KKR & Co. Inc.
Conference Call on Global Atlantic Acquisition
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Presenters
Craig Larson, Head of Investor Relations
Scott Nuttall, Co-President and Co-Chief Operating Officer
Rob Lewin, Chief Financial Officer

Q&A Participants
Alex Blostein, Goldman Sachs
Glenn Schorr, Evercore
Devin Ryan, JMP Securities
Mike Carrier, Bank of America
Chris Harris, Wells Fargo
Robert Lee, KBW
Craig Siegenthaler, Credit Suisse
William Katz, Citi
Michael Cyprys, Morgan Stanley
Jeremy Campbell, Barclays

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's call to discuss their acquisition of Global Atlantic. 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. If you'd like to ask a question at that time, please press star one on your telephone keypad, and a confirmation tone will indicate your line is in the question queue.

You may press star two if you would like to remove your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. If anyone should require operator assistance during the conference, please press star zero from your telephone keypad. I will now hand the call over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson
Thank you, Operator. We're excited to announce this morning that KKR has signed a definitive agreement to acquire Global Atlantic Financial Group, or GA. On the call today, you'll hear remarks from Scott Nuttall, KKR's Co-President and Co-Chief Operating Officer, and Rob Lewin, KKR's Chief Financial Officer. Please note that we've posted a presentation on our website that we'll be referring to over the course of the call. On our website at kkr.com with the Investor Center section, you'll be able to find the presentation under the Events and Presentations tab.

Before we begin, we'd like to remind everyone that this call will contain forward-looking statements which do not guarantee future events or performance. Please refer to our SEC filings and the accompanying presentation on our website for cautionary factors related to these statements. And we'll also refer to non-GAAP measures on the call, which are reconciled to GAAP figures in the presentation.

And finally, on our upcoming Second Quarter Earnings Call, we do expect to discuss Global Atlantic and the transaction in greater detail, including how we expect GA to be reflected within our financial reporting upon closing. That call is currently scheduled for Tuesday, August 4th. So, while more details will be forthcoming right around the corner, we're pleased to have the opportunity to introduce GA and the transactions ahead of us. And with that, I'm pleased to turn things over to Scott.

Scott Nuttall
Thank you, Craig. Good morning, everybody, and thanks for joining our call on short notice. This morning, we announced that KKR has agreed to acquire Global Atlantic in an all-cash transaction. We wanted to spend some time explaining why we're so excited about this development, introduce you to GA's business, and also take your questions. In summary, this transaction is highly strategic for KKR. It meaningfully expands our base of permanent capital, further diversifies and scales our business, and significantly grows our position within the insurance industry. All in the transaction that we expect will improve the quality and visibility of our earnings, while also being accretive on a per-share basis across our key financial metrics. Rob will get into more of the transaction details in a few minutes.

Now, I know many of you know KKR quite well. But for those of you less familiar with us, please take a look at page two of the presentation that Craig referenced. I think it's a good reminder for everyone, and it helps highlight why GA fits so well for our firm. When we meet with investors for the first time, we hope they'll remember four things. First, we are in a secularly growing industry. Our clients are searching for return in a low-rate world. Opportunities for the industry in areas like insurance and retail have been expanding, and in this growing industry we have been taking share, growing faster than the industry itself.

Second, our business model is different than our peers'. We enhance our core asset management business when we invest our own capital alongside our partner's capital and bring opportunities to others through our capital markets business. We've built a business model that enables to generate significantly greater profitability from the opportunities we see. And our balance sheet gives us the opportunity to be opportunistic and aggressive, and it makes sense. We can use it as a real strategic enabler. Through our approach, we can pursue opportunities we like in size, and monetize our ideas to a much greater extent. GA is a great example of this.

Third, we have a lot of ways to grow. The vast majority of our investment activities around the world were started in the last 10 years. Of our 24 investment strategies, 18 of them are less than 10 years old. And in our business, it takes 10 plus years to start to achieve scale. Said another way, the vast majority of what KKR is doing on a daily basis around the world is in this first 10-year period. We see massive growth opportunities ahead as we inflect and scale. And this scaling can be achieved in a number of ways, whether through marketing fund threes and fours instead of ones and twos, or geographically as we take strategies like Infrastructure to Asia, or as we're further developing channels in areas like retail or insurance. And finally, given our significant level of employee ownership, we are very aligned with our shareholders, and we have a collaborative culture that lends itself to our model and drives differentiated outcomes.

So where does Global Atlantic fit into all of this? Let's move to page three of the presentation. The global insurance industry is estimated to have over $30 trillion dollars in invested assets. It's an enormous end market. And in this low-rate world, we've been finding that insurance companies are looking for alternative investments within their portfolios. So, we have built a dedicated team that is focused on the specific needs of insurance LPs. And our insurance AUM has continued to grow, it was about $26 billion as of March 31st. And as we've worked with these clients and as we've built custom products that really address the specific needs of the insurance market, we've become more constructive about the long-term opportunity for us within this vertical.

You've heard us on our earnings calls talk about insurance as an important growth area. And while we have been scaling organically, we have also been looking at inorganic opportunities, searching for the right strategic partner that could take our platform to the next level. And that's what takes us to GA. As many of you know, KKR has been investing in the insurance industry since the 1990s. We have met with all types of insurance companies. And as a leadership team, when we've discussed the type of insurance company we'd love to find as a strategic partner, we've really been describing Global Atlantic.

GA is a scale player focused in two areas: retirement and life insurance. And in those markets, they have a leading presence. They are focused on the fastest-growing products, and the fastest growing sales channels. A lot of this success can be credited to GA's management team. Led by Chairman and CEO Allan Levine, Global Atlantic's strong and experienced team is a critical element of this transaction for us. We've found a great partner.

GA has grown rapidly, both organically and through acquisitions. To give you a sense, GA's GAAP assets more than doubled from 2014 to 2019. And we do expect continued M&A in this space, and believe GA is very well-positioned to continue to be a consolidator. And we believe we can help GA grow even faster going forward, through helping generate even better investment returns and using our network to access capital to fund more organic and inorganic growth.

And in terms of KKR, we plan to become GA's investment manager, subject to regulatory approval. In doing so, we will create a mutually beneficial dynamic wherein KKR will bring us asset management and origination expertise to bear on behalf of Global Atlantic and its policyholders. GA already has a strong investment track record, with assets managed by an accomplished team of investment professionals. We believe working with this team; we can further improve GA's risk-adjusted return profile. And at the same time, with over 70 billion of invested assets, GA is going to bring additional scale to our businesses in a number of critical areas for us. Think Real Estate Credit, Principal Finance, Private Credit, and Leverage Credit, to name a few.

And longer term, we'll have opportunities to work together and leverage our collective strengths as it relates to product creation and distribution. This transaction will significantly accelerate our presence across insurance. Assets managed on behalf of insurance clients will increase from 12% of our total AUM today to 35%. Our relevance to the insurance industry will increase materially. And as Rob will explain, this transaction meaningfully accelerates our objective of increasing our permanent capital base and is financially very compelling for our shareholders.

All of these factors combined increase the growth trajectory of our firm, and the opportunity we have to increase equity value meaningfully for KKR shareholders over the long-term. Hopefully that gives you a sense of our enthusiasm. Now, let me shift gears a bit and spend a few minutes on GA, its background and business, and if you could flip to page four of the deck, we'd appreciate it.

The business was founded within Goldman Sachs in 2004 and separated from Goldman in 2013 to become an independent company, renamed Global Atlantic. As GA's business evolved, the team made a strategic choice to focus exclusively on only two areas: retirement and life insurance in the US. These markets and the products GA offers have attracted risk and return characteristics and have allowed GA to leverage its strengths in distribution and risk management. GA hasn't tried to be all things to all people. Instead, where they have a presence, they are focused on being a market leader.

At this point, the company has 1,100 employees, with a senior team that brings a great deal of experience, about 20 years on average. Sixteen years in now, GA has a scaled and diversified business. It is a leader in its targeted markets, with GAAP assets of about $90 billion. You see GA's growth in these GAAP assets in the top right-hand corner of the page. This growth has really been driven by the development of its individual and institutional sales channels, in addition to strategic M&A. And now partnered alongside KKR, we think the company will be even better positioned to consider these opportunities. In the bottom right-hand side of the page, you see an operating performance summary, both adjusted operating earnings and book value. GA has delivered mid-teens annual growth in both metrics, with an average adjusted operating ROE of 16%.

Global Atlantic's retirement business is clearly its most significant business, so page five is worth spending a few minutes on. In terms of product offering, GA focuses on fixed annuities. These are longer duration, stable liabilities with products that are simple and easy to understand, and the favorable macroeconomic and demographic tailwinds. It's a spread-based business that lends itself to high-quality asset management opportunities quite naturally. Now at the same time, from a distribution standpoint, GA has been focused within the bank and broker dealer channel. The company has an established presence at this point at over 200 banks and broker dealers, and its top 10 distribution partners are all “blue chip” financial institutions. We view GA's footprint in this channel as a real strategic advantage.

It's difficult to establish a presence within these firms, let alone be embraced by these sales teams. Global Atlantic has been working at this for over 15 years now. So, when you look at the bottom-half of the page, you see that GA has been focused on the fastest growing products being sold through the fastest growing distribution channel. This combination has positioned the company solidly in the top five when you look at fixed annuity sales across the industry. And to be clear, there remains significant opportunities for growth.

Fixed annuity sales for the industry were about $140 billion in 2019, so GA was about 5% of the market. And remember, the portion of the US population that is age 55 and older is growing, and an increasing portion of the retirement wealth in the US is being managed by individuals themselves, not through pensions. So, the market is growing, and within that growing market, GA is positioned in the most attractive segments given its product and distribution focus, with scale and distribution channel advantages.

In its institutional business, GA has executed 20 reinsurance transactions since its founding, covering about $27 billion assets. We see tremendous potential for continued growth in the institutional channel. With the current market environment only increasing the opportunity set, as many insurers seek to refocus their businesses and release capital for other needs. Alongside all of this, we expect GA to benefit from KKR's asset management expertise and direct origination capabilities. This should help GA's organic growth while increasing its ROE. And it will have a larger capital base and access to our capital markets indication relationships as M&A situations are evaluated. And to be clear, all of these growth avenues for GA should further increase AUM and permanent capital for KKR. Let me now turn things over to Rob.

Rob Lewin
Thanks a lot, Scott. We are planning to provide additional information on Global Atlantic, and how it will fit within our financial reporting as part of our Q2 Earnings Call in a few weeks, so I'm going to be brief in my remarks today. If you flip to page six, we've agreed to a cash transaction that values GA at 1.0x its book value at closing. So, we haven't yet fixed the purchase price and are taking several months of risk off the table prior to us closing.

At that point, it will be our responsibility to ensure strong performance of GA's investment portfolio. In addition, we've agreed to give certain existing holders in GA the opportunity to roll their investment into our transaction, and we are also planning to syndicate a portion of our investment to co-investors. Importantly, our intention is to maintain a controlling position in GA, with an initial economic ownership stake in the 60% range, but that could shift a bit between now and closing.

In terms of funding our portion of the deal consideration, we currently have around $3 billion of cash on hand, an investment portfolio that was valued at $11.5 billion at the end of March, which we expect to continue to generate meaningful liquidity, and we also have access to additional funding through the debt and equity capital markets. While there's still some moving pieces, we did want to give you a high-level sense for why we're so excited about the potential impact of this transaction. To start, it's important to understand that GA is going to continue to operate as a standalone business, keeping its independent brand and management team.

In terms of GA's impact on KKR's economics, there are really two distinct forms of contribution. The first, is that we believe this is an excellent standalone investment opportunity. Global Atlantic will be KKR's largest balance sheet investment, and a majority-owned subsidiary. As a result of our ownership stake in GA, we'll recognize our share of their operating earnings in KKR's distributable earnings metric.

The second way this transaction will impact our economics is through the assets we manage on GA's behalf. Our intention is to become GA's investment manager, concurrent with the closing of the acquisition, subject to receipt of required regulatory approvals, which would add roughly $70 billion of assets under management. In addition, over time, we would expect to directly manage certain aspects of GA's investment portfolio, where we have the expertise to deliver attractive, risk-adjusted returns.

So the impact to our capital base here should be pretty straightforward. We would expect our AUM to increase by 35%, from $207 billion as of 3/31, to $279 billion on a pro forma basis, and our fee-paying AUM on that same basis would increase by 45%. The impact on the quality of our capital base though is even more significant. Our permanent capital will increase from $19 billion to $92 billion, and alongside of this capital, we believe we're already the industry leader in creating large investor partnerships, where we recycle capital for 20 to 30 years. So permanent capital, together with long dated strategic partnerships, will represent $118 billion or a little over 40% of our AUM. We expect to grow this component of our asset base over time given the opportunities at GA. As you saw earlier in the deck, GA has a history of book value growth, with assets more than doubling from 2014 through 2019.

Turning to the financial impact. Our expectation is that annual management fees will increase by approximately $200 million over the next couple of years as we ramp up our work with GA, both as their investment manager, as well as increasing our direct asset management activities. Our distributable earnings will depend on our final ownership stake in GA, but our current expectation is that this transaction will add north of $500 million of annual after-tax TDE. That reflects the incremental management fees I just went through, as well as our share of GA's operating earnings.

Even more important is the long-term impact of this transaction. We expect the financial benefits will meaningfully accelerate over the next several years, primarily due to the expected organic growth of GA's investment portfolio, but also due to our ability to generate carried interest if our performance is strong. And as mentioned, there are a number of opportunities to grow GA inorganically as well. More holistically, this acquisition is very consistent with our strategy of long-term book value compounding. When GA spun out of Goldman Sachs seven years ago, they had a book value of $1.4 billion, which has grown organically to $4.4 billion today. We will follow up with more specificity over time, as some of the moving pieces related to this deal become more clear between signing and closing.

And finally, looking at page seven, you can see how we're summarizing our thoughts on this transaction. It meaningfully increases our AUM, as well as the perpetual nature of our capital base. In addition, our management fees become even more visible, as 85% of our pro forma AUM will now have a duration of at least eight or more years at inception. We will meaningfully diversify our assets under management, and achieve real scale quicker, especially across multiple credit-related products.

This is another example of KKR using its balance sheet in a way that's highly aligned with our strategy, investing behind a high-quality asset that should compound over the long-term, while also driving increased asset management economics. We are extremely excited about the strategic and financial benefits of this acquisition. The aggregate economics to KKR are very compelling while increasing our earnings quality, stability, and visibility. And with that, we'll be happy to take any of your questions.

Operator
Thank you. Our first question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Great, thanks. Congrats everybody on the transaction, good morning.

Scott Nuttall
Good morning.

Alex Blostein
Scott, first question for you, and then a follow-up for Rob. I guess starting with just a strategic rationale, we've seen the private markets industry increase its presence in the insurance space for quite some time, you guys obviously talked about that for a while as well, through a variety of different kind of ways and deal structures. Can you talk a little bit about why owning an insurance company outright, or I guess in this case 60% of an insurance company or so, versus partnering with one like we've seen with some of your peers, is a better way to do that for KKR? So that's the first question.

Scott Nuttall

Great. Thanks for the question, Alex, and appreciate you dialing in on a short notice. Look, I think the way we've thought about this is, this is a big space, as we talk about tens of trillions of dollars of assets. As you know, we have been building a presence in this space for the last several years, first on the sales side, then creating kind of customized products for insurers, and then creating a strategic partnership off our balance sheet, where we manage the alternatives portfolio of a strategic partner. So, we've been learning along the way. And as we did that work and we figured out how we could add value to an insurance partner, and we look to figure out how to play more aggressive, strategic offense, which is really how I think about this. And as we looked at it, what we determined is that for these structures to really be aligned has real value.

And you know, the way that we think about this as a firm, as you know, we have a strategy where we invest our own capital, and we're focused on capital that can compound over the long-term, and attached to that capital, asset management economics. I mean, that's how we analyze everything that we do as a firm strategically. So, this approach fits really nicely with our existing strategy as a firm; it fits right down the middle of the fairway and has very attractive economics for the firm. So that's the first thing I would say.

We do not think about this as acquiring an insurance company per say. We think about this as acquiring the majority of an insurance company where we can partner together, and we can help increase their investment returns, which should in turn allow them to increase their growth. So, this is not KKR becoming an insurance company, this is creating an aligned and durable partnership.

The other thing I would say is, what's a bit different about how we're doing it, is that we expect GA to stay private, and we expect to have control. As you noted, Rob said about 60% ownership is our expectation. We think with control, we can move faster and in scale, and we think there's a lot to do. We think this is the beginning of the story, not the story. So, as we've talked about it and thought about it inside the firm, we really think it fits with how we operate. And you know, we're excited to be in business with the team at GA, because we think we can help make each other better. But that's some of the considerations that we had, to your question.

Alex Blostein
Great, great. That's helpful. Thanks for that. And then, Rob, so a follow-up question for you. So, I think towards the end, I think I heard you say $500 million of after-tax contribution to distributable earnings. Could we just get a little more color on whether that assumes sort of the full run rate of management fees of $200 million that you guys expect to get to over the next couple of years, or is that kind of within the first year of the deal closing?

And then, as we think about the funding of the transaction, you highlighted various sources of funding opportunities. Obviously you guys have liquidity on the balance sheet, etcetera, but help us better frame maybe how the purchase price will be broken down between cash and investments on the balance sheet, data, and perhaps if there's any common equity you guys would need to issue for this.

Rob Lewin
Great. Thanks for that, Alex. On your first part of your question, as it relates to our earnings, I think we'd probably get to that 500 plus number close to the end of the first year of our ownership. That's how we've thought about that, so not the full couple of years. And then in terms of how we fund this deal, I mean, the reality today is that there's a few different moving pieces on this deal. Our purchase price isn't set, so this is something that we negotiated for as part of our discussions with Global Atlantic. We don't expect a ton of variability there, but there could be some.

Obviously, our final ownership percentage, as Scott mentioned, could move around a bit. In terms of potential debt financing for this transaction, we've just started the dialogue with the rating agencies, so I think it'd be premature to comment on the debt capacity available. And then finally, we need to see the degree to which our 11-and-a-half-billion investment portfolio monetizes over the next several months. And so, there's a fair number of moving pieces as it relates to how we would fund this acquisition. And you know, obviously, we believe there is access to the equity capital markets, to the extent we think that's the right capital position for us as we look at our overall financing package.

Alex Blostein
Great. Thanks so much for the color.

Scott Nuttall
Thanks, Alex.

Operator
The next question is from the line of Glenn Schorr with Evercore. Please proceed with your questions.

Glenn Schorr
Hi, thanks very much. So, I think I definitely get all the benefits to both sides in terms of growth, profitability, and everything outlined. One of the things I'm just thinking about is, is if you are successful, and say, GA doubles over the next five years, insurance becomes a big--you know, your balance sheet grows, and insurance becomes a big part of both the balance sheet and the overall company. And as much as I get the benefits, the insurance sector trades like crap, last I checked, and rates are expected to stay low for a while. So, how do you balance on how big to be? And that goes towards your ownership, and then how much to fuel growth, how much to fuel M&A, because this is a half M&A-led strategy. Thanks, sorry for the rambling question.

Rob Lewin
Sure. Thanks for that, Glenn. So, as I--you know, I think as we look at how this can scale over time for us, we see that in two ways. You're right, we see our investment in GA potentially

scaling over time, likewise we see the rest of KKR and our balance sheet scaling over time in a roughly proportional way.

In addition to that, as GA scales over time, the asset management economics to us scale. And so, I think when you add it all up, you'd actually see that the rest of KKR on that basis probably growing faster than the insurance component of our balance sheet, if that makes sense. And so, that's how we thought about this transaction relative to the overall size of KKR. It's certainly meaningful, but it's certainly also not overwhelming in size.

Glenn Schorr
Very good point, fair enough--.

Scott Nuttall
--Yes. Yeah, hey, Glenn, just one thing. I think it is important, though, I mean, to be clear, we really think this is a pretty unique company. You know, if you look at their historical ROEs, the consistency of the return profile, the way that they manage risk. I mean, they've been able to generate mid-teens ROEs for multiple years now. And so, as we look at this, we think it's a really nice investment. We think it's a really nice compounder, and frankly, as we look at the look-through valuation for KKR's balance sheet, our balance sheet is trading at a discount to book.

And so, our perspective is, that this is a really interesting, long-term, mid-teens compounder in its own right. And it'll be a meaningful investment off the balance sheet, but you know how big our balance sheet is, you know, and 60% of roughly four and a half billion is going to be meaningful, but we're still going to have a lot of other ways to win on the balance sheet in addition to this. So, we like it in the first instance, because of it's a really attractive compounder.

On top of that, it has all the strategic benefits that we talked about; permanent AUM, that can grow, that generates fees and carry. So, when we look at it, the ROE, you start with mid-teens, and then we get multiple hundreds of basis points of the incremental ROE, and permanency through that strategic alignment, and we can help each other grow faster. That's how we've thought about it. And so, to my standpoint, it really is just a continuation of the strategy that we've developed as a firm, which is to compound book and be a big investor in everything that we do, and that allows us to scale our AUM faster. This fits right in the middle of that story.

Glenn Schorr
I think those are important points. One little quick follow-up is, who owns GA now, and who owns the other roughly 40 post close?

Scott Nuttall
It's--so, I'll take that, Glenn. So, GA today is owned by a combination of Goldman Sachs, on their balance sheet, the Goldman Sachs private wealth management channel is actually the biggest owner. So, you've got Goldman private wealth, you've got Goldman balance sheet, and then

you have a small group of institutional investors that own a minority piece. And so, the nice thing about this, frankly, is we have a great relationship with Goldman, both KKR does and GA does, of course, which we expect to continue to partner with Goldman and their clients after this transaction.

And in terms of your question about who's going to own the other roughly 40%, it's--we'll see. We've offered to the existing shareholders to roll over into our deal, so some element of it will likely be some of the existing shareholders rolling over. They've had a great experience; they've made about three times their money in the last seven years. So that's kind of part one, the rollover. Part two, is we're going to run a co-invest syndication, and go out through our capital markets and CPG teams as we typically do, to try to raise syndicated capital, and we're seeing a lot of demand for private market opportunities right now. So, I think it's going to be a combination of rollover plus co-investors.

Glenn Schorr
Thanks so much, appreciate it.

Scott Nuttall
Thank you.

Operator
The next question is from the line of Patrick Davitt with Autonomous Research. Please proceed with your questions.

Patrick Davitt
Hey, good morning, guys. Thank you. First question, I appreciate the increase management fees by $200 million over next few years, but as we think about kind of the potential increase in fee earnings at close, is there any reason to think the fee agreement would be much different than the agreements we've seen from other alternative firms that have these kind of relationships with insurance companies?

Rob Lewin
Yeah, hi, Patrick. Thanks for the question. So, you know, as we think about how we will ultimately get paid and what's going to flow through our management fees, there's really going to be two ways. There's going to be the investment management agreement, which I think you flagged, across all $70 billion of assets from Global Atlantic. We'll need to work through that arrangement with GA's regulators, but there's some clear precedent for us to look at there, as you suggest.

And then the second way is assets that we'll manage directly, which we'll charge GA's relevant fee rates for other similarly large investors and those strategists, including assets that could have performance-related fees, where appropriate. So those would really be the two ways that we will get paid. To your point, more immediately would be the IMA on the $70 billion, and as you suggest, there's a lot of a precedent there as to what an appropriate level of fee rate is. But we'll need to work through the regulators on that question.

Patrick Davitt
Okay, cool. And follow-up with Scott, I think you said, you know, you're going to be bringing in scale and real estate credit, real estate finance, private credit, real estate. Should we take that to mean that you're actually bringing in origination teams to KKR with this deal, or did I misunderstand that?

Scott Nuttall
No, I think possibly, is the answer, Patrick. So, you know, I think--to be clear, so GA has really had very nice investment performance on their own. And frankly, they've had a core competency in investment management; it's been a key driver of their success. And so, where we're at--what we're trying to do here is bring the best of both organizations together. So, we think that we can help them, we have broad strategies in alts, origination platforms, our global network. But we would also expect the GA investment team to continue to be a critical driver of significant portions of the investment portfolio.

So, I think you can think of it, you know, frankly, that we will be taking the best of both. And as a result of that, I think the short answer would be yes, we would be augmenting our origination capability by combining with the GA team. And so, you know, I think we can bring them a lot of what we're already doing, and we can work together, and they can bring us some of what they're doing, and combined, we'll be able to be even more powerful. And on top of that, you know, it just gives us more scale and market presence in everything that we're doing. I listed those asset classes, but we think over time it's going to impact virtually every business of the firm.

Patrick Davitt
Great. Thank you.

Scott Nuttall
Thank you.

Operator
Our next question's from the line of Devin Ryan with JMP Securities. Please proceed with your questions.

Devin Ryan
Great. Good morning and congratulations, guys.

Scott Nuttall
Thanks, Devin.

Devin Ryan
So, just a question here, following up a little bit on the economics. You previewed the detail, but just looking for a little more perspective, if you can, just on the timeline of moving GA's assets into KKR funds, and you know, what that could look like, percentages that you think that could get to, the strategies that you are kind of looking at there. And then, you know, if possible, any way to think about kind of more of a pro forma, fully baked financial impact. I get that that, you know, there's probably a range of outcomes here, but just trying to kind of think about what this looks like a few years down the road based on the assets today.

Rob Lewin
Yeah, thanks, Devin. And so, I think the primary way that management fees are going to flow through to us is going to be through that IMA. And we'll need to figure out over time, in coordination with the GA team, which direct assets we're going to manage on their behalf, and where we've got the core expertise to be able to deliver, you know, better risk-adjusted returns than what their alternatives are. And so, that's going to be a collaborative process with the GA team that's going to happen, you know, over the next several months between signing and closing, and then I'm sure over the next couple of years as we continue to get integrated. We'll certainly keep you updated as that progresses, and where we ultimately end up shaking up.

Devin Ryan
Yeah. Okay--

Scott Nuttall
--And the only thing I would, Devin--just one quick thing. I think the numbers that Rob gave you, which is the $200 million annualized over the next couple years, incorporates our expectation in terms of that IMA plus direct, but we think there's meaningful upside to that number over time.

Devin Ryan
Yeah, exactly, appreciate that. And then just a follow-up, apologize if I missed it, but in terms of how the deal actually came together, I'm not sure if you could provide anymore perspective around that. I'm sure others were potentially interested in these assets, or in this business, so just curious if you could give any more detail around that piece.

Scott Nuttall
Oh, there's only so much I can share with you on that topic, Devin. I would just tell you that as we said in the prepared remarks, we've been looking for the right strategic partner in the insurance space for a long time, and have been spending time with different players. And frankly, as we got to know Allan Levine and his management team, cultures clicked, it felt right, and you know, it checked all the boxes we were looking for strategically. So, you know, the conversations began several months ago, and we're thrilled to be on the phone with you today talking about it.

Devin Ryan
Okay, great. Thanks, guys, appreciate it.

Scott Nuttall
Thank you.

Operator
The next question is from the line of Mike Carrier with Bank of America. Please proceed with your questions.

Mike Carrier
Good morning, everyone, and thanks for taking the question. It makes a lot of strategic and financial sense, just a question on how this changes the growth opportunity ahead in the insurance space. So it seems like GA's organic growth has already been strong, but any benefit there as part of KKR, or you know, do you see more opportunity, you know, either on the deal front, you know, with more capital, or are there some benefit with your current strategy and managing money on behalf of insurance clients, you know, with increased CL?

Scott Nuttall
Well, thanks for the question, Mike. I think there's a lot of opportunities for growth. As you said, GA's been growing at a very attractive rate on their own, both organically in the individual business through, you know, blocks. In the institutional business they've been making acquisitions, they've been creating new products. So, they've been doing a great job before we showed up as a partner. And so, our first rule is, do no harm, and so they're going to continue to do that great work. Our job is to help them grow even faster, and wherever possible even smarter, and I think that's going to come in a couple ways.

First is, we believe that working with their team, we can help them generate incremental investment returns. And if they have additional investment return, they should be able to be even more competitive in the market, for example, for the issuance of new annuities. And so, that should allow them to enhance their market presence and drive their organic growth. So, the investment return piece of it, I would say is part one.

Part two, is that we think that by virtue of our access to capital, we should be able to help them grow inorganically as well. And so, there may be acquisitions, as an example, that we could pursue together. And with our access to institutional capital around the world, we think we can, you know, find the capital for attractive investment opportunities, and invest more behind this great management team. So, there's the inorganic opportunity on top of that, and then there's perhaps a little bit more of a nuanced opportunity.

We mentioned in the prepared remarks that the institutional business has a lot of opportunity for growth, and a lot of run-off blocks are coming to market, and working together, we believe that we can be even more aggressive with GA in trying to compete for those blocks. And so, what we would expect to do is be able to not only raise capital at the company level, but also the company recently raised a sidecar fund, in effect, to allow it to scale its presence in that space. That fund looks a lot like the type of fund KKR raises. It has a fee, it has a carry, and it allows them to have dry powder that they can use to be a more aggressive grower. And we think we can use our sales team to help raise more vehicles like that as well. So, a lot of ways to grow.

Mike Carrier
Appreciate it--

Rob Lewin
--Hey, Mike, I'll just point you back to page four of the presentation, just to put some numbers around how successful the GA team has been on their own without our partnership. And they've grown their assets since they spun out of Goldman from $17 billion in middle of 2013 to roughly $90 billion today, so almost a 30% CAGR. They've done a really nice job on their own, and hopefully we can complement that.

Mike Carrier
Great, alright, makes sense. Thanks a lot.

Scott Nuttall
Thank you.

Operator
Thank you. The next question is from the line of Chris Harris with Wells Fargo. Please proceed with your question.

Chris Harris
Thanks, guys. Are there any regulatory or capital considerations that may affect KKR's financial flexibility once this transaction closes?

Scott Nuttall
I think the short answer is--Chris, is no.

Chris Harris
Okay. And with respect to future M&A opportunities at GA, what is their excess capital position today?

Scott Nuttall
Oh, that's not something we're going to get into in terms of that level of detail on the call. Suffice to say, they do have excess capital inside the company, they also have the sidecar fresh dry powder that I mentioned, and we believe that we can access more. They tend to run a very conservative risk-based capital ratio, which is higher than the rest of the industry. And we'd

expect that to continue, so they do have excess capital that allows them to be opportunistic before whatever we can bring to the table.

Chris Harris
Okay, appreciate it.

Scott Nuttall
Thank you.

Operator
The next question's from the line of Robert Lee with KBW. Please proceed with your question.

Robert Lee
Great, thanks, and congratulations on the transactions, everyone.

Scott Nuttall
Thanks, Rob.

Robert Lee
Think just following up on the regulatory question, how far along are you in terms of getting the necessary regulatory approvals? Is that something that has this kind of push out closing, or do you feel like you, you know, made pretty good progress on that, to this point?

Scott Nuttall
Well, Rob, we're at the beginning of the process, so, that's why we expect this is going to close in the first quarter of 2021. So, you know, we've clearly reached out to the regulators ahead of this announcement today, but the process really begins now. You know, this is well-trodden ground in terms of a partnership like this, between an insurer and an asset manager. So, we expect it to be a normal course process, and we'll keep you updated as appropriate, but it really starts today.

Robert Lee
Great, and maybe as a quick follow-up--and I think you maybe touched on this in some prior questions. But is there any kind of investment you need to be making as part of this, I mean, to kind of ramp-up your own capabilities ahead of this add, at least in the short-term, you know, maybe more of a modeling question, kind of think about some of the incremental costs or whatnot that may--to build up some credit capabilities or origination capabilities. Just trying to get a sense of, this is kind of plug-and-play, or it's some incremental investment you need to make.

Rob Lewin
Yeah. Thanks for the question, it's a good one. So, our expectation here is the revenue's going to come into KKR at a pretty high incremental margin, so the flow-through here to our fee-

related earnings and our distributable earnings is going to be pretty high. I will get into more detail as it relates to how we think about compensation on our Q2 Earnings Call, but we'll probably need to add some different resources and capabilities, but ultimately think the flow-through margin here to our shareholders is going to be pretty good.

Scott Nuttall
Yeah, I'd say it's going to be really modest, Rob. We can leverage a lot of what's already in the firm.

Robert Lee
Okay, great. Thanks for taking my questions. Congratulations.

Scott Nuttall
Thanks a lot.

Operator
The next question's from the line of Craig Siegenthaler with Credit Suisse. Please proceed with your questions.

Craig Siegenthaler
Thanks, and good morning, everyone. So, we have seen--

Scott Nuttall
--Good morning--.

Rob Lewin
--Good morning--.

Craig Siegenthaler
--Alternative asset managers, including KKR now, acquire and form relationships with fixed index and fixed annuity underwriters. Do you see KKR as eventually building a large business in other like markets, or P&C?

Scott Nuttall
Thanks for the question, Craig. You know, we have been looking at the insurance space, as I've mentioned, since the early 90s. And there's really very few models in insurance that--where we believe it's an appropriate type of strategic partner for us. So, for example, we've looked at P&C, and we believe we can--and we have a number of P&C clients, we work with them, we helped them through the asset allocation, and we manage capital for them. But in terms of having a large strategic investment, you know, frankly what we've found is a lot of those business models are not as ideal as the fixed annuity space. There's less leverage in the balance sheets, so the asset portfolios are smaller relative to the capital base. And by virtue of their exposure to different types of events, there's a higher degree of volatility. And so, what we

really like about GA, it's got a really focused strategy, a lot of stability to its earning profile, which allows us to have confidence in it to be a great compounder for our balance sheet.

And critically, they have, we think, a nice moat. They've got real barriers of entry, by virtue of what they've built in the broker-dealer channel. It's higher growth, sticky, and so we really like those aspects. We have not found those types of attributes to the same degree in other parts of the insurance space. So, we'll continue to look, and you know, we will find if there's other partners out there, or ways that we can work with the GA team to expand where it makes sense.

But, you know, we've had a really high bar, as I've said in prior calls, for inorganic moves like this. And you know, very few things have cleared that bar; GA clearly does, which is why, you know, we've been so focused on playing strategic offense and getting to this outcome today. So never say never, but I don't think you're going to see us doing anything in P&C like this anytime soon.

Craig Siegenthaler
Thanks, Scott. And just given that this asset will be private, how often will it be revalued? And as we think about our own sum-of-the-parts valuations, you know, is your recommendation to sort of value the DE from this life co sort of separately as like a fourth stream, or should we just add more value to balance sheet value as this goes up or down?

Rob Lewin
Hey, Craig, this is Rob. Thanks for the questions, and good morning. So, this'll be a majority-owned operating subsidiary of the firm. Like any majority-owned operating subsidiary, we wouldn't be revaluing it each quarter, or at all. And so this is going to show up effectively in our book value, at its book value as that compounds over time, and then we'll get into some additional detail in terms of how we're thinking about presenting both GAAP and non-GAAP numbers on our Q2 Earnings Call.

But I think the punchline is right, that the incremental distributable earnings from this investment will be added to our existing distributable earnings.

Craig Siegenthaler
Thanks, guys.

Scott Nuttall
Thank you, Craig--.

Rob Lewin
--Thank you.

Operator

The next question is from the line of William Katz with Citi. Please proceed with your questions.

William Katz
Okay, thank you very much for taking the questions, and congratulations. So, a lot of my questions were already answered. Just hypothetically, I appreciate a lot of the moving parts and time yet to close, if this deal were to close today, could you walk through how you might fund it?

Rob Lewin
Hey, Bill, it's Rob. Thanks for the question.

William Katz
Sure--.

Rob Lewin
--Honestly, Bill, I think, you know, we've always thought about this as something that's going to take six to seven months to close, and there's a lot of, as I said, moving pieces and variables here. The first is purchase price and what our final stake is. And so, we're focused on how best to finance this transaction, when it closes in likely Q1 of 2021.

William Katz
Okay. And then just one big--actually, two more questions. Just in terms of big picture, you know, a number of your peers have a similar type of arrangement, as has been discussed. And I recognize it's a very large market, can you talk a little bit about how you sort of see the platform a bit differentiated, and how to think about pricing on incremental growth?

Scott Nuttall
Sure, happy to that. So, I'd say--I think it's a few things. One, as we've mentioned, the management team, which we think is incredibly strong. They've got the risk-taking mindset that we think is the right way to run an insurance company, coupled with the strategic vision that we're big believers in, as you can see. You know, they've got the strategic and they've got the tactical, because they're great executors as well. So that'd be number one, I would say, in terms of what's a differentiator.

Two is the focus. You know, they are very focused on having a strategy where they have real competitive advantages. And so, you know--and that's a lot--you've heard us talk at KKR about how we only want to be in businesses where we can be--or get to top three. The GA team has that same focused approach. Their focus is on this US insurance market, which they think has a lot of opportunities. And so, I'd say that focus is another differentiator, just be great at what you're great at.

The third thing I would say is what I just mentioned about their differentiated distribution. You know, these 200 plus points of distribution in the broker-dealer channel, we think is a real differentiator. We have relationships with many of those partners, and we do a lot of business with many of those broker-dealers as well, like KKR. And so, we think, you know, combined, we can build on those relationships. They're really sticky, they're hard to build, and it's a real barrier to entry.

The next thing I would say is their financial performance, incredibly stable results over the long-term, just consistent performance quarter in, quarter out, year in, year out, which you don't often find in companies like this. And so, lot of differentiators from our standpoint that made us feel like this is exactly the right platform for us to partner with. And critically, I think we also have real confidence that working together, we can help make them better, and they can make us better. And so, it's all of those together that provide the differentiation that got us to today.

William Katz
Great. And just one final one, thanks for taking all the questions this morning. And I may have missed this, I apologize, I did dial in a couple minutes late. In terms of looking at the chart that shows the AUM growth for May of '13 to 2019, very impressive indeed. How much of that is new assets versus market action or acquired blocks?

Rob Lewin
It's really a combination of those three factors you laid out, so I think they've done a nice job growing all parts of their business.

William Katz
Great. Okay, thank you very much--.

Scott Nuttall
--Yeah, I'd say--yeah. Yeah, M&A has been about--if you look at the left-hand side of this slide, Bill, you know, $56 billion or so of GAAP assets since inception. But that would go back prior to 2013, but it gives you a directional sense. It's really been a combination of organic growth, blocks, and M&A.

William Katz
Thank you very much.

Scott Nuttall
Thank you.

Operator
The next question is from the line of Michael Cyprys with Morgan Stanley. Please proceed with your questions.

Michael Cyprys

Hey, good morning. Thanks for taking the question. Just on the growth in assets, you guys had mentioned it doubled over the past five years. If it were to double again over the next five years, would you guys be disappointed with that that it's not more, or would you view that as successful? And can you also talk about the--your expectations for ROE? I think they've been doing around 16% the past couple years, how do you think about that sort of evolving from here over the next couple years on new capital that's deployed? And think about the push/pull dynamics there in terms of what would be driving in higher versus lower.

Scott Nuttall
Thanks for the question, Michael. So, I'd say, in terms of growth, you're right, it's kind of, you know, more than a double, actually, over the last five years, in terms of how they've been growing. We believe--and they've been able to do that without a partner like us. So, I think it's--you don't want to have growth as your goal. I think we should focus on risk management, taking smart risks in the market, and an attractive return on equity is a big part of the goal while managing the balance sheet and the company in a prudent fashion.

But we believe that partnering together and continuing to do that, there's an opportunity to grow at least as fast as the company has historically. And given our ability to access capital to drive M&A, and to allow them to go up in size and be more aggressive in the block market, I personally think that there's more upside to the growth trajectory from here than what they've been able to do in the past. Because arguably, they've been somewhat capital constrained, relative to their presence in our market and the opportunities that are coming their way. And we think a big part of how we can add value is, you know, finding access to capital, largely from third parties that would allow them to be more aggressive.

So, short answer is, we think that they can keep growing at least as fast as they have been, but we're focused on working with the team to make sure they can continue to do it their way, which has been an incredibly smart way to do it. And on the ROE side, you know, we do believe that there is likely going to be a bit of near-term pressure, just given what's going on in the markets and COVID.

But we believe that, you know, this is a business that can get back to mid-teens type ROEs as we get through the other side of this, and the business has held up remarkably well. It's been a very interesting time to do due diligence on an asset, especially an asset like this, when you're in the middle of a global pandemic. And the balance sheet's rock solid, the company has been managed incredibly well, the liability side is very clean. We have a lot of confidence in its book value, and we've seen it through an incredibly interesting period of time where it's all been tested. So, we feel great about what the management team has built and its durability.

Michael Cyprys
Great, thanks for that. And just a quick follow-up on the $500 million of DE contribution, about what portion of that would you expect to be in cash, and what portion, if any, would be mark-to-market, and does that drive any sort of rethinking around the earnings presentation,

entertaining maybe going back to more of a mark-to-market earnings approach and holistically for KKR?

Rob Lewin
No, that's all a cash number, effectively, and so, operating income into KKR, whether that's through management fees, directly or through the operating performance, that was GA.

Michael Cyprys
Great. Thanks for taking my questions.

Operator
Thank you. The next question is from the line of Jeremy Campbell with Barclays. Please proceed with your questions.

Jeremy Campbell
Hey, thanks. So, similar to Mike's question that he just asked, we've just got a couple of questions from investors. So, just want to clarify that point on cash versus non-cash. So, if I'm thinking about it the right way, obviously the industry has moved to DE, which is the next proxy for cash earnings. So is the way you guys are thinking about it--you know, normal circumstances, you guys collect DE and you've made the election to deploy that via dividend or balance sheets, so this is a wholly-owned subsidiary is the way you guys are thinking about it, as the cash inflow to you and your DE, and then you're kind of deploying it and directing it to fund the insurance growth going forward?

Rob Lewin
You got it. And so, we have an aggregate amount of effectively aggregate operating earnings across KKR. We make the decision that today we're going to pay out 54 cents of that as a dividend to our shareholders on an annual basis, and then the remainder we reinvest back into KKR, different parts of KKR, and our insurance business will be one of those.

Jeremy Campbell
Got it. Great, thanks for the clarification. And then, just--sorry if I missed this one, but is the $500 million DE contribution--is that based on the current book value, or should we kind prorate the growth until the 1Q closure for next year?

Rob Lewin
Yeah, listen, I think ultimately--I think somebody asked this earlier, I think that 500 plus number is something that we probably get to towards the end of the first year of our ownership here.

Jeremy Campbell
Great. Thanks for all the clarifications.

Scott Nuttall

Thank you.

Operator
Thank you. At this time, we've reached the end of our time for question and answer session today, and I'll turn the floor back to management for closing remarks.

Craig Larson
Thanks everybody for your time this morning. Please follow up with us directly if you have any additional questions. Again, thanks for your time on such short notice.

Operator
Thank you, everyone. This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.

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