5 times cost or more. That statistic continues to increase quarter to quarter, which is something that we watch, and that should provide us with more opportunities for exits on a go-forward basis, which obviously will also contribute to the cash ROE.

And as a consequence of the maturation of the private equity portfolio, it's also the case that our private equity portfolio on our balance sheet is continuing to mature.

So it's very hard to predict, as I say, quarter to quarter or even completely year to year with respect to where cash is going to come from, but if you look for 2014 -- and this is the metric we focus most on -- our cash flow, our TDE was $2 billion. And that was up 40% from 2013. And it's really come from a variety of different places: fee and yield, carry, balance sheet gains. And we're hopeful that, as we continue to implement our strategy of balance sheet, capital markets, and third-party capital, we'll continue to have a lot of ways to win and a lot of ways to generate quite a bit of cash flow, which should result in a very attractive cash ROE.

Bill Katz - *Citigroup - Analyst*

Yes, fair enough. Can I just ask one more, if you don't mind? There's been a lot of back-and-forth in the media about the regulatory backdrop and the relationship between the GP and LP. Can you maybe step back and just holistically talk a little bit about where you are in terms of any type of fee concessions or pricing shifts relative to LP demands?

Scott Nuttall - *KKR & Co. Inc. - Global Head--Capital and Asset Mgmt.*

Craig, why don't you take that one?

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

Yes, sure. Yes, Bill, look, given the recent articles in the press -- and let me answer things -- your first point in terms of regulatory environment and the backdrop of that generally before we talk about things like fee pressures. But, given the recent articles in the press, specifically on the topic of some refunds to our LPs, we thought a question like this might come up. But to add -- thought it'd be helpful to add some thoughts.

First, we have interactions with various regulators, and this includes the SEC, where a dialogue is ongoing. And as I know you'll appreciate, we don't plan to detail these on the call. In terms, though, of these recent articles, we did -- we refunded about $8 million to our LPs in early 2014. And that was in connection with a routine SEC exam in 2013 of one of our registered investment advisors.

Now, the majority of this amount related to the allocation of expenses between what we call our flagship private equity funds and co-investment in other vehicles that invest alongside of those funds. We can't comment now on what additional developments may occur on this in the future, but we look at our reserve each quarter and as of year-end believe we are adequately reserved for our legal risks. Obviously, if and when there are any material updates we would disclose them as you'd expect, as appropriate.

And on this topic, unfortunately there really isn't much else beyond this that we're going to be able to comment on, other than saying, look, certainly we take our fiduciary responsibilities to our fund LPs very seriously. So these types of issues are very important to us.

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

Bill, this is Bill Janetschek. As relates to fee pressure, remember, keep in mind that, at KKR, transaction and monitoring fees either get shared with our LPs -- 80% to the LP or 20% to KKR, or we also have an option where LPs could pay us an incremental amount of management fee, and they could capture 100% of those transaction monitoring fees.

And so when you think about fee pressure, taking a fee or not taking a fee when you're selling an investment where if it's a profitable investment it's going 80/20, as opposed to you taking a transaction fee or monitoring fee, where again the economic's going 80/20, it's really not applicable to KKR because of the fee sharing arrangements that we currently have and will continue to have with our LPs.

Bill Katz - *Citigroup - Analyst*

Okay. Thanks for all of that. That's all my questions.

Operator

Ladies and gentlemen, that's all the questions that we have for today. I'd like to turn the call back over to the speakers for closing remarks.

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

Thank you, everybody, for listening to the call. To the extent you have any follow-up questions, please naturally follow up with us directly, and we'll speak with you next quarter.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program and you may all disconnect your telephone lines. Everyone, have a great day.

Editor

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