KKR & Co. Inc.
Q4 Earnings Conference Call
February 9, 2021

<u>Presenters</u>
Craig Larson, Head of Investor Relations
Scott Nuttall, Co-President and Co-Chief Operating Officer
Rob Lewin, Chief Financial Officer

<u>Q&A Participants</u>
Bill Katz - Citigroup
Glenn Schorr - Evercore ISI
Alex Blostein - Goldman Sachs
Jerry O'Hara - Jefferies
Patrick Davitt - Autonomous Research
Craig Siegenthaler - Credit Suisse
Devin Ryan - JMP Securities
Jeremy Campbell - Barclays
Mike Carrier - Bank of America
Robert Lee - KBW
Chris Harris - Wells Fargo
Michael Cyprys - Morgan Stanley
Arnaud Giblat – Exane BNP
Chris Kotowski - Oppenheimer
Brian Bedell - Deutsche Bank

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth quarter 2020 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 opened for questions. At that time if you would like to ask a question please press "*" "1" on your telephone keypad. If anyone should require operator assistance during the conference, please press "*" "0" on your telephone keypad. As a reminder, this conference call is being recorded.

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

Craig Larson
Thank you, Operator. Good morning, everyone and welcome to our fourth quarter 2020 earnings call. I'm joined this morning by Scott Nuttall, our Co-President and Co-COO and by Rob Lewin, our CFO.

We'd like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the Investor Center section at KKR.com.

This call will contain forward-looking statements, which do not guarantee future events or performance. Please refer to our SEC filings for cautionary factors related to these statements. And like previous quarters, we've also posted a supplementary deck on our website that we'll be referring to over the course of the call.

Thank you, everyone, for joining us. We hope you and your families are safe and healthy. Our call this morning is organized into three parts. The first relates to where we've been with a focus on our fourth quarter results. We had a strong finish to a solid year, and I'm going to walk you through these.

The second part of the call relates to where we're going, Rob is going to lead you through this part of our call. This includes an update on the Global Atlantic acquisition, which closed on February 1st. And additionally, Rob is going to review some important changes in our reporting and compensation framework and also introduce new fee related earnings per share guidance as part of this. And finally, Scott will offer some thoughts both on our year, as well as on our outlook.

Turning first to the results and page two of our supplement, you can see that we had a successful year. In the upper left-hand corner of the page, assets under management grew 15% to $252 billion, driven both by investment performance in addition to new capital raised, 2020 was a record fundraising year for us. In turn, management fees grew by 16% year-over-year to $1.4 billion.

Looking at the bottom left-hand corner, book value per share continued to compound. At year-end, our book value per share was $23.09, representing a 20% increase from a year ago. And finally, on the bottom right-hand side, after-tax distributable earnings increased 8% to $1.5 billion for the year.

When you look at this page more broadly from 2016 to 2020, we've seen our AUM and management fees grow at compound annual growth rates of 18% and 15%, respectively. Book value per share has compounded 17% annually. And remember, in addition to this compounding, dividends are being paid out alongside. And with the growth in the earnings power of the firm and unrealized carry and embedded gains in our balance sheet both at record levels as of 12/31 we're well-positioned to see an acceleration in earnings growth from here.

Now let's dive a little deeper into our results for the quarter. Please turn to page three of the supplement. Focusing on our revenues, management fees of $393 million are up 24% compared to the fourth quarter of last year and increased 9% just from last quarter, driven by fee paying AUM growth, as well as $22 million of catch up management fees related to capital raised from strategies that had already begun investment period.

Net transaction and monitoring fees were up nicely. Capital markets fees of $193 million is the strongest quarterly figure we've reported in two years. Fees here continued to be diversified across geographies, with a little over 40% of revenues for the quarter and the year coming from each of the U.S. and Europe, with about 15% coming from Asia.

And realized performance income and realized investment income totaled $392 million. That number is right on top of the $390 million update we issued in December.Notable contributors this quarter include monetizations at Fiserv and Epicor, as well as just over $100 million in incentive fees at Marshall Wace. On a blended basis, our key exits this quarter were done at over two times cost.

Turning to our expenses, compensation, including equity based comp, was $376 million implying a 35% compensation margin for the quarter and bringing our comp margin for the year to 38.7%, well inside of the low 40%s total comp ratio we discussed on these calls now for some time. We did see a modestly greater skew towards equity-based comp in the quarter as we issued some stock to employees as part of our year-end comp process. And remember, as always, our intent is to repurchase shares and offset dilution from shares issued to employees over time.

Non-compensation operating expenses came in at $124 million, essentially flat year-over-year. So for the quarter, we're reporting after-tax distributable earnings of $431 million or $0.49 per share, up 11% on a per share basis relative to Q4 of 2019.

And looking at the results for the full year on the right-hand side, we're really proud of the results you see on the page. Despite all of the market volatility and challenges over 2020, management fees increased 16%, capital markets fees increased 17%, aggregate revenues increased 8%, and with 150 basis points of margin improvement, operating earnings were up 11%. And while after-tax DE per share for the year compares favorably to 2019, it's worth noting that we completed the majority of our financings related to Global Atlantic in Q3, which is burdened our after-tax DE per share in advance of the revenues and earnings associated with the acquisition.

And in addition to these P&L metrics, you've seen continued acceleration in our fundraising; new capital raised in 2020 totaled $44 billion, a 72% increase compared to 2019. More on this in a couple of minutes.

Moving to page four, you see our investment performance. This has continued to be a real strength for the firm. In 2020, our flagship private equity funds returned 32%, well ahead of the 17% and 18% total return figures of the MSCI World and S&P 500 indices. Performance here was strongest in the Americas, driven by number of digital and tech-oriented investments, as well as strong performance in some of our carve-outs, Americas XII appreciated 48% over the year.

In real estate, our flagship opportunistic funds appreciated 8%, which compares quite favorably to its benchmark, which appreciated 1% and negative performance across major REIT indices. And our Infrastructure III fund had a gross return of 3%, well above its benchmark, which declined 7% in 2020. And our more mature Infrastructure II fund had an excellent year, appreciating 34% driven by a number of sizable monetizations.

Our alternative credit flagship funds had a strong Q4, up 9% for the quarter to finish flat for the year. And as an update, our dislocation fund, which we launched in the midst of the pandemic, has continued its strong start, up 16% in the fourth quarter and for the year is up over 50% on an un-annualized basis. In leveraged credit, which is the largest of our credit businesses by AUM, the composite was up 7% for the year, compared to 3.8% for the LSTA.

Looking at page five of the deck, investment performance has helped us continue to raise capital. We raised $12 billion in Q4 and a record $44 billion for the year, up over 70% from 2019. Notably, we brought in $17 billion of AUM for our Asia strategies in 2020, representing almost 40% of new capital raised. Asia Real Estate and Asia Infrastructure both held their final closes in Q4, wrapping up two very successful first-time fundraises for us.

And on top of our success in Asia, we've grown up our core platform this quarter, with capital raised in core PE, as well as the first dollars raised in our new core infrastructure strategy. And it's worth highlighting the continued scaling of the real estate platform, driven by new capital raised at our Asia and Americas opportunistic strategies, as well as core+ real estate, AUM across the platform has increased from $9 billion a year ago to over $25 billion pro forma for GA.

And we continue to have a lot of growth opportunities ahead of us. We're highlighting this on the right-hand side of the page. Looking at strategies in the market or expected to come to market over the next two years we have four flagship strategies, 20 plus additional strategies, with GA on top of that.

And I have two final items to touch on before turning the call over to Rob. First, consistent with historical practice, we're pleased to announce an increase in our annual dividend per share from $0.54 to $0.58. This change will go into effect beginning with any dividends to be announced for the first quarter of 2021.

And second, we're excited to announce that we'll be hosting a virtual Investor Day, the morning of April 14th to discuss our business in more detail and also focus on the growth we see over the coming years. We hope that you'll be able to join us then. And with that, I'd like to turn the call over, Rob.

Rob Lewin
Thanks a lot, Craig. Turning our attention to Global Atlantic, as announced last week, we closed on our acquisition of GA on February the 1st and wanted to provide some key updates.

Between signing and closing, assets at GA have increased significantly. We had an oversubscribed equity co-investment process that allowed us to bring down our ownership to approximately 60%, our desired level, while raising primary capital for GA at the same time. The long-term impact that we expect GA to have on our financials has increased considerably compared to the figures discussed when the transaction was announced in July 2020. And most importantly, we continue to work exceptionally well with the broad GA team. Let me spend a few minutes on some of the details.

First, in terms of GA's footprint, AUM has increased from $72 billion at announcement to $90 billion at 12/31, an increase of roughly 25%. This growth in AUM between signing and closing was well ahead of our expectations. The strength of GA's platform was clearly evident in both its individual channel, GA has strong embedded relationships here with over 200 banks and broker-dealers, in addition to its institutional channel, where it's a leader in block, pension risk transfer, and flow reinsurance. Of particular note, GA reinsured over $16 billion in three separate block acquisitions in the third and fourth quarters of 2020. So the fundamentals of the business we acquired remained compelling.

Slide six of the supplement updates you on what this asset growth does for some of our important operating metrics. Taking a look at the top half of the slide, you could see the impact on KKR's AUM, which increases 36% to $342 billion. As all of these assets will immediately hit our fee paying AUM, this acquisition results in a 48% increase in that figure from $186 billion to just over $275 billion. We now manage approximately $120 billion on behalf of insurance companies and believe we are well positioned to further partner with insurance balance sheets over time.

I think the bottom half of this page is particularly worth calling out. As you'll see, the transaction increases our perpetual capital by five times from $22 billion to $112 billion. And we now have 43% of our capital base that is either perpetual or with multi-decade recycling provisions. And 86% of our capital overall will now have a contractual life of over eight years from inception.

GA provides more scale, and it does so in a permanent way, meaningfully advancing several important strategic initiatives for us all at once. As GA's investment manager, we are focused on bringing our asset management and origination expertise to bear on behalf of Global Atlantic and its policyholders. GA already had a strong investment track record and an accomplished team of investment professionals. Working together, we believe we can further improve GA's risk-adjusted return profile.

Now, as it relates to the transaction itself, GA was acquired for $4.7 billion or 1x its book value at close. Following the successful co-investment process that was led by our capital markets team, we now have an approximate 60% interest in GA, and we were also able to raise $250 million of primary capital, which really does set the business up nicely for future organic and inorganic growth.

Of the $4.7 billion purchase price, plus $250 million primary raise, we funded our share, which is approximately $3 billion through the $1.9 billion of proceeds raised in our August mandatory convertible and senior note issuances, with the remainder coming from cash on our balance sheet.

In terms of our financial results, you'll remember that there are really two ways that GA impacts our distributable earnings.

The first are the management fees we generate as GA's investment manager. When we announced the transaction in July, we mentioned that we expect net management fees to increase by at least $200 million over the next couple of years as we ramp up our work with GA. This reflects management fees we earn as GA's investment manager, as well as fees generated on assets that we manage directly.This figure is net of operating expenses, which in part relate to strategies that we aren't investing directly. Given the increase in GA's assets since the announcement of the deal, our confidence around exceeding the $200 million target has certainly increased.

The second way that GA impacts our P&L is through our share of their operating earnings. As noted earlier, GA's book value is approximately $5 billion. For illustrative purposes, which can help your modeling, if you assume the 12% to 13% ROE and took our 60% share, that would suggest annual earnings in the range of $360 to $390 million running through our financials. These earnings will show up in our P&L through our Insurance Segment OperatingEarnings.

In terms of our financial reporting, GA is now a majority-owned subsidiary. So we will consolidate their financials into our GAAP earnings starting in Q1. As it relates to our segment results, we will be introducing a new insurance segment that would disclose certain financial information, including our share of their adjusted operating earnings that I just referenced. We will then use this profitability measure in our walk to KKR total distributable earnings. I'll review a prototype of our segment earnings in just a few minutes.

Now, this all leads nicely into the second topic related to some important changes we're making in our reporting and compensation framework more broadly in 2021. Looking at page seven of the supplement, we feel that we have never had better line of sight, better visibility into our management fees as we do right now.

With GA, we've added a significant stream of perpetual management fees. Additionally, as you heard earlier from Craig, management fees across KKR continue to scale, and we're in the early stages of an active fundraising cycle that includes raises across a number of our larger benchmark strategies. Putting these two dynamics together, we have increased visibility in our fee revenue, as well as meaningful confidence in our ability to scale from here. As a result, we now have an opportunity to change our compensation framework in a way that we think should really benefit our shareholders.

Currently, we talk about comp and comp margins as a percentage of our total distributable revenues. Our historical guidance here has targeted a low 40s overall comp margin. But that compensation figure has been a single number based on all forms of revenue. Starting in 2021, we are going to de-couple our compensation into its component pieces.

Let me walk through the changes to our framework before pulling it all together; please take a look at page eight. The first piece relates to fee related compensation. We expect our fee related revenue to have an annual cash comp load in the range of 20% to 25%. To be clear, given our line of sight and outlook around our fee revenues, we believe this range allows for a base level of comp to be paid across the firm in all operating environments, including years where monetizations are more challenged.

In terms of our other forms of compensation, for our realized performance revenue, which is primarily driven by carried interest, our range of annual cash comp is expected to be 60% to 70%. Our realized investment income from our balance sheet will have an expected cash comp load of 10% to 20%. We believe this change will benefit KKR's shareholders in a number of ways.

First, it will enhance the transparency of how our compensation pool gets formed and the profits we derive from our three forms of revenue. It will also create better alignment, as compensation at KKR will become even more success-based and aligned with the realized investment performance of our funds. We think this change is advantageous for both our public shareholders, as well as our fund limited partners.

And from a P&L perspective, this change delivers a much higher flow-through of our fee related earnings to our shareholders. We believe this will also provide greater line of sight to the drivers of the growth and margin expansion of our FRE going forward.

And finally, we believe this change will make the economics from our balance sheet clearer. Our balance sheet is positioned to generate excellent returns. We have averaged 21.5% over the last two years. And it does so without any fixed expenses, which are all borne by our fee revenues and now a modest and variable comp load. When you take a step back and compare these characteristics to other balance sheets, we think this is fairly unique, and with continued performance, we believe these attributes will lead to a higher multiple being applied to our balance sheet over time.

Now even though we are breaking out compensation into its component parts, we will continue to track our aggregate compensation margin, including equity-based comp. In a normalized operating environment, you should expect our comp ratio to be roughly in line with our current levels. In an environment where we have elevated levels of successful monetizations, our comp margin is likely to tick up a bit. But in a more challenged environment where our monetizations are lower, you should also expect to see our comp margins go down, which will provide some level of added protection to our operating earnings.

Let me repeat this part, as it's a really important piece to be clear on. These changes are not about increasing compensation on the enterprise. As an example, if we applied the midpoint of our new compensation ranges to our actual 2020 revenues, our compensation margin would have been 38.6%. This compares to our reported comp margin of 38.7% for the year.

So this change is really about how our comp pool is calculated and creating more visibility and flow-through of our fee revenues to our shareholders while adding a bit more variability in our comp margin based on our performance. And we are confident we can achieve that while not increasing the overall compensation paid by the firm.

In connection with these changes, you'll see that we expect to make a couple of adjustments to our financial reporting to bring it more in line with our peer set and allow for easier comparability for our investors and analysts. The first change is to build to a new simplified, fully burdened fee-related earnings figure with individual compensation components as described a minute ago.

On this page, you can see KKR's distributable operating earnings as you think of them today but now titled Asset Management Operating Earnings. This will then be added to our share of GA's earnings to arrive at a total distributable operating earnings line as you work your way towards after-tax distributable earnings. Please note that we've included a more detailed prototype of our segment financial profile and definitions in the appendix on pages 10 and 11.

In addition, consistent with our peers, when calculating after-tax distributable earnings going forward, we will no longer include equity-based compensation as an expense. At this point, we believe we are one of the few alternative asset management firms that reflects equity-based compensation as an expense in our reported total distributable earnings. This has been a source of confusion at times, in particular, as investors look at relative valuation multiples. So we're going to conform to our peers and make it easier for our shareholders to compare results.

Equity-based compensation will, of course, still be disclosed in our earnings release, and as we think about aggregate compensation and comp margins, it will be a key input. But it will not be included within our reported after-tax DE or after-tax DE per share metrics.

And finally, let me spend a minute on our fee related earnings. Given all of our growth avenues and the visibility that I spoke of earlier, we see a clear path for FRE to comfortably exceed $2 per share for 2022. This anticipated growth will be in spite of some large investments we intend to make across technology and distribution and marketing over the next couple of years, which we believe will benefit our FRE and DE well beyond 2022. We know FRE is an important financial metric to our investors, and we intend to provide periodic updates on our progress.

And with that, let me hand it off to Scott.

Scott Nuttall

Thank you, Rob. And thank you, everybody, for joining our call today. Given everything already covered, I'm going to be brief.

First, a quick comment on Global Atlantic. The GA 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. The acquisition also improves the quality and visibility of our earnings. And GA's strong and experienced management team is a critical element of this transaction. We see a number of growth opportunities working with our new partners. In short, this is a meaningful development for us, and we look forward to keeping you posted on our collective progress.

Second, a couple thoughts on KKR more broadly. As a senior team, we just spent the better part of a week in our annual strategic planning meetings. Listening to the discussions and presentations in those sessions was incredibly energizing. In our nearly 45 years in business, we have never had a stronger management team, more line of sight to our near-term results, more ways to grow, and more confidence in our future.

This confidence is driving our announcements today and sharing our belief that we can comfortably exceed $2 per share in FRE next year. And even more exciting, we see significant growth beyond that.

We know we have discussed a lot of information on this call. That is one of the reasons we're looking forward to our April Investor Day. We think it will be helpful, for example, for everyone to hear Global Atlantic's CEO Allan Levine talk about GA and its growth prospects. We'll also spend a significant amount of time detailing the building blocks of the firm's growth plans, which we think will help you understand why we are so optimistic about the path ahead for us.

We thank you for your partnership, trust and time, and are happy to take your questions.

Operator
Thank you. At this time we will be conducting a question and answer session. If you would like to ask a question, please press "*" "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*" "2" if you would like to remove your question from the queue. We ask that you please limit to one question and no follow-up. If there is a follow-up question you can re-enter the queue by hitting "*" "1". For participants using speaker equipment, it may be necessary to pick up your handset before pressing the "*" keys. One moment please while we poll for questions.

Our first question comes from Bill Katz with Citigroup. Please proceed with your question.

Bill Katz
Okay. Thank you very much for taking the questions, and thanks for the enhanced disclosure. It is super helpful. Maybe tying together two of the points you guys are highlighting? Could you unpack for us maybe the walk up to the $2 number plus for 2022, between maybe the legacy

KKR platform versus GA, just given where the assets are, your ownership pro forma ownership versus at the time of the deal. And then, Rob, just a point of clarification, when you mentioned your scenarios with the comp ratios and up-down realization backdrop, I was a little confused by the ratio being down, would that be comp ratio being down or the FRE margin being down if monetizations were down? Thank you.

Rob Lewin
Great. Thanks a lot, Bill, for the questions. To be clear, that was if we have lower monetizations, lower successful monetizations, our anticipation is that our comp ratio would be going down as we're making compensation at KKR more success-based.

In terms of your question around 2022 FRE, Bill, it's really a combination of a bunch of different things that's given us confidence in being able to achieve that target out into the future. I'd say the first is management fees coming across our existing platform through our different products and geographies and the scaling that Craig referenced earlier in the call.

Second piece of it is clearly the increased confidence that we have in Global Atlantic and their scaling of assets and our ability to work constructively with them. We also continue to see a lot of opportunities to scale the breadth of our products and what we cover in our capital markets, business, as well as different clients. And so when you add all that together, inclusive of ensuring that that we monitor expense management, we feel really good that we should be able to comfortably exceed $2 per share of FRE in 2022.

Bill Katz
Thank you.

Operator
Our next question is from Glenn Schorr with Evercore ISI. Please proceed with your question.

Glenn Schorr
Hi. Thank you. Just curious your thoughts on the current or let's just call it 2021 realization backdrop. M&A is super active; SPACs are even more active, markets are at their highs. I'm just curious on how you balance those thoughts with the investment opportunities that are out there because you have some of your flagship funds that are only, say, half invested and I know we're trying to get to the other side for more capital raises so curious on how you see that landscape?

Rob Lewin
Yeah. Hi, Glenn. It's Rob. Thanks for the question. And Scott will probably jump in here at some point as well. Listen, we're very constructive from a monetization perspective, and if you look at our Q1 line of sight in terms of realized carry and balance sheet revenue, as we sit here today, we feel really good that we've got deals that are signed and are closed that would represent greater than $375 million of revenue in Q1. And so we agree that the market

backdrop is one that's quite an interesting one as it relates to being able to monetize investments.

Scott Nuttall
Yeah. And Glenn, so I'd say, look, we agree with your comment. We're very constructive on the backdrop for monetizations broadly, and it is across the board. There's M&A, there's strategic sales, there are sales to sponsors, there's leverage recaps, dividends, so a lot of different opportunities for us to monetize.

I would also say, though, despite the overall valuation environment, we continue to be very active in terms of deployment. As we talked about in the last call, we've been really leaning into a number of investment themes that we think will be accelerated by this period of time, and so our pipelines are actually quite full as we head through the first quarter here.

Glenn Schorr
Thanks very much. Appreciate it.

Scott Nuttall
Thank you.

Operator
Our next question comes from Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Great. Good morning. Thanks for taking the question. I was hoping we can unpack the trajectory for management fee growth a little bit more. It sounds like fundraising momentum is really strong. If we look at the deployment activity in the quarter, I think it was one of the best we've seen in a long time from you guys. So, all of that feels like we could see a little bit of faster kind of turning on in the fees in some of the larger funds. So maybe kind of help us bridge kind of standalone KKR management fees for '21, '22 relative to your sort of prior targets of 50% plus growth. And then, Rob, I was hoping we could get a jumping-off point for management fees for GA specifically that will, I guess, start to come in in the first quarter and how they expect to sort of ramp to that $200 million-plus number that you alluded to? Thanks.

Rob Lewin
Yeah. Thanks a lot, Alex. And maybe I'll take the second part of your question first and then head back to the first part of it. So I think it would be probably helpful for us to break down the net management fees from Global Atlantic that we expect to receive in a few different pieces.

The first is that we will have an IMA across GA's asset base. We have agreed with the regulators that our fee there will not be in excess of 30 basis points. We also intend to manage assets directly for GA, where we will charge the relevant fee rates for other similarly large investors in those strategies. Offsetting both of those two fee revenue lines are some expenses, which include paying other investment managers who perform services that KKR does not perform today.

The net of those three items together is really what generates the $200 million of net management fee revenue that we expect to be able to achieve a couple of years out that we talked about earlier, as well as our belief that we've got a path to a higher number over a similar period of time. I'd say we don't have an exact timetable as when those numbers will effectively be generated in large part because of the need to ramp up our own direct origination as GA's investment manager, but we feel really good in being able to achieve these numbers a couple of years from now.

And so as you think about year one, which I know you asked about explicitly, I'd say that we feel good about achieving somewhere around half to two-thirds of our $200 plus million target in year one of our investment here and partnership with Global Atlantic.

In terms of the second part of your question. So, obviously, we feel good about the trajectory of GA and a good start that I think we're going to have in year one and being able to ramp. I'd say we feel incrementally better about our ability to achieve 50% plus management fee growth over I think we said between 2019 and 2022. And so our expectation, as you think about our 2022 FRE, is that we should be north of that number, but we don't have any further guidance on the specifics.

Scott Nuttall
Yeah. Just one clarifying thing, Alex on that, just to be clear the 50% percent growth that Rob mentioned was organic before GA. So I think the punch line is we feel better about being able to meet or exceed that. And then you've got Global Atlantic on top of that, so it gets you to the higher number, obviously.

Alex Blostein
Yeah. That makes perfect sense. Great. Thanks for all the details, guys.

Rob Lewin
Thanks, Alex.

Operator
Our next question comes from Jerry O'Hara with Jefferies. Please proceed with your question.

Jerry O'Hara
Great. Thanks, and good morning. Maybe just touching on geographic opportunities, Asia has been clearly a source of strength throughout 2020, both in terms of fundraising but I think also other capital metrics. Perhaps you could give us a little color on what 2021 might have in store for outlook just in terms of some of the general capital formation trends? Thank you.

Craig Larson

Hi, Jerry. It's Craig. Why don't I start there, and I think Scott may add on. So look, I think, in many ways, when we think of deployment, the interesting aspect here really relates to the increasing balance of the firm.

So historically, private markets deployment was clearly driven by private equity, and we've seen in the last handful of years, you're correct, Asia, be very strong for us, and I think we do expect deployment in the region again to be active, as Scott had alluded to earlier.

But I think in many ways, one of the other interesting points here really relates to the growth in real assets footprint for us, so infrastructure, real estate, energy. And I think there is a real opportunity for more balanced deployment for us given that scaling. So infra at this point, the business is global. The team is busy everywhere.

In real estate, we mentioned in the prepared remarks the growth of the platform we've seen a significant ramp. So I think, overall, we look at the opportunity for us as being meaningful given the varied pools of capital that we have really across geographies.

Scott Nuttall
Yeah. The only thing I'd add, Jerry, is that we continue to see these opportunities across a number of these investment themes that we've discussed. And Asia, of course, is, at the most part, come out of the COVID period more quickly than other parts of the world. And so we are kind of seeing more regular activity levels on the ground in a number of those markets.

Jerry O'Hara
Helpful. Thanks.

Scott Nuttall
Thank you.

Operator
Our next question comes from Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt
Hi. Good morning, guys. My question is on the kind of compensation shift. Does this come with kind of explicit discussions with employees that they're going to be paid different in years with few realizations? I guess, in another words, do we have your assurance that in a bad realization, you're not suddenly going to have a 30% or 35% FRE compensation ratio? And through that lens, do you worry this could create retention issues in bad realization years that people are getting paid meaningfully less than at other firms.

Rob Lewin
Yeah. Hi, Patrick. It's Rob. Let me start off. So I think a really important component of this change is the fact that we feel like we're able to make this change today, given the scaling of

our management fee growth based on what we've had historically and what we see prospectively over the next couple of years, inclusive of the GA acquisition. And so we feel today that we're at that inflection point where we will be able to compensate our firm based on the fee revenues that we have today in downside scenarios.

In terms of employee communication, of course, this is something that we've been closely linked up with our senior employees on, and I would say this type of change impacts our senior employees by far the most. And a couple of comments there, one, our senior employees are all big shareholders of KKR, and we think that this is certainly a benefit to our shareholders. That's why we did it. We think our senior employees are also more used to more variability in their annual compensation based on performance.

Frankly, it's something I think they like as part of their overall compensation framework. And as we think about being competitive in the market for talent, we certainly see that dynamic where for senior talent, there is more variability in compensation for performance.

Scott Nuttall
Hey, Patrick. It's Scott. Just to jump on, I think the basic question is, do we plan to stick to it. The answer is yes. We've been talking about this potential change internally for the last few years and working to Rob's point to get to the scale and diversity and visibility where we thought we could tell you this and stick to it. And you know us well, right? We are deliberate people, we are very careful about what we commit to, and we do not intend to let you or our shareholders down.

So we would not announce this unless we're confident we can deliver in these comp ranges in all operating environments. And to Rob's point, yes, we talked about this with the partners of the firm. Everybody gets the alignment. We own over 30% or 35% of the stock, give or take. So we think it's the right change, and we've kind of been building toward it for the last several years.

Patrick Davitt
Great. Thank you.

Scott Nuttall
Thank you.

Operator
Our next question comes from Craig Siegenthaler with Credit Suisse. Please proceed with your question.

Craig Siegenthaler
Thanks. Good morning, everyone.

Scott Nuttall

Good morning.

Craig Siegenthaler
I wanted to come back to your comments on Global Atlantic. So we watched GA expand into disability with the Unum transaction last year. So I wanted to see if you could talk about some of the other insurance verticals that GA could expand into really outside of annuities, and could we see additional disability transactions in 2021?

Scott Nuttall
Thanks for the question, Craig. It's Scott. First off, I think you're right. We did the transaction with Unum; the book was a disability book. Suffice it to say, it was structured in such a way that it was much closer to an annuity book than a disability book in terms of what it means for us.

So it really is not us taking different kinds of risks at Global Atlantic. It was more just the transaction was structured to make it the risk that we want to take. And as we talked about on the prior calls, we really like that the GA team is very focused on taking particular kinds of risks. So you shouldn't take that as any change in strategy.

In terms of the other insurance verticals, I think, for the time being, you should expect that we're going to stay focused on annuities, life, and the other existing businesses of Global Atlantic. We don't have any plans to meaningfully change that, and we'll continue to execute that through the individual channel and the institutional channel, as we've discussed through its various forms. But we'll keep you posted. Never say never in terms of the evolution of the strategy, but we're focused on what got us here.

Craig Siegenthaler
Thank you, Scott.

Scott Nuttall
Thank you.

Operator
Our next question comes from Devin Ryan with JMP Securities. Please proceed with your question.

Devin Ryan
Okay. Great. Good morning, everyone.

Scott Nuttall
Good morning.

Devin Ryan
I want to ask a question here on the capital markets business and really just trying to get a little bit more context around how the platform has scaled over the past couple of years or any stats you can provide around the size, number of people, any incremental capabilities. Really what

I'm just looking to kind of think about is parsing through what's been a very good backdrop for the business, and obviously, you guys have evolved here versus how the broader platform has grown. And then just kind of as a follow on to that, any additional color for what you're expecting out of the business for 2021?

Rob Lewin
Hey, Devin. Let me take that one. So I think it's a really good question. As we think about the scaling of our capital markets platform, I'd say it's really in three components. The first was really around geographic breadth. And as you know, this business started really as predominantly a U.S. centric business, but we've got a highly skilled team of capital markets professionals that today are all over the world supporting KKR's businesses all over the world, we talked about it earlier. But KKR's capital deployment for the year was pretty well spread out between the Americas, Europe, and Asia, and that was all covered by our capital markets team.

Second thing is really about building out the product capability to be able to follow KKR's evolution from a product standpoint. So as we've expanded into asset classes like infrastructure and real estate and aspects of structured and principal credit our capital markets team has fallen alongside, and we've gone out and recruited what we think is best-in-class talent to cover those areas.

And then the last piece of it is really our approach, what we think is a really unique approach to non-KKR clients and being able to cover those clients, being able to speak for capital structures we think in a really unique way in a way that's highly coordinated with our credit pools of capital as well. And that's an expanding part of our business in the U.S., but also in Europe and in aspects of Asia as well we're starting to get some real traction.

And so I think when you add that altogether, that's why you're seeing scaling of that business over time and that duration of that business. As we look out a few years, we certainly see continued meaningful growth over and above the levels that we've been operating in over the last couple of years. So we're excited about the outlook for that business and what we think it could become over time.

Devin Ryan
Okay. Very helpful. Thank you, guys.

Scott Nuttall
Thank you.

Operator
Our next question comes from Jeremy Campbell with Barclays. Please proceed with your question.

Jeremy Campbell

Hey. Thanks, guys, and thanks for all the great color today with the new info. It's very helpful. Just wanted to check in here with maybe a little bit more of a simplistic question. For newer investors coming to KKR taking a look that $2 plus FRE target in 2022 is very helpful. I might also be hoping to get some color around the growth algorithm for FRE going forward? Scott, you had noted earlier that the prior fee revenue guide was 50%, which kind of translates to mid-teens topline CAGR, but that didn't include insurance. And then Rob, I think you had mentioned also some potential for FRE margin expansion. So, kind of just putting these pieces together over time, would it be fair to think about a medium to long run FRE growth cadence of somewhere in the mid-teens, mid-teens plus?

Rob Lewin
Yeah. Hey, Jeremy. So, we're not going to, on this call, provide guidance beyond 2022, and I think as we get to our Investor Day in April, we could provide a little bit more substance about what we see from a longer-term growth trajectory perspective.

Suffice it to say though we've got a lot of things that have quite a bit of momentum across the firm right now, still a number of young strategies. So it's not just about the next two years growth in terms of how we see our platform developing. And we think asset management, capital markets, and insurance will all be growers in a fairly robust way over the next several years and not just over the next couple.

Scott Nuttall
Hey, Jeremy. It's Scott. Look, it's an astute question. We'll try to shed some light directionally for you in April.

Jeremy Campbell
Got it. Thanks, guys.

Scott Nuttall
Thank you.

Operator
Our next question comes from Mike Carrier with Bank of America. Please proceed with your question.

Mike Carrier
Great. Good morning and thanks for taking the question. Just given the growth you've seen in book value, you know, now the GA business and then the strategic outlook. Just curious, any change or shift in how you're thinking about the balance sheet, including level of monetizations and capital management moving forward?

Rob Lewin

Yeah. Hey Mike. No change. We're going to go through the same process we go through every year as we think about our balance sheet and how we manage our capital allocation. The first point is always is how we think about returning capital to shareholders.

As you know, this quarter, we announced an increase in our dividend from $0.54 to $0.58. Craig also noted in his prepared remarks that we're going to continue to opportunistically over time repurchase shares to keep our share count flat from employee dilution.

And then, most importantly, is to be able to strategically reinvest our capital base back into our business for growth. There is no better example of that type of transaction than what we were able to accomplish this past year with Global Atlantic.

Scott Nuttall
Hey, Mike. It's Scott. Just one other thing, as you know, we remain very focused on compounding, compounding our AUM, compounding our balance sheet. We think the addition of Global Atlantic will allow us to do both of those things at a faster rate over time. So no change expected.

Mike Carrier
Got it. Thanks a lot.

Scott Nuttall
Thank you.

Operator
Our next question is from Robert Lee with KBW. Please proceed with your question.

Robert Lee
Great. Good morning. Thanks for taking my questions. Maybe I'll try to squeeze in a two-part. The first one is, first part of it is, can you maybe update us just given the robust fundraising you've had and your robust outlook, maybe update us on kind of your cross-sell within your LP base and any kind of metrics you can share, like how many of your LPs are invested in two to three or more products and kind of where your penetration of Global LPs stands?

And then second part is really going back to an earlier question; you guys have always been known for having, I believe, kind of one comp pool across the firm as opposed having people have specific points on specific funds per se. I'm assuming with the changes that your traditional approach to your comp pool hasn't changed?

Craig Larson
Hey, Rob. It's Craig. Why don't I take the first part of that. And thanks for the question on cross-selling. Look, I think we continue to make very good progress. At year-end we were at about 1,200 investors at this point, approaching that level, and that continues to be a real focus for us, first in terms of increasing the overall breadth of our LP base.

We held, as we mentioned, the final close in the fourth quarter of our Asia Infrastructure fund. And 25% of the LPs in that fund are new fund investors to KKR. We love seeing statistics like that.

And then, as it relates to the cross-sale, at this point, we're at about two products per client. We've seen that number continue to migrate up, but it migrates up slowly, honestly, because as you're adding clients you're typically adding them one product at a time. Our largest category of client averages almost five products per client. So I think as we look overall, we still see significant opportunities for us both in terms of increasing the overall number of LPs, as well as those cross-sale statistics. And I think in addition to that when we think of areas like us and retail again see continued long-term opportunities for us.

Rob Lewin
Yeah. And on the second part of your question, Rob, no change. What we're really talking about is how the compensation pool is calculated. We're not changing the approach we've taken, which we think is really important culturally for us that everybody participates in everything. So it's more about how the aggregate is calculated rather thanhow it's shared.

Robert Lee
Great. Thanks for taking my questions.

Scott Nuttall
Thank you.

Operator
Our next question comes from Chris Harris with Wells Fargo. Please proceed with your question.

Chris Harris
Yeah. Hey, Rob. How should we be thinking about the tax rate on a pro forma basis? And then the insurance segment operating earnings that you highlighted of $360 to $390, is that pre-tax or an after-tax number?

Rob Lewin
Yeah. So as we build up our P&L, we're going to show our insurance segment on an after-tax basis to answer your question specifically there, and as it relates to KKR's overall tax expense, no change to prior guidance. Over time, we would expect to see our tax rate migrate up to a statutory rate in the low 20s, but that will take some time as we still have quite a bit deferred tax asset from the C-Corp conversion a couple years back.

Scott Nuttall
Great. Thank you.

Operator

Our next question comes from Michael Cyprus with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Hey. Good morning. Thanks for taking the question. Just wanted to circle back on the comp changes, maybe just on the equity comps since that's now excluded from the earnings framework going forward; just curious what the outlook is for equity comp to grow from the I think it was $246 million level or so here in 2020. And then could you also just talk about the underpinning for the 60% to 70% carried interest comp ratio, just how you thought about setting that I think it's a bit different from maybe where it was five years or six years ago and a little bit different from some of the peers. So just curious how you're thinking about that?

Rob Lewin
Sure. Thanks a lot for the question, Mike. So on equity-based comp, one, what's very important to understand, as we look at aggregate compensation margin, we're going to continue to do that, and we're going to continue to look at that inclusive of equity-based comp, and it's a core component.

As you think about 2021, I think the expectation should be that we should have modest growth in that line item commensurate with the growth of the firm. So, as you noted, we were in the mid-240s in 2020. I could see that number being in the $250 million to $300 million range in 2021.

And as we thought about the 60% to 70% comp margin on performance revenues, a lot of different variables went into that, inclusive of how we thought about comp ranges on our other forms of revenue. We also looked at the competitive framework, not just some of the big alternatives firms that went public at the same time of us, but some firms that went public after us with different comp ratios, and we thought about the competitive dynamic with our own people and the number of firms that we compete against for talent that have compensation pools on carried interest that are effectively 100%. And so it was really looking at all of those different factors and coming up with the range of 60% to 70% that we thought was appropriate.

Michael Cyprus
Great. Thank you.

Operator
Our next question comes from Arnaud Giblat with Exane. Please proceed with your question.

Arnaud Giblat
Yeah. So it's Arnaud Giblat from Exane BNP. I've got a quick question, please. Can you talk about the opportunities you see to grow Global Atlantic through bolt-on deals? And more generally, do you see opportunities to accelerate growth targeted in new strategies through bolt-ons? Thank you.

Scott Nuttall
Thank you for the question. The short answer is, we see a significant number of ways that we and Global Atlantic can grow together. I think the first and the primary focus is going to be doing that on an organic basis. And so the business itself really goes to market in two channels.

The first is the individual channel, where we have distribution relationships with 200 plus banks and broker-dealers. So you should expect us to continue to scale organically through that channel. Secondly is the institutional channel where it's really executed in three different ways, blocks which Rob mentioned, we did $16 billion in Q3 and Q4 last year. But there is also flow reinsurance relationships; there is pension risk transfer opportunities and so we see at least those three different ways to grow institutionally as well.

So the primary focus right now is growing organically through those different channels and relationships. There are opportunities to your point to also consider acquisitions over time. The Global Atlantic management team has done a number of acquisitions through their history, and that could also be another opportunity for us as we go forward. Nothing on the drawing board right now, but that is an opportunity to your point and is something that we're keeping an eye on.

And then I would also say the last thing that we're focused on although it's going to take a good amount of time and energy in the near-term, here, in particular, is ways that we could jointly develop products and then also potentially leverage Global Atlantic's distribution for things that KKR is doing. And so that could be another area of growth for us as well.

Operator
Our next question comes from Chris Kotowski with Oppenheimer. Please proceed with your question.

Chris Kotowski
Yeah. Good morning and thank you. I wanted to go back to how we should expect to see the Global Atlantic revenues flowing through the P&L since we are all ramping up our models and starting over anyway? But presumably the 30 or let's call it 25 basis points that goes against or under the IMA, presumably that hits upfront and so, say if you figure 25 basis points on $90 billion that's somehow kind of like $225 million gross that you would have and so presumably, there is $100 million of expense or thereabouts of expense and comp that goes against that. And then presumably, over time, as you move those assets into your fund strategies, then we should see the revenues build up. Is that kind of the way we should think about it as we model out the next four or six, eight quarters?

Rob Lewin
Yeah. Thanks, Chris. Look, I think you're directionally in the right ballpark. And that's right as we built up to the net $200 million-plus over the next couple of years we got there through the IMA fee. We got there through an assumption around how we're going to ramp up investing assets directly on behalf of GA, offsetting that with the amount of investment expenses and

other expenses that we'll need to bear, inclusive of other asset managers for the GA balance sheet today who are doing things KKR doesn't do.

And so when you add all those things together, you're getting to that $200 plus number. And as you think about year one, our ability to achieve 50% to 75%--50%, excuse me, to two-thirds of that seems reasonably in line with the math that you went through.

Chris Kotowski
Okay. And just if I could squeeze in one more. When I did back of the envelope kind of reverse engineering your comp ratio for 2020, I got to something around 36% using your methodology; it will be slightly lower than what we actually saw; could that be right?

Rob Lewin
No. As we looked at it, and if we looked at the midpoint of the ranges that we outlined, it's a 38.6% number.

Chris Kotowski
Okay.

Rob Lewin
And just to be clear because I think it could impact some of your numbers, as we think about the incentive fees against Marshall Wace, we're assuming that that gets comp'd in the balance sheet revenue, a number of 10% to 20% comp range as opposed to our realized performance revenue number and that's what could be creating a little bit of delta with some of your numbers.

Chris Kotowski
Okay. All right. Thank you.

Operator
Our next question comes from Brian Bedell with Deutsche Bank. Please proceed with your question.

Brian Bedell
Great. Thanks. Good morning, folks. And thanks for all the color and clarification. Really helpful. Most of my questions have been answered, but maybe just one back on the FRE confidence of over $2? Maybe if you just comment on a little bit on the fundraising side of that, it looks to me like you'd be able to exceed the 2020 annual level of fundraising each of the next two years based on the fund profile. So I just wanted to sanity check if that seems right given, and maybe I guess the flagship component of that obviously would be large and just sort of the cadence of timing of that. And then what you're assuming for capital markets business fees in that $2, is that the level of 2020 at least, or do we expect growth on that?

Scott Nuttall

Hey, Brian. It's Scott. We're not going to be able to share with you kind of fundraising guidance or capital markets revenue guidance. I think if you look at page five of the supplemental materials, you can see on the right-hand side all of the strategies we have coming to market, including the number of flagship strategies.

And so, I think as long as the fundraising environment stays with us and it's probably frankly improved a bit since the last time we talked we do feel good about our ability to meaningfully scale our AUM from here and have good fundraising outcomes in the next couple of years. We're not going to put a precise number on it, but we feel good on a kind of a team in place basis, and then we're also making new investments in distribution as well that we'll talk about more in April.

Capital markets had a very nice year last year after a quiet spring, given the pandemic and we do see real opportunities to scale there as well. We've incorporated all of that go into kind of the FRE guidance we gave you, where we said we could comfortably exceed $2 per share. That is incorporated into that statement, and that guidance and the outcomes we think can be a bit fungible, but both fundraising KCM, Global Atlantic, and all the other ways we have to win are incorporated in that message.

Brian Bedell
Great. Okay. Fair enough. Thank you.

Scott Nuttall
Thank you.

Operator
Ladies and gentlemen, we've reached the end of the question-and-answer session. I would now like to turn the call back over to Craig Larson for closing comments.

Craig Larson
So thank you, everybody, for your time and attention. We know that we had a number of items to unpack this quarter. We're always available, of course, for any follow-ups and failing that, we look forward to seeing everybody, chatting with everybody next quarter and again at the April Investor Day event. So thanks again.

Operator
This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.