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CORPORATE PARTICIPANTS

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

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

Henry Kravis *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

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

George Roberts *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

CONFERENCE CALL PARTICIPANTS

Bill Katz *Citigroup - Analyst*

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

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

Chris Kotowski *Oppenheimer & Co. - Analyst*

Craig Siegenthaler *Credit Suisse - Analyst*

Michael Carrier *BofA Merrill Lynch - Analyst*

Chris Harris *Wells Fargo Securities, LLC - Analyst*

Luke Montgomery *AllianceBernstein - Analyst*

Brian Bedell *Deutsche Bank - Analyst*

Patrick Davitt *Autonomous Research LLP - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

Glenn Schorr *Evercore ISI - Analyst*

Alex Blostein *Goldman Sachs - Analyst*

Kenneth Hill *Barclays Capital - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's third-quarter 2015 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. Instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Thank you, Amanda. Welcome, everyone, to our third-quarter 2015 earnings call. Thank you for joining us. This afternoon I'm joined by Henry Kravis and George Roberts, our co-Chairman and co-CEOs; in addition to Bill Janetschek, our CFO; and Scott Nuttall, Global Head of Capital and Asset Management.

Before we get underway, 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, and 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 afternoon, we've issued a press release with our results for the third quarter. And like last quarter, we've also posted a supplementary presentation on our website that we'll refer to over the course of the call.

We do have a broader agenda to review with you this afternoon. As you've likely seen in the press release, and is highlighted on the second page of our supplement, we've announced a change in our distribution policy from the variable policy you are all familiar with, to a fixed distribution of $0.16 per quarter, beginning with the fourth quarter of 2015, which would be paid in 2016.

In addition, our Board has authorized a $500 million share buyback plan. Our thinking on these changes are pretty straightforward and I'd like to point you to the first slide -- to the third slide, excuse me.

First, we think it's important to remember that employees own or control about 45% of KKR. But the natural alignment here is quite clear.

Second, we think the best way for us to create equity value over the long-term is to participate to a greater extent in everything that we do. This includes the investments that we make, and this includes owning an even higher percentage of our stock by implementing our buyback program.

And finally, we have a financial profile that allows us to support a fixed distribution that, today, implies an indicated annual yield that's over 50% greater than the S&P 500, while still allowing us to invest more in everything that we do.

In terms of our agenda for the call, Bill is first going to review our results for the quarter. Henry will then introduce to you the rationale behind the change in our distribution policy and buyback authorization. Scott is going to focus on our business model and what this means for all of us looking forward, followed by George, who will provide some closing thoughts before Q&A.

And with that, let me turn it over to Bill to walk you through our results.

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

Thanks, Craig. Let me first touch on the broad market volatility we saw this quarter as our ENI was impacted by the mark to market changes that ran through our financial statements. Within equities, the S&P 500 and MSCI world indices were down 6.4% and 8.3%, respectively, for Q3.

We have not experienced a quarter where both of these indices were down more than 5% since the third quarter of 2011, which was the only other quarter we reported negative ENI since being a public company. And at the same time, the benchmark loan index, the LSTA, was down 1.4% on a net basis in Q3, the worst quarterly performance of the LSTA in four years. In the high-yield fund and HFRX special assist indices were down 4.9% and 8.7%, respectively.

It was a challenging quarter for the markets. Against this backdrop, we reported negative ENI after taxes of $315 million, driven by unrealized losses within both performance income and investment income. While we care, and care a lot about ENI, as a management team, we focus on the Firm's broader performance, rather than results for any 90-day period.

Remember, 75% of our fee-paying AUM is locked up for at least eight years at inception. This provides us with the ability to selectively and strategically enter and exit investments at points in time that we view as attractive. We are not forced sellers.

Turning to the broader underlying performance of our funds, these results are quite good. Slide 4 of the earnings supplement provides a snapshot of investment performance for the quarter, as well as on a year-to-date basis across our benchmark carrying paying funds in both private and public markets.

Of particular note, I'd like to highlight that when you compare the year-to-date performance of our North America 11, Asia II, and Europe III funds, shown in the center of the page, against the S&P 500, MSCI Asia-Pacific, and MSCI Europe indices, respectively, our benchmark funds have outperformed these broader market indices by over 2,000, 2,200, and 1,400 basis points, respectively. And at the same time, overall real asset and alternative credit funds continue to perform.

Slide 5 of the deck shows our balance sheet investment performance in 2015. While the investment income line in our press release is reflective of a 2.3% mark to market decline in the investment portfolio on the balance sheet in Q3, on both a quarterly and year-to-date basis, our balance sheet returns have outpaced the MSCI World Index by several-hundred basis points.

Focusing on cash flow, we reported Total Distributable Earnings of $349 million. The biggest component of it is realized carry generated from the sale of Alliant to Stone Point and Capital Safety to 3M. Dividend recaps at Academy and WMF, as well as our final secondary in Nielsen. On a blended basis, these exits were done at a multiple of 2.5 times our cost. Taken together with the fee and balance sheet income, we've announced a Q3 distribution of $0.35 per unit.

Looking at our AUM and fee-paying AUM as of September 30, our Assets Under Management were $98.7 billion and our fee-paying Assets Under Management were $82.9 billion. Keep in mind, these figures do not reflect nearly $11 billion of committed capital that will be included in AUM once it's invested, and at a blended management fee rate of about 115 basis points.

This figure has grown by $1 billion since last quarter. In addition, it also does not include the AUM from our strategic partnerships. Most notably here, in September, we announced a strategic partnership with Marshall Wace, which George will touch on in a few minutes.

In terms of the partnership's impact on our financials, although it won't close for another week or so, we will show our 24.9% equity interest pro rata within our public market segment upon closing. And on a pro forma pro rata basis, including Marshall Wace, the AUM from our strategic partnerships is approximately $9 billion.

Finally, beginning in Q4, we plan to adjust the presentation of our results to include a new fourth segment, Principal Activities. We believe presenting our balance sheet activity separately is a better framework through which to evaluate our performance.

Now, as part of this, we'll be allocating a portion of our expenses directly against investment income. As most of you are aware, while investment income generally contributes to a meaningful portion of our total revenue, our fee income currently bears the burden of almost all of our non-carry pool-related expenses.

Ahead of next quarter, we plan to post to our website a more complete picture of these changes so there won't be any surprises when we get on the Q4 call. In addition, we anticipate adjusting our AUM and fee-paying AUM disclosures to include both shadow AUM as well as the pro rata portion of our strategic partnership efforts.

Page 6 of the deck walks you from reported AUM to adjusted AUM, including our pro rata stake in Marshall Wace. As you can see, both shadow AUM and our pro rata portion of our strategic partnerships has grown meaningfully in significance over time, with adjusted AUM standing at $118 billion on a pro forma basis as of September 30.

And with that, I'm pleased to turn it over to Henry.

Henry Kravis - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

Thanks, Bill. And thank you, everyone, for joining our call today. Given the announcements we made this afternoon, George and I felt it's important to walk you through our thinking and the path forward for us strategically.

Now I expect there is a good deal of interest specifically in the change of our distribution policy and the introduction of our share repurchase plan. So let me begin there.

Simply put, we've been investing and generating strong returns for nearly 40 years. We continue to have many growth avenues. Page 7 of the supplement shows our progress since we've been a public company. Assets Under Management have grown from $52 billion to $99 billion, or over $118 billion on an adjusted basis.

Our book value per unit has increased from $6 to $12, while we paid out 75% of our cash flow or about $7.00 per unit. And our market cap has increased from $6 billion to $15 billion. And we've expanded our product set.

We view KKR as a growth company, and we think we will create more value for shareholders by investing our cash flow into what we do every day. The changes we are making reflect this vision. We'll still pay a healthy distribution that is now fixed, and we'll have more capital to invest behind our ideas, including repurchasing our own stock.

We think our shareholders will do better. And since we own or control 45% of the stock, we will do better as well. Over time, we think that the market will value what we do with our balance sheet, including repurchasing our own units, more than the variable distributions we've been paying.

Now let me explain these thoughts a little more completely. As we thought through this, we kept coming back to four observations. First, we think we have an excellent investment track record, which includes our balance sheet investment performance.

Performance here has exceeded the MSCI world in four of the last five years, as well as on a year-to-date basis, and from an IRR standpoint, has delivered a 17% return since we've been a public company. Knowing this, we think our shareholders will be better off today if we� kept some of that capital and seen it compound on our balance sheet at those rates. The power of compounding is incredible.

Second, we are at an inflection point as we think about the growth profile of the Firm. We've launched a number of first-time funds over the last few years, and we've only begun to feel the impact as several of these begin to scale. Obviously, this is incremental to the growth of our core private equity strategies, including the Americas, where I expect to see larger pools of capital in the future.

Third, we don't think our current distribution policy maximizes long-term value for unitholders.

And finally, when investors have been selling our stock at levels we think are compelling, we've not had a buyback plan in place to take those shares off their hands.

So, we're making two changes with a long-term view in mind. First, we are implementing a fixed distribution of $0.16 a quarter, which, based on last night's closing price, implies a 3.6% indicated annual yield. In addition, we've authorized $500 million share buyback plan. And to be clear, we think actions speak louder than words. We will be buying back our stock when we think it represents value for our shareholders.

In terms of the distribution itself, the $0.16 per quarter is not a distribution that will fluctuate from quarter to quarter. Like most corporate America, this is a fixed distribution that we'll evaluate on a regular basis. We sized the $0.16 to approximate our recurring quarterly cash flow, which means quarterly distribution is not at all reliant on our ability to sell investments over any 90-day period.

And most importantly, we believe that this will allow us to retain capital, compound value on the balance sheet, buy back our stock, and increase our earnings power per share. The buyback program is particularly noteworthy and important to us. We believe in this Firm and we believe in our future. And we want to have the flexibility to strategically repurchase shares and control share count and dilution at the same time.

Scott is going to walk through what this can mean for all of us going forward. But before he does, I'm going to spend a minute on our people, our values, and our culture, because this is what makes KKR special.

There are two things to emphasize. First and most importantly, we are one firm. We work together collaboratively and relentlessly to create the right solution for a company. We train our investment professionals to be solutions-oriented and product-agnostic, bringing all the expertise and resources available at KKR to every investment situation, while putting our investors first. Our incentives are aligned in this matter. Most significantly, everyone is paid on how well KKR does. But the one firm team-oriented nature of KKR is deeper than this. It's our DNA.

Second, we care deeply about our people. We want to attract diverse professionals who are team-oriented, innovative, entrepreneurial self-starters. And you are going to rarely hear anybody at KKR use the words me or I. This is by design. And having the right people with the right culture and values is critical for us when you think about our integrated business model.

Our goal is to generate attractive, risk-adjusted returns for our fund investors and to use our business model to maximize the economics from these returns. To do this, we all need to work together, think creatively and collaborate. Our one firm culture with no silos facilitates this.

So, with that, let me turn it over to Scott to expand on these thoughts.

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

Thanks, Henry. We think it's important to remind everyone of who we are before we can tell you where we are going. So I'm going to focus my comments on our business model.

Our business, when you think about it, is fundamentally about investing well. We are an investment firm. We manage third-party capital in addition to our own capital on the balance sheet, and we have a Capital Markets business alongside. Our revenue comes from fees, carry, and balance sheet investment income.

Bill discussed some changes in our disclosure going forward. I want to expand on this a bit. 20% to 25% of our total revenue generally comes from our balance sheet. And our investment professionals are focused across all of our businesses to maximize firmwide revenue. Historically, though, we have not allocated any of our direct expenses, including compensation, against balance sheet revenues.

Henry discussed how we operate as one firm, with everyone working together to maximize total firm revenues -- fees, carry, and balance sheet. We run the Firm to an overall margin, calculated by deducting total firm expenses from total firm revenues. Going forward, we will be sharing that calculation with you as a significant part of our disclosure and messaging.

On page 8 of the deck using this calculation and approach, you see our pretax ENI margin over the past few years, compared to the average of several alternative asset managers with more AUM-centric models, all on a total segment basis after deducting stock-based compensation. We think with our model, third-party AUM plus balance sheet plus Capital Markets, we have a better mousetrap. And in a normalized environment, for every dollar of revenue that we generate, we expect to see about 50% to 60% flow through to ENI.

Obviously, this is going to vary over any 90-day period, but over time, we think it's a useful guidepost. Through the first six months of the year, we were at 61%. Through nine months, we are at 50%. So we've been operating within this band.

The third-party asset management part of our business and our Capital Markets business are pretty well understood. But we also have a balance sheet that invests in everything that we do and is a critical part of our business model. Long-term large dollar compounding is the eighth wonder of the world. The power of compounding, as Henry said, is truly incredible. A dollar invested for 10 years at a 15% return turns into over $4. At a 20% return, the dollar turns into $6.19.

So let's focus on this math and the power of compounding applied to our business, and what it can mean for KKR from a book value and an earnings power standpoint. On page 9 -- and this is important -- you see the historical performance of our balance sheet investments. The investment portfolio outpaced the MSCI Index in every year except one -- 2013, when it still returned 23%. And from an IRR standpoint, since 2010, it's returned 17.2%. While we've made our fair share of investment mistakes along the way, the overall performance of our balance sheet portfolio has been quite strong.

Let me transition to return on equity. We know it's not a popular metric to look at in the asset management space generally, but we think it's an important metric to look at for any business. And we think it's an important metric to look at for ours, especially as we further scale our balance sheet investments.

The way we measure it is pretty simple. It's income from our three sources -- fees, carry, and balance sheet -- over our average equity. Basically, if you were to break up the ROE, you'd earn a component from balance sheet investment performance plus an incremental 500 to 1,000 basis points from fees and carry. Since 2010, our total ROE has averaged in excess of 20%. Reflect on that a moment. We've been averaging a 20% firmwide ROE for the last almost six years with little net debt at our firm. We really like our business model.

Balance sheet investment performance and total firm ROE are obviously linked. Our overall target for any 12-month period is to generate double-digit returns off the balance sheet, which, combined with our fee and carry streams, should translate into a mid to high-teens firmwide ROE. We will review our progress against this goal with you on a regular basis. Through six months, we were on track with these targets. Through nine months, given the volatility and marks we've taken, we are off that track and have some work to do.

Now let me put this all together and frame how the announcements today fit within the framework of our business model and why we are convinced this is the best path forward as we look to create equity value.

Page 10 takes our balance sheet performance one step further and ties back to something that Henry talked about earlier. In 2014, under our old distribution policy, we paid out $1.90 per unit in distributions, or almost $1.5 billion. If instead we had paid out $0.16 per quarter or $0.64 for the year, we would have retained roughly $1 billion of capital to invest more behind our ideas and to buy back shares. That's $1 billion of incremental capital for investments and buybacks in just one year.

If we reimagine our past in this manner back to January 1, 2010, distributing $0.16 per quarter over this period and reinvesting excess proceeds at historical return levels, we would've grown our book value per share to $15.45 or 18% growth per year, and the end result would have been about a 30% increase in book compared to where we stand now, or approximately $3 billion of incremental book value.

In terms of what this would mean for our earnings, if we had $3 billion of incremental book value at a 15% return on equity, we would have an additional $450 million of annual earnings. And importantly, we would've had the opportunity along the way to further increase book value per share through opportunistic buybacks. Of course, there's no assurance of what our actual returns would have been, but we like our business. We own or control over 45% of the Firm, and we want to retain more capital to invest in opportunities we find attractive, including our own stock.

Please turn to slide 11, which gives a snapshot of the go-forward opportunity for us. As of 9/30, our book value per unit was about $12.00. Let's talk about how this could grow going forward.

A minute ago, we discussed our actual book value per share compounding at a 13% rate since 2010, during which time we were distributing about 75% of our cash flow. We also discussed 18% book value per share growth if the new policy had been in place since the beginning of 2010.

But to illustrate this, let's be more conservative than the hypothetical 18% compounded rate. Let's say you believe we will only compound book value per share at 13% going forward. That would suggest, in five years, we would have a book value of $22.13 per unit, and in 10 years, it would grow to $40.77 per unit. So, over 1.8 times our current level in five years, and 3.4 times our current level in 10 years. The 18% compounded rate would imply a book value per unit considerably above this, as you can see on the slide.

Now we've said our target is to earn a double-digit return on our balance sheet and to see this translate into a mid to high-teens ROE on a firmwide basis. Say you think we'll achieve an ROE at the bottom end of these targets. So 10% from our balance sheet, with our total firm ROE being 500 basis points higher as you layer on our fee earnings and carry streams, for a 15% total firm ROE.

That would suggest in year-five, we would have after-tax earnings per unit of about $3.30, and in year-10, it would be over $6 per unit. In five years, at a 10 to 12 times P/E, the stock price would be $33 to $40 per unit compared to $18 today, resulting in an IRR between 16% and 20%.

If you think our book value per unit can in fact compound at a faster rate through higher investment returns and our buyback program, or if you -- if we can achieve a total ROE in excess of 15%, the IRR's could expand meaningfully from here. Of course, what has happened in the past is not a guarantee of the future, but I hope this gets the point across.

We are investors. We have built a business model to monetize our investment performance. The changes we are making today will help us compound significant value per share going forward while we continue to scale our third-party asset management and Capital Markets efforts. If you believe in our ability to generate investment performance, the math of our model is very powerful.

Now, let me turn the call to George for some final comments.

George Roberts - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

Well, thank you, Scott, and thank you, everyone, for joining this call. We are trying to solve for a series of simultaneous equations. I'm referring to page 12 of the deck. Our goal is to invest well, and we are laser-focused on doubling our equity value, doubling our stock price.

At the same time as we grow, we want to control our headcount and reduce the complexity that can come with growth. This is important, not only from a margin standpoint but also to help maintain the culture of the Firm, which Henry spoke about. We are committed to controlling our share count. We are mindful of share count creep. This is a long-term objective.

As we have in the past, it would be critical for us to perform at a level where we keep an attractive return on equity while maintaining our modest leverage profile. So, how are we going to do this? I think the items we need to accomplish are pretty straightforward.

First, we are going to continue to expand our investment management business in a disciplined and profitable manner. This remains critical for us. The growth opportunities from a product standpoint are plentiful with some of our newer businesses, like real assets, alternative credit and hedge funds, and this is in addition to the growth we see at our private equity business. And in terms of fundraising, we will continue to build on our high net worth channel and liquid alternatives. Continued strong investment performance in our funds will drive results and help us achieve those goals.

Second, we're going to grow our Capital Markets business across all that we do. We've done a good job getting to where we are today, but there are even more opportunities across our businesses, and we can take the business even more globally.

And finally, in terms of balance sheet, we need to perform and increase the earning power of our Company. The balance sheet gives us the flexibility to do things that you cannot. We can buy back our stock, control our share count. We can invest alongside our funds through direct co-investment opportunities, and in some instances, like First Data, do so meaningfully.

We can take sizable positions in companies where we have long-term conviction and see significant upside. We can invest behind new strategies, like we did when we established our real estate platform. We can see new platforms, pursue partnerships, pursue strategic M&A. We can create long-term strategic partnerships like we've done with Nephila and more recently with Marshall Wace. And we will continue to support our strategies through GP commitments to our funds, which align our interests with LPs and ultimately strengthen our fundraising efforts.

Let me touch on the Marshall Wace strategic partnership. We forged a strong relationship with the founders, Paul Marshall and Ian Wace, and expect this to be a mutually beneficial partnership in an area, liquid alternatives, that is a fast-growing strategy, and where our presence is currently limited. At closing, we'll have an initial 24.9% interest and have a mutual option over time to increase this to 39.9%.

We think there are a number of opportunities to work together with Marshall Wace, cross-marketing through our respective LP base; joint marketing opportunities, particularly for those LPs that are interested in pursuing broader style partnerships; the introduction over time of new products that marry both liquid and illiquid strategies; and joint opportunities across multiple segments in the credit markets, given our current footprint in credit, as well as Marshall Wace's presence in the fast-growing peer-to-peer sector.

This partnership will be accretive to our earnings-per-share upon closing. And I should add that during this volatile period, Marshall Wace has continued to grow, and their strategies have delivered strong investment results for their clients.

We recognize that our business model is different than the other alternative asset managers. This is intentional. Scott walked you through the math. You don't need to make heroic assumptions to understand the opportunities that we see.

Let's look at the final slide of the deck, slide 13. Turning it back to our announcement this afternoon, when you cut through it, we think the best way for us to create equity value over the long-term is to invest even more in what we were doing on your behalf -- to invest even more behind our ideas and buy back our stock to control our share count. And all of us at KKR are aligned as we go down this path. Remember that employees own or control 45% of our Company.

Our overall strategies of this Firm has not changed. We're going to continue our focus on growing our asset management business, expanding the Capital Markets franchising, compounding book value per share, and increasing the earning power of our Firm. To reiterate what Henry said earlier, over time, we think the markets will value what we do with our balance sheet, including repurchasing our own units more than variable distributions that we have been paying.

We've been in this investment business for nearly 40 years at KKR. When Henry, Jerry, and I started, we were guided by the fundamental principle that aligning interest and being patient with locked up long-term capital would be a powerful combination and yield positive results. We believe it still does and that it will in the future. With performance, execution within the growth avenues open to us in our third-party business, and the power of compounding, we will have more capital to turn into more value for all of us.

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

Thank you, George. And with that, we'd like to open the lines to any questions. Now before we begin, it does look like we already have quite a few people in the queue. So if everyone could please ask only one question and then a follow-up if it's necessary, and then rejoin the queue, we'd appreciate it.

So with that, Amanda, we'll take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Appreciate the enhanced disclosure. I guess just sort of stepping back -- and certainly appreciate Henry and George being on the line as well -- how did you arrive at sort of the dynamics to which you are presenting this evening? Sort of curious. So the $0.16 dividend, what was sort of your thinking behind that?

And then as you are thinking about buyback, how is the market going to understand the pace of that buyback? I think the market is probably a little confused right now based on how the stock is trading aftermarket, just about sort of the give-and-take between the balance sheet growth and the actual return of that capital. So, just trying to get a little more clarity of how to think about that buyback and some kind of specificity.

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

Sure, Bill. As it relates to coming up with the distribution itself, as you know, we've been reporting fee and yield earnings for the past seven quarters, and that is what we like to look at as our more recurring fee stream.

If you go back and figure out what the average is over the last seven quarters, it roughly comes out to be anywhere between $0.15 and $0.16. And so we were comfortable that that was going to a floor, where we could continue to pay that out without having to worry about trying to gain any extra economics from either balance sheet sales or carry.

As it relates to the stock buyback, Scott?

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

Yes, I think, Bill, the highest level, we kind of came to the conclusion that the variable distribution was not going to ultimately get valued. So let's pay out the very recurring portion of our earnings, and that's the $0.16 per quarter or $0.64 per year a year, as Bill said, we've been run rating. And then let's take the excess cash that we generate and do things with it that we think will get valued in the market over time.

We took you through the balance sheet performance. We think making investments off the balance sheet will create value over time. And we think buying back our stock will create value over time as we can compound on a per-share basis.

Giving you specificity around the use of the $500 million, how fast we are going to use it, we'll see. We'll see how the stock trades. But our view has been, as Henry said, that looking at the course of the last several quarters, would've been very nice to have a buyback authorization in place, given how the stock's performed.

So you should expect to see us using it. The pace, we'll get back to you and let you know how much we use how quickly. But we expect that we'll be using it.

Bill Katz - *Citigroup - Analyst*

And just my follow-up on that. Is this a potential precursor toward a C Corp? Because I think one of the advantages of the PTP structure is sort of shielding that cash flow from carry. And obviously you are making a bigger statement about obviously the opportunity to reinvest in capital as well as a fixed dividend. Is there any advantage at this point to retaining the PTP structure? And if so, what would that be?

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

Well, Bill, at -- for the time being, and we look at alternatives all the time, we are quite comfortable with our structure as it sits today, although things could change.

Bill Katz - *Citigroup - Analyst*

Thank you.

Operator

Michael Kim, Sandler O'Neill.

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

So, just to follow-up on the shift in capital management. I get the thinking behind the stock is a good value down at these levels, but I thought one of the rationales for buying in, the KFN portfolio a little over a year ago, and really kind of doubling down on the balance sheet, if you will, was so that you could invest more behind your ideas.

So now it seems by moving to a fixed distribution, the message you are putting out is that you want to -- you want more capacity or at least you want to put that capacity to work more quickly to invest behind some of these opportunities that you are seeing. Is that kind of the right way to think about it from that perspective?

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

Hey, Michael, it's Scott. I'll take it. Look, I think in part, yes. But really, if I were you I'd step back and say you are right. We bought KFN, we said let's have more assets on the balance sheet. It will give us more fee end yield earnings. So we have a higher predictable base, which we are now going to be paying out in the fixed distribution on a go-forward basis.

And we'll have more capital that we could redeploy into higher returning opportunities, which, as you can see on page 9 of the deck, we've been doing that. So we've been selling down some of the old legacy KFN investments and rotating into higher return opportunities.

But if you step back even further, what we are really saying -- and I'll give you an example using 2014 -- is, last year, we paid out $1.5 billion in dividends; on a go forward basis, it will be between $500 million and $600 million. That $1 billion of excess cash flow that was paid out in the variable distribution we were paying, we are thinking we can create more value with that $1 billion by doing two things.

One is to invest in opportunities and generate the types of returns you see on page 9, and the other thing is to buy back our stock. And to be clear, obviously we are buying back our stock from the public shareholders only. So, a bit over half of the stock is owned by the public. So if you use a $500 million buyback and you think about the aggregate cash that was going into investors' pockets versus it is now, it's really not a big shift. We are just changing it from distribution to buybacks.

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

Got it, okay. That's helpful. Thanks for taking my question.

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

Thank you.

Operator

Robert Lee, KBW.

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

Sticking with the theme of the day, if I think about your change in capital management strategy, I mean at the end of the day, it's really adopting a more traditional strategy distribution that kind of follows cash generation earnings over time, reinvesting the business -- whether you are building widgets or investing to compound growth and share repurchase where it's attractive.

So should we also think that this $0.16 kind of distribution if you continue to grow your third-party business and are successful, that we should really just be thinking of this in a more traditional sense that there should be growth in that base distribution that maybe mirrors your book value growth over time?

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

Hey, Rob, this is Bill. You are thinking about this correctly. We're coming up with now a fixed distribution. And as we continue to grow the business, and we perform, you can expect that that number would go up. But right now, we come out with $0.64, and for the very short-term, we are not going to change that. But again, if the business performs and we don't have additional uses for the capital, that dividend could increase for sure.

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

Could I get just one quick follow-up? I know you just mentioned you are going to have the new segment reporting. I'm just curious, are you going to maintain most of the current metrics that you report in terms of DE, FRE and yield earnings?

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

Yes, Rob, we'll continue to report that information plus we'll also provide supplemental information, and really, try to lay out exactly how we are running the business as well. So we'll provide both.

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

Yes, I think we'll be including kind of numbers like pages 5 and 9, Rob, so it will give you a better sense for the aggregate balance sheet performance as well.

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

Great. Thank you for taking my question.

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

Thank you.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

I can't resist the topic of the day either. So I mean, if we look at your distribution last year, it was around $1.90, the year before, $1.40, and we had you on track to -- high $1.60s this year. So I figure on average it was like about $1.70 and that's about $1.5 billion and that was roughly 75% of your cash distributable earnings overall.

And if we look at the $500 million buyback and add the distribution, it adds up to more like $1 billion rather than $1.5 billion. So should we think of it that way roughly that you are thinking in terms of a 50% payout between cash and distributions? Or is that not the way that you looked at it?

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

Well, I think the way we looked at it, Chris, to be really clear is kind of going back to what I said before. We think the market will value the more fixed component of our earnings, and that's what we put into the fixed distribution, and we are saying we're going to treat it much more like a normal corporate dividend. So, regardless of what we earn, we intend to pay that.

And then the excess over that amount, we said that we thought we could create more value by investing more behind everything that we do and buying back our stock. I think the point that, as you think your way through the $500 million buyback, that's really just applied over the public shares, though.

Because if you're going to do your math and you say $1.5 billion used to go out in total, if $750 million rough justice used to go to the public and $750 million to KKR, then now we've got $250 million going to the public through their half of the dividend. And the buyback would be entirely used for the public shares, so you get back to more or less the $750 million to the public investors. That's the bigger point.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And then I guess as a follow-up, looking at in your deck on page 15, it looks like in most years, your -- or last couple of years, your kind of the share creep from issuance, I guess, has been like 10 million to 15 million shares. Is the intent of -- and $500 million would be more than enough to offset that.

And I guess I think a lot of companies out there when they talk about share buybacks, what they end up doing is only offsetting employee issuances as opposed to actually shrinking the share count. And I wonder what your intent is there.

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

Well, I think you've got the math right. We certainly have the firepower to more than offset the amount we use for annual compensation. And you know I think I would just go back to George's remarks that we've set as a strategic goal for ourselves to control our share count. So, you'll continue to see us use it, and it's a long-term objective for us to grow book value per share and the overall share price. And so that's not a one-year objective. It's a long-term objective.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, all right, thank you.

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

Thank you.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

So I'm going to change up the topic here and move over to fee-earning AUM. It's really been ranged down to the past two years here. And I'm just wondering, kind of given the puts and takes around capital-raising operations, do you expect fee-earning AUM to start to grow in the intermediate term? Or are we really waiting on North America Fund XII here to really accelerate things here?

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

Hey, Craig, this is Bill. When you take a look -- during this quarter, we actually brought on about $3 billion of AUM, but keep in mind that we've got approximately $11 billion that is committed, that under the -- certainly on the public market side, we only get paid a fee and a carry when that capital is invested.

And so as capital gets deployed certainly on the public market side, you're going to see a ramp up in AUM and fee-paying AUM. Likewise, as you know, we are out raising several funds and we would think that, based upon the good performance we have with a lot of the funds that we have, taking our latest North America fund being in the top quartile, that when we go out and raise that successor fund, we would hope that that fund might be larger than the last.

Scott, any more color on that?

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

Yes. The only thing I would add is, if you look at the last 12 months, we've -- Craig, we've kind of raised $15 billion-plus at $6 billion of new shadow AUM's. So as Henry said, we are kind at this inflection point. We have a number of strategies where we are raising second time funds. We've talked in the past about Infrastructure where II was three times the size of I; Direct Lending II three times the size of Direct Lending I.

What's been happening over the course of the last couple of years is we've had a lot of monetizations in private equity. So your observation is right. We've been scaling these new businesses, but private equity has been bringing it down. But if you look at what we have in the market, I'll just list it -- Americas XII; our second real estate fund REPA II, Europe IV is finishing up fundraising, Special Sits II is still in the market, Direct Lending Europe, Real Estate Europe, our second mezzanine vehicle or private credit opportunities II, growth equity plus our hedge fund and continuous credit offerings.

So we have a lot out there. So I think it's a bit of a shift in the overall mix and the dynamic but my sense is, over time, as we get into it more of a normalized monetization environment in PE and these newer funds come on, you'll start to see it move up.

Craig Siegenthaler - *Credit Suisse - Analyst*

And just as a follow-up here, because North America XI has about $4 billion left to invest, do you think it's likely Fund XII will be a 2016 capital raising event or more like 2017?

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

Well, we are in the market right now with Americas XII, so I'd expect that we are raising capital over the course of the next 12 months plus.

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

Right. So we'll be raising capital through 2016 and probably in the front-end of 2017. And obviously that fund won't turn on until most of the capital is deployed in North America XI.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it, thank you.

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

Thank you.

Operator

Michael Carrier, Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

I guess just another question on the shift in the distribution strategy. Yes, I guess it's a couple-part question. But one is, if the balance sheet is growing, like are LPs okay with that? Two is just when you think about the shareholder base of yourself but also the sector, I don't know if you've done any analysis in terms of how many investors are in it for the yield or the income, and what turnover you expect?

And then when you think about the cycle, you use like 2010 to 2015 to come up with some of those returns. It's been a good five or six years. Now granted you used 18% and 13% on the math. So we can use a lower kind of return basis. But I just wanted to get your thoughts. When you think about deploying that extra cash that you are not paying out, as you get later in the cycle, are the odds of more buybacks, even more than offsetting dilution, picking up when the valuations in the market are more full, versus obviously when things start to come under more pressure, know you have more opportunity to actually invest the balance sheet.

I just want to get your sense on from a cyclical standpoint, how you think about that. Sorry for the multipart, but thanks.

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

No problem, Michael. So I guess let me take them in turn. So the balance sheet growth question, are the LPs okay with it? 100%. If you think about it, we are extraordinarily aligned with our Limited Partners. We are actually our largest Limited Partner ourselves. So we are very aligned with them. They understand the strategy.

A very large component of the balance sheet is just investing in the same funds in separate accounts that they are invested in. So we spent a lot of time with them, so yes, they are very okay with it, and actually I think they like the alignment that results from it.

In terms of the shareholder-based question, we talk often with a large number of our shareholders, and we have talked to people about the fact that we pay this variable distribution. It's had a nice trajectory, hasn't shown up in the stock price. And so I think if you think about what we've done here, we are continuing to have a very healthy dividend on the stock. It's a 3.6% yield. It's 50-plus-percent higher than the S&P 500. So we think it's very straightforward for yield buyers to continue to own us.

There may be some people that rotate out. There may be some people that rotate in. So we'll have to see how that develops over time. We'll have the buyback to use if there are people that want to rotate out, because we think the stock is at a compelling level. And so we'll be able to facilitate that in part.

In terms of the question on cycle and timing, I'd encourage you to think about it more broadly. We use the historical period because that's the time that we have while we've been public. But we have generated, we think, very strong performance through the cycle for the nearly 40 years now. And so, we could show you different time frames going back further.

But the punchline is, we'll be able to use the capital we are retaining not only to invest in opportunities that we like, but -- and if you think about what happens when the market dislocates, things get cheap, it could be a great environment for us to be deploying our balance sheet capital. And if people think we are late in the cycle, and they are worried about KKR's earnings power and the stock trades down, then we'll buy back more of our stock. And we think we can generate returns from a dislocation in both manners. So if that happens, we think we have ways to take advantage.

Henry?

Henry Kravis - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

Yes, just -- this is Henry. Let me just add one thing to that, that if you look at our history for almost 40 years now, the more dislocation, the more volatility, the better we've done. And now we are even in much better shape than we've been before in that we are global. So we can invest around the world. There are always going to be opportunities for us to put money to work in very interesting segments.

And if everything was just going straight up or at a very high price, it makes it much tougher. But the fact that there is the volatility, the fact that prices have come down in a number of sectors, becomes much more interesting for us. And obviously, the same thing would be true with our balance sheet that is investing alongside as the EP of all of our different funds.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot.

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

Thank you.

Operator

Chris Harris, Wells Fargo.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

You've made a pretty compelling investment case for KKR and I'm just wondering with the stock down here, why wouldn't we want to be even more aggressive with the buyback than you've already laid out? And I know there's some float issues, but look, even $500 million is, what, 3% of the cap and 6% of the float. So I'm just not understanding why we wouldn't be more aggressive on that, especially given where the valuation is.

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

Look, Chris. I think it is 6% of the float, which if you look at a number of buybacks, it's probably middle of the fairway. But if we use it all, we can always go back and ask the Board for a larger authorization. So I wouldn't get too focused on the amount. This seems like a good starting number and let's see what happens.

Henry Kravis - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

This is Henry. I'd just add to that, and that is that we have to look at that and weigh against all the other opportunities that we have whenever you are buying stock. You look at that and you say is that a good risk-adjusted return for the capital that we have? Or are we better to make an investment in another entity or to buy a company, or take a bigger position in one of our own companies? And that's what we are always weighing it against.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Understood, thank you.

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

Thank you.

Operator

Luke Montgomery, AllianceBernstein.

Luke Montgomery - *AllianceBernstein - Analyst*

Unfortunately, I'm going to resume beating the dead horse. It seems like the change in distribution policy is partly that you reached a breaking point with how the stock was being treated by the market with the credit you were getting for the distributions. but just being a little bit cynical, I guess you could say you added a corporate agency problem to what's already kind of a volatile business and volatile cash flows.

And it's unclear I guess how that's supposed to help investors get comfortable with the business model or obtain a fair valuation. So I think beyond the value creation you see to buy your stock or reinvest in the business, I get that. How do you think through the potential negative signals to the market as you arrived at this decision?

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

Well I guess, Luke, I'm not sure we -- I don't perceive a negative signal. I think frankly what we are saying is we own the better part of half of the Company. Whatever we do with the Company impacts the people at KKR to a much greater extent than anyone else. And what we are saying is that we think, over time, we can create more value with this capital management policy as opposed to our previous one.

As I said in the prepared remarks, we are investors. We showed you on page 9 of the deck how we've been doing with the balance sheet investments. We think we can continue to make good investments, and if the world dislocates -- that tends to be to Henry's point -- when we make our best investments, we like that opportunity. And we think all of us as shareholders will benefit by controlling or reducing our share count if the stock continues to trade at levels we find compelling.

So, you put those two things together, I'm trying to follow the cynical train, but from my standpoint, we are saying we just want to invest more in everything we do, including our stock, and the reduction in the dividend, and the shift to a fixed dividend, impacts the people at KKR just like it does all of the shareholders. And we are betting on the long-term and we are betting on ourselves.

Luke Montgomery - *AllianceBernstein - Analyst*

Okay. Well, just maybe I'll take one more stab at it then. The cynical part was, before I could see the cash flows now there is a policy in place that I have to think about whether I'm getting them. But I think the new distribution policy raises a concern that people have around the broader balance sheet strategy, in that is we can agree with the strategic and financial rationale of growing the balance sheet.

But as you put more of the revenue mix into the balance sheet or if you increase your retained earnings with the new policy, do you think that means KKR's valuation still won't get a fair shake? Because the market seems to have this predisposition to value the balance sheet at one times book, not 10 to 12 times P/E like you laid out on slide 11.

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

Yes, I think, look, I think the positive I would give you is it's now a fixed distribution. Before it was entirely variable. So you can count on the $0.16 a quarter, whereas before it was variable math.

The other piece of it that you look at is what we are saying is don't just value the balance sheet. Look at the totality of the business model. It's balance sheet plus the fees plus the carry. And that gets back to the point we were making in terms of the overall return we are generating and the cash flow we are generating. If you look at the ENI we've been generating over the last several years divided by the book, we generate a very high ROE. And we've done that without any leverage.

So we think that that business model is quite an attractive one. If we keep doing that, book value per share will compound and our earnings will continue to grow. And if we do those two things over time, and if we keep giving you transparency in what we're doing with the balance sheet, we think that will ultimately show up in the share price.

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

And listen, I think that last point is actually an important one in terms of some of the changes going forward. If you look in our press release, we historically have given lots of visibility in terms of the performance of the private equity portfolio. We're going to give Going forward that same level of transparency in terms of the balance sheet investment performance, so again the detail we have on slides 5 and 9 which we haven't disclosed consistently except through our calls and I think over time the thought we have is that if we are able to perform over time the balance sheet is going to be viewed as a long term source of value creation for us verses a source of earnings volatility.

Luke Montgomery - *AllianceBernstein - Analyst*

Ok Thank you very much

Operator

Brian Bedell, Deutsche Bank

Brian Bedell - *Deutsche Bank - Analyst*

Just to follow on Luke's question -- and a little bit of your question, Scott, or your answer to a prior question about the shakeout of the investor base on the distribution. How do you arrive at a view of how important the distribution is to certain investors in the stock? And then contrasting that with how you think investors will value the balance sheet -- the amped up balance sheet strategy?

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

A couple of thoughts on this, Brian. When we look at the shareholder base and how those investors define themselves, and we've done all of the splicing and dicing that you'd expect, the largest holders of our stock are value folks, they are growth folks and they are growth at a reasonable price folks. So, your absolute traditional plain-vanilla yield oriented investors are not, despite the yield that we actually have given to shareholders, is not as high as the growth in value-oriented people.

Now I'm not also -- I'm not trying to suggest that our shareholders don't value having a current yield component or having recognized the yield that we've paid. But when I think of the composition of our shareholder base and who we end up spending most of our time talking to, it is much more highly skewed towards growth in value-oriented investors than it is to your traditional yield-oriented investors.

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

Look, I think ultimately, what we are saying -- and we think our shareholders will agree with this as we continue to generate investment performance -- better uses of our capital through compounding and the buyback program will, over time, exceed the market value of the distributions we are paying. And what we are saying is, let's pay the fixed piece that people can model and understand in the variable component.

We'll continue to tell everybody exactly how it's generated. But we think, over time, the market will value it more if we use it for buybacks and we use it to make our own investments and compound faster.

Brian Bedell - *Deutsche Bank - Analyst*

Fair enough. And then just a follow-up. Does this -- the fact that you are not beholden to variable distributions, does this change the way you think about timing of realizations in any way or give you more flexibility to hold onto positions longer through different market cycles? Or does that not really matter?

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

No change. I mean as I said, we are fiduciaries for our LPs. We'll continue to manage our portfolio and create exits when we think it's appropriate. So no change in terms I would think about exit.

Henry Kravis - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

And by the way, that's the way it has been since we started the Firm. We are not tied to any particular time to get out. We really look and see what do we feel is the best time to maximize the value for our part -- the Limited Partners.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Great. Thanks very much

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

I have a bit of a hypothetical, I guess. Your two largest positions on the balance sheet and maybe even in the Fund are now liquid, or will be in the first quarter when the Walgreens lockup comes up. So it's not hard to imagine a cash flow situation next year that is significantly better than it has been this year. How do we think about that against this new distribution policy? And how you would even think about the amount of cash that could be coming through the business when that's happening?

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

Well, look, I think -- thanks, Patrick. It's Scott. The Walgreens stocks performed very well. First Data has also moved up very materially for us over the course of the last 12 months. So we continue to benefit from both of those holdings continuing to accrue up.

As I said in answer to the last question, I don't think the change in the -- this distribution policy or capital management strategy is going to change how we think about those investments. What we will do going forward, and what we've done in the past, is take a look at opportunities that we have to invest throughout the Firm, and compare that to the upside and the potential we see in those two investments.

We said in last quarter's call that you are going to see us from time to time take some more meaningful positions in companies. Walgreens and First Data are two prime examples of that. But clearly, if over time we sell down those positions -- which we could -- but if we did, we would be able to redeploy that capital into other investments, including buying back our own stock.

But it does not change at all how we think about the monetizations. We are very excited to be in partnership with Stefano Pessina and Frank Bisignano, and we think both companies have quite a bit of opportunity ahead.

Patrick Davitt - *Autonomous Research LLP - Analyst*

I guess my point, just asked a different way, is that the amount of cash flow being generated could be so high, it's hard to imagine that there might be that many opportunities to reinvest it. Is it fair to assume then maybe the repurchase would be amped up with all that excess cash? Or that would depend on where the price was obviously?

George Roberts - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

Well, over the last 40 years that we've been in business, we've actually invested $65 billion in private equity, and we've actually turned that into $130 billion. So with respect to finding good opportunities in the Firm that we have, that could invest many different ways in the capital structure around the world, finding the opportunities is not going to be the issue for us.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay, thanks.

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

Thank you.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Thanks for taking the question. Just curious how you're thinking about the overall yield that you are looking to target to investors on, say, an after-tax basis all-in? Is that something on a specific basis you are targeting?

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

Well, when you think about the way we are structured, obviously, we are a team PTP. And one of the things that we took into consideration when we analyzed the distribution was that we want to make sure that we were going to rightsize the distribution to deal with taxable income flow-through for our investors.

Michael Cyprys - *Morgan Stanley - Analyst*

And so that reflects some of the changes that you've made. I'm just wondering if you could just elaborate a little bit more around that?

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

I think the bottom line, Michael, is that the fixed distribution we expect will cover any tax payments for our investors who are taxable which, keep in mind is a subset of our investor base. We have a lot of folks who are not taxable, or the way that they look at their returns is on a pretax basis, but the yield has been set at such a level that we would expect that it would cover taxes for taxpayers at the highest level.

Michael Cyprys - *Morgan Stanley - Analyst*

Got it. So investors would receive enough to cover the allocated income that they would get?

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

Correct.

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

Yes, that's the plan.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay. And if I could just ask a follow-up there. Just curious if you could talk to some of the compelling investment opportunities off the balance sheet as you see today? I know you've been investing growth equity, real estate credit, off the balance sheet. How are those progressing and what are some of the new product ideas on the docket here? It seems like this change in payout policy maybe reflects maybe a view on your part of more larger investment opportunities ahead.

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

I'll take it. Look, I think the opportunities that we see, they are abundant and across multiple asset classes. So we've -- if you look at -- I'd put page 9 kind of in front of you as you look at what we've been generating. But where we are seeing deployment opportunities really, as Henry said, around the world. And so it's in private equity where we continue to see some pretty interesting opportunities, especially in places where there is a bit of dislocation, including Asia.

We are seeing opportunities, especially in the Special Situations in private credit areas, especially areas like Europe where we've seen the banks pull back meaningfully, and we've talked in prior quarters about the opportunities that we see to step into the breach, whether it's direct lending or distressed, controlled distressed, et cetera. Our real estate business is busy on a global basis, including in Europe. And so we've created a dedicated vehicle for that.

Growth equity is something that thus far we've funded off the balance sheet. And so we are creating a dedicated vehicle. We may drop some of those balance sheet investments into the fund like we did when we launched our real estate business.

So it's really -- it really is broad-based. But in particular, where we see complexity, illiquidity, and dislocation, is where we are finding the most interesting opportunities. And the volatility of the late summer has created quite a bit of opportunity for us, and it's a wonderful thing to have locked up capital to be able to invest behind the opportunities we see

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Henry Kravis - *KKR & Co. L.P. - Co-Chairman & Co-CEO of KKR Management*

Yes, this is Henry. I'll just add one thing to that -- to what Scott said, and that is that we wanted to get ourselves into a position to be a real solutions provider to companies, to be able to invest up and down a capital structure, whether it's equity that's needed, debt that's needed of all classes. And we've gotten ourselves into that position.

So, as a number of the financial institutions have cut back on lending to certain companies or providing capital to certain companies, it's enabled us to have a much more meaningful role, and it's created many more opportunities for us around the world. So, when people think about private equity, a lot of people think about it only as buying 100% of the company.

In fact, that's not the case at all any more. It's anything on the balance sheet that -- or in the capital structure that is needed, including minority investments, that can help a company make an acquisition, can de-lever their balance sheet, et cetera. And that's what Scott is talking about, is the numerous opportunities that we are seeing today.

Michael Cyprys - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Glenn Schorr, Evercore ISI.

Glenn Schorr - *Evercore ISI - Analyst*

Just a quick question on environment. Obviously, the market has gotten a lot better in the equity market since last quarter, but I'm still seeing hung deals and inability to get certain deals financed. Just wondering if you could talk to the financing markets and how prevalent some of the issues are? That would be super helpful. Thanks.

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

Sure, Glenn, it's Scott. Look, I think you are right. We are noticing the same thing. The leveraged finance markets in the US getting a little more tricky, so the amount of supply coming has increased quite a bit. We are seeing -- in some of the smaller deals or nichey deals, we are seeing some deals that get the rates pushed up to get cleared. In some cases, they are not getting syndicated.

But it's a bit of a bifurcated market right now. So if it's a good quality deal, it's getting done well. If it's a story credit, tougher quality, a lot of leverage, then it is much more challenging. And so it's bifurcation -- we continue to see it, and we are watching the supply/demand balance as new deals get announced, and the CLO machine slows down in the market a little bit.

Europe, it feels like there's less supply that's been created, a bit more of a healthy dynamic. But we are watching the US. And any of these -- anything that happens, especially in the smaller end of the market or the more storied credits, creates quite a bit of opportunity for us on our private credit businesses, where we've seen our overall deployment continue to increase this year.

Glenn Schorr - *Evercore ISI - Analyst*

Thanks. And I don't want to put words in your mouth, so -- but the follow-up question I had that you partially answered is, with all the deals that have been announced, say, over the past six months, there is a forward calendar that needs to get funded. Do you see that as more opportunity than risk? Is that correct?

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

Well, I'd say a couple of things. One, in terms of financing the types of transactions we do in private equity on the new deal front, we haven't seen any material change in behaviors. So, we are still able to raise financing for new transactions.

At the smaller end of the market, the midmarket and below, which is where we do a lot of our work in our private credit businesses, we are very active, because we're finding banks less excited about underwriting those opportunities. What we are finding, though, is if there is a dislocation because the market backs up, and there is a lot of supply and it's hard for the market to absorb, that will be a great buying opportunity for us, both across our leverage credit businesses where we manage more liquid pools, and in our private credit business. So that's the entire picture, I think.

Glenn Schorr - *Evercore ISI - Analyst*

Okay, that's super helpful, thank you.

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

Thank you.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Thanks, guys, for taking the question. I know the call is running a little late. So, just one more, I guess, on the pace and timing of the new capital policy. I guess the one thing that's difficult to understand is that, at least in the prior methodology, we still kind of knew that while your cash flows might be volatile, 75% of those we'll be able to get back.

So now, when you think about the relative attractiveness of making an investment on balance sheet versus buying back your own stock, how do you, I guess, make that distinction? Is that a more formulaic kind of ROE or IRR type of target that you'll be considering? Because I do think ultimately the time to invest on the balance sheet will probably coincide with the time to buy back your stock, because that will probably happen simultaneously. So just curious to get your thoughts on that. Thanks.

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

Hey, Alex, this is Scott. We're not going to be able to give you a specific formula to point to, but I think you can see the returns we've been generating off the balance sheet. And we are looking for opportunities to generate very attractive double-digit-plus kind of returns. And we will compare that to the opportunity with our stock.

We think right now, frankly, the stock is at a very attractive level. But as -- over time, as the stock price shifts and the opportunity set shifts, we'll keep you updated on how we are thinking about it. We're not going to be able to give you specific math, per se, but we'll tell you how our thinking evolves.

Alex Blostein - *Goldman Sachs - Analyst*

Okay. And just one for Bill on the -- just on the P&L. When we look at net interest income and dividends for this quarter, there's been a fair amount of fluctuation, I guess, in that line item in general. So as we are thinking ahead, what are the kind of puts and takes of the drivers there? And is this a decent enough of a run rate to receive over the next couple of quarters? Thanks.

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

You're right. This quarter, the number was a little lower. And so, depending on the cash flows from the investments that we have in real estate or energy, I wouldn't say they are more seasonal, but they are. And so what you typically see is a little more cash flow come in, in the second quarter and the fourth quarter. But on a run rate basis, when you take a look at that, I would say that number is going to be anywhere between $50 million and $60 million each quarter. And if you take a look at the nine-month number, that's pretty close to being spot on with a $50 to $60 million cash earnings per quarter.

Alex Blostein - *Goldman Sachs - Analyst*

Great. Thanks very much.

Operator

Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Just actually a couple follow-ups, if I can do so. What was your thoughts as you thought about different strategies -- and obviously you need to go down this route, but instead of shifting the payout policy of doing more of a levered recapitalization and maybe putting some debt up against the balance sheet, and buying in stock without really adjusting the variable, what were some of the mechanics behind that? And perhaps related to that is, what's the multiple you are assuming on the fee-paying AUM component of your business when you went through this corporate finance discussion?

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

Hey, Bill, it's a Scott. I'll take that. Look, I think from -- the first question, the leverage recap comment, look, I think we've run the Firm historically with modest net leverage, if -- to zero net leverage. Our perspective is that we have a significant amount of upside through the companies that we are invested in, many of which are levered themselves, as you know.

And so we didn't think it was appropriate to add a significant amount of leverage to the Corporation at the risk. Actually, one of the slides in the deck we talk about is that simultaneous equation. We don't want to add a lot of franchise risk by adding a lot of leverage at the Holdco. So, that's the main reason that we decided a leveraged recap wasn't something that was attractive.

In terms of the multiple on our fee businesses, I think you probably know the answer to that as best we do. I think our observation is that, if you look at how we make money, certainly we have a good chunk of our revenues come from fees, but we have a more meaningful component that comes from carry and from our balance sheet.

And so, every time we go through our analysis, it's all connected. Investment return is the most important thing we can focus on and generate. If we generate investment returns, we'll have more carry, we'll have more balance sheet income. It will be easier to raise larger pools of capital from third parties, and we'll therefore have more fees.

So we are focused on what we can control, which is making good investments and monitoring them, and making sure that we create real value. And so that's how we thought about it. And all of that accrues to the positive for all of us as shareholders. So we think of it is frankly a more fungible set of revenues where all things benefit from generating good investment returns.

Bill Katz - *Citigroup - Analyst*

Just one last one. Thanks for your patience. What's been the internal reaction to this? Just in terms of is there any pressure on comp? I think earlier on, you sort of said your fee-related margins are or probably your pretax ENI margins are going to be relatively stable in the range you offered. But any pressure on comp as an offset to what could be some forgone income?

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

No.

Bill Katz - *Citigroup - Analyst*

Okay. Thanks for taking all my questions tonight.

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

Thank you.

Operator

Kenneth Hill, Barclays.

Kenneth Hill - *Barclays Capital - Analyst*

Just looking at the credit portfolio on the balance sheet, there's been a few bumps in terms of performance, particularly from the CLO's and just a more difficult mark to market here this quarter. How should we think about that piece of the business going forward? Are you comfortable with some of the levels of volatility you see in the portfolio? And would you expect to maybe size or change the composition of that over time?

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

No. I mean -- go ahead.

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

No, I was going to say -- when you take a look at what happened during this quarter, the LSTA was down 1.4%. We own subnotes in our CLO's, and so you are going to see the impact go through on a mark to market basis this quarter. But when you take a look at our balance sheet and the exposure we've got to the CLO's, we are pretty comfortable with those positions.

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

Yes, the other thing I would do is just ask you to rise up overall the leveraged credit book performed about in line with the LSTA for the quarter. So there's nothing of interest there. But I'd just point you back to page 5. The balance sheet performance as a whole down 2.3% for the quarter; the MSCI down 8.3%. So, overall, in any given quarter, you are going have some things working really well, some things not. We'd ask you to look at the whole body of work, which is kind of the overall investment portfolio performance.

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

Right. And again, what goes through ENI is mark to market.

Kenneth Hill - *Barclays Capital - Analyst*

Okay, fair enough there. Just a quick one then. From a cash perspective, is there any level of cash you guys need from a regulatory perspective that you would need to either run the business, I guess?

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

No.

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

Nothing material. Maybe in our Capital Markets business, but it's not a material amount.

Kenneth Hill - *Barclays Capital - Analyst*

Okay, thanks for taking my questions.

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

Thank you.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Thanks for the follow-up. It's a quick one. Is there any kind of restriction or quiet period that would keep you from being in the market in your shares tomorrow?

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

Patrick, we're not going to be able to enter the market until Friday. So we are releasing earnings tonight and we're not going to be able to participate until Friday morning.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Thank you.

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

Thank you.

Operator

Thank you. I'm showing no further questions. I would like to hand the call back to Craig Larson for closing remarks.

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

Thanks, Amanda, and thank you, everybody, for joining our call. I know it's been a longer call than usual. If you have any follow-ups, please feel free to follow-up with us directly after the call. Have a good night.

Operator

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