

KKR & Co., Inc.
Fourth Quarter 2021 Results - Earnings Call
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Presenters

Craig Larson - Partner and Head, IR
Robert Lewin - CFO
Scott Nuttall - Co-CEO & Director

Q&A Participants

Alexander Blostein - Goldman Sachs Group
Robert Lee - KBW
William Katz - Citigroup
Glenn Schorr - Evercore ISI
Gerald O'Hara - Jefferies
Craig Siegenthaler - Bank of America Merrill Lynch
Brian Mckenna - JMP Securities
Brian Bedell - Deutsche Bank
Michael Cyprys - Morgan Stanley
Finian O'Shea - Wells Fargo Securities
Rufus Hone - BMO Capital Markets

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's Fourth Quarter 2021 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference will be open for questions. If you should require operator assistance during the call, please press "*", "0" on your telephone keypad. As a reminder, today's call is being recorded.

I'll now hand the call over to Craig Larson, Head of Investor Relations for KKR. Please go ahead.

Craig Larson

Thank you, operator. Good morning, everyone. Welcome to our fourth quarter 2021, earnings call. As usual, I'm joined this morning by Rob Lewin, our CFO, and Scott Nuttall, our Co-Chief Executive Officer.

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. And as a reminder, we report our segment numbers on an adjusted-share basis.

Our call will contain forward-looking statements, which do not guarantee future events or performance. Please refer to our earnings release and SEC filings for cautionary factors about these statements.

Now before we jump into our results for the quarter, we'd like to take a step back and talk about KKR in full.

As we look at our business, we see four things. First, we see scaling. Organically, over the last 12 months, AUM at KKR increased 48%. For an asset management business of our size, that alone is a pretty remarkable statistic. And including the Global Atlantic acquisition, AUM increased 87%, year-over-year.

Second, you're seeing the impact of the scaling, across many of the numbers that we're reporting, today. You see it in our financials. Management fees for the year increased 44%. Fee-related earnings increased 54%, while distributable earnings, more than doubled. All of these figures are at a record level for us.

And you also see it in our operating statistics. Investment activity, for example, is at a new level. In 2020, we invested \$30 billion across the firm. In 2021, that increased to over \$70 billion. And new capital raised of \$121 billion for the year, reflects breadth and diversification.

Approximately one third of that capital was raised from the broad private equity franchise, so including our growth strategies and core PE. Another one third came from our real assets businesses with the remaining one third coming from public markets.

So, fundraising was truly diversified, across the firm. And the other neat point about that \$121 billion is that 45% of it came from strategies that didn't exist at KKR, five years ago. We think that says a lot about our culture and our focus on innovation.

Third, looking forward, we remain very constructive on the opportunities we have ahead of us, with multiple identifiable growth avenues on a global basis. Rob's going to touch on our fundraising pipeline and our areas of focus, in a few minutes.

And finally, remember, we feel advantaged during periods of dislocation. There are very few long-dated pools of capital as large as ours that can take advantage of dislocations, and we have a unique business model and a unique culture that we think can lead to differentiated outcomes during these periods, and that's all alongside of \$112 billion of dry powder.

Suffice to say, there's plenty to focus on and a lot of compelling opportunities in the uncertain world in which we all find ourselves.

Now, turning to our results. The fourth quarter was another very strong quarter for us. Fee-related earnings per share of \$0.69 and after-tax distributable earnings of \$1.59 per share are record quarterly figures for us.

And full year FRE of \$2.23 per share, an after-tax DE of \$4.44 per share, are record annual figures for us.

Looking at the quarter's operating metrics. New capital raised totaled \$19 billion driven by several strategies across private equity, infrastructure, real estate and credit.

Notably, Health Care Strategic Growth II held its final close, bringing the fund to almost \$4 billion, or approximately 3x larger than its predecessor.

This brings new capital raised for 2021 to \$121 billion, and this record fundraising and the addition of \$98 billion from the Global Atlantic acquisition in February, significantly, increased our asset base. AUM now totals \$471 billion, up 87%, year-over-year.

The strength of this year's fundraising is importantly quite diverse, as I mentioned a minute ago, with about \$70 billion from non-flagship strategies.

Our younger strategies are scaling, as they enter their second or third fund life, and we continue to innovate and expand into adjacencies across strategies and across geographies. And GA grew by \$25 billion through block activity, alongside of organic inflows in the year.

We deployed \$23 billion in the quarter. Capital invested in both traditional private equity and core private equity was strong. Our real estate platform continues to see robust deployment with real estate credit particularly operating a high run rate, and that's been amplified by Global Atlantic.

Similarly, on the public market side, GA has added to the rate of private credit deployment in the quarter, most meaningfully in asset-based finance, with additional deployment in direct lending and opportunistic strategies.

Q4's activity brings capital invested for 2021 to \$73 billion, up 2.5x, year-over-year. We've seen a step function type change in the level of deployment, driven by the size and diversity of our capital base while, at the same time, remaining judicious in choosing our spots.

Now, just as we continue to see strength on the fundraising and deployment front, our funds and strategies continue to perform at a very high level. You can see this on Page 7 of the earnings release, where we detail investment performance for the quarter and the year, across investment strategies.

And finally, I want to touch on capital return, before Rob walks through our earnings profile. As you can see at the bottom of Page 2 of the release, consistent with historical practice, we're pleased to announce an increase in our annual dividend from \$0.58 to \$0.62, per share.

This is the third consecutive year we've increased our dividend since we changed our corporate structure, and the change will go into effect beginning with any dividends to be announced for the first quarter of 2022.

And since our third quarter earnings call in November through last week, we've repurchased \$363 million of our stock in the open market with the majority of that coming in 2022 in the midst of all of this volatility.

And with that, I'll turn the call over to Rob.

Robert Lewin

Thanks a lot, Craig. Now to walk you through our quarterly P&L. Our management fees increased by 49% this quarter versus Q4 of 2020. Management fee growth was driven by close across a number of active funds in the quarter.

These closes, alongside our investment activity, bring fee-paying AUM to \$357 billion. The fundraising success experienced over the past few quarters is really starting to flow through this line with another \$38 billion of committed capital not yet paying fees.

Our net transaction and monitoring fees were primarily driven by our capital markets franchise this quarter, which earned \$320 million. This is a high point for us. This revenue figure also encompasses a record number of transactions in a single quarter, and we only had one fee event that was greater than \$20 million.

For the year, Capital Markets totaled \$847 million with revenues diversified by type. Approximately a quarter of our revenues related to each of private equity, infrastructure, as well as third-party clients with the remaining quarter diversified across multiple different asset classes.

Moving to our expenses. Fee-related compensation came in right at that 22.5% mark, the midpoint of the range we've discussed, previously, while our other operating expenses came in at \$140 million.

The increase here was driven by higher placement fees, as well as professional fees, given high activity levels, across the firm. We are also all back in the office, across most of our locations, leading to an uptick in operating costs versus this time, last year.

In total, this brings our fee-related earnings to \$606 million for the quarter, which is up 45% versus Q4 of 2020. The quarterly and yearly FRE margin both came in at 63%. And on a per-share basis, FRE is \$2.23 for the year.

Now moving on to realizations. Realized carried interest totaled \$568 million in the quarter. Our realized incentive fees totaled \$351 million in the quarter, largely due to Marshall Wace's strong investment performance. And realized investment income totaled \$336 million.

Together, these earning streams resulted in \$1.4 billion of asset management operating earnings.

Our insurance segment also experienced an incredibly strong quarter with \$347 million of operating earnings.

In Q4, Global Atlantic sold its interest in Origis Energy, a solar renewable energy developer, at 12x cost, resulting in a \$200-plus million benefit to segment operating earnings. This was really an amazing result for Global Atlantic and all of its shareholders, while still recognizing that 12x gains are not representative of our go-forward expectations here.

Excluding all variable investment income for the year at GA, ROE would have still been a bit above 14%. This return represents a strong core operating level and modestly above our 12% to 13% expected range.

Most importantly, a year into our partnership with GA, we couldn't feel any better about our collective progress, including the performance of management, the profitability of our stake, scaling of the AUM and the integration of our teams.

In total, our after-tax distributable earnings were \$1.4 billion for the quarter, or \$1.59 per share. Comparing 2021 to 2020, DE per share is up over 2x. Alongside an increase in earnings, we are also seeing continued compounding in our book value per share, which now totals \$28.77.

As a component of this, our 61% economic interest in Global Atlantic's book value now totals \$3.4 billion, up 15% since the first quarter of our ownership.

In summary, our business continues to perform at an exceptionally high level, and this is clearly evident in both our Q4, as well as our 2021 results.

Now, there are two additional topics I would like to go through in a bit more detail. The first is our potential. In 2021, we generated almost \$5 billion dollars of distributable operating income, really a step function increase from the \$2.3 billion that we generated in 2020.

And to be clear, we don't believe these results yet reflect even our run rate profitability, let alone our potential.

There are a number of reasons why we have room to run. Let's start with management fees. At 12/31, we had \$38 billion of committed capital that isn't yet running through our management fee line. A year ago, that number was \$20 billion.

And as that \$38 billion, which has a weighted average management fee north of 100 basis points, is either invested or enters its investment period, it will drive management fees in a meaningful way. And I will come to our future fundraising potential from here, in just a minute.

Next are our embedded gains. Gross unrealized carry at year-end totaled \$8.6 billion, compared to \$4.7 billion a year ago. So, even after a record realization year, gross unrealized carry increased over 80%, positioning us really well for future realized performance income.

And embedded balance sheet gains at 12/31 were \$6.7 billion, up from \$4.4 billion, a year ago. So similarly, while we saw a meaningful step-up in balance sheet realizations in 2021, our embedded gains increased, over 50%.

And finally, as the overall footprint of the firm continues to grow, leading to increased deployment and more relationships, this in turn continues to expand the opportunities we expect to have in our Capital Markets business.

So, really strong performance in 2021, over the really meaningful potential still yet in front of us.

That leads into the second topic I'd like to touch on, fundraising and our pipeline. As we look forward, we expect to be fundraising across 30-plus strategies in 2022, so we have a lot of runway and opportunity in front of us.

In terms of areas of focus, I'd highlight four. The first area is private wealth. We now manage a little over \$50 billion in private wealth assets, and we've been investing, meaningfully, into this channel. Historically, private wealth has contributed about 10% to 20% of the money that we raised annually.

With the investments we're making in people, technology and new product innovation, alongside the strength of our brand and our track record, we believe, over time, that it should be 30% to 50% of the money that we raise.

The second area would be Asia. More than half of global GDP growth is expected to come from Asia. And as a reminder, eight of our 21 offices are in the region. We were early in Asia, and we've seen significant scaling, as AUM across our Asia-dedicated strategies has gone from \$20

billion to \$42 billion, over the last two years with private equity being the biggest driver of that growth.

In 2022, we expect to be fundraising for five Asia-focused strategies outside of PE, across our infrastructure, real estate, credit and growth businesses. We have a leading footprint in Asia today and building on our presence is a priority and a big opportunity for us.

The third area would be our broader core franchises. These are all adjacent strategies to what we're doing in private equity, real estate, as well as infrastructure. So, think longer-term capital, a lot of which can be raised on a continuous basis for strategies that are leveraging resources and yield flow that are already resident within the firm, today.

A year ago, we were at \$17 billion of AUM, across core. And today, that figure is north of \$40 billion. In 2022, we look to continue the momentum and expect to be fundraising across five distinct strategies in private equity, real estate and infrastructure.

And the fourth area is what we're doing across our real estate franchise. A year ago, AUM across real estate was \$15 billion. Today, that figure is \$41 billion.

In 2022, we expect to fundraise across 10 distinct real estate strategies, including the next generation of our opportunistic real estate strategies, across all three geographies.

And with that, let me turn it over to Scott.

Scott Nuttall

Thank you, Rob, and thank you, everyone, for joining our call, today. As Craig and Rob reviewed, 2021 was a very strong year with record AUM, FRE and earnings. The hard work of the last 10 to 15 years of business-building began to show up in bigger ways last year, and we're ahead of where we thought we would be, at this point.

And with a record \$112 billion of dry powder, we are well capitalized to invest in opportunities presented by more volatile markets and an evolving macro picture. In summary, we feel incredibly well positioned.

While we're together today, I also want to give you a little color on our annual planning meetings. Last week, we gathered 35 of our partners for two full days to review where we are, where we're going and what we need to get right to capture the opportunity in front of us. It was an extremely energizing discussion.

As we discussed at our Investor Day last April, we had significant runway in all of our businesses and see the opportunity to, meaningfully, scale across multiple platforms and markets, simultaneously, including Asia, real estate, infrastructure, our core suite of products, private wealth, growth, impact in ESG, insurance, credit and private equity, amongst others.

What we discussed last week is that our progress makes us even more confident in the opportunity ahead and what these businesses can become.

Said another way, we believe we can get to the destination faster than we thought a year ago, and the quantum of the growth opportunity is greater than we anticipated.

So, while 2021 was a great year for the firm, what's particularly exciting is how the progress we made last year positions us for more growth in the years ahead.

And critically, Joe and I have never had more confidence in our team. We have a focused and highly motivated group driving our businesses and functions and responsible for each of our growth initiatives. So we enter 2022 with significant conviction in our growth prospects, our model and our people and look forward to keeping you updated, throughout the year.

And with that, we're happy to take your questions.

Operator

Thank you. At this time, we'll 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 your line is in the question queue. You may press "*", "2" if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

In the interest of time, we ask that you each keep to one question, and one follow up. Thank you. Our first question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your questions.

Alexander Blostein

Hey, good morning, everybody. Thanks for taking the question. Why don't we start with just the dynamics around fundraising and management fee growth? And I really kind of want to zone in on a couple of things.

I guess, first, whether or not the current macro conditions are having any impact on LP appetite to allocate to private markets, broadly, even if just tactically, but curious what to hear what you guys are hearing on the ground.

And then, secondly, Rob, you mentioned a number of fundraising initiatives for 2022. I was hoping you could size how much you expect to raise across those 30-plus strategies and, ultimately, what that means for 2022 management fee growth.

Craig Larson

Alex, it's Craig. Why don't I begin? To the first part of your question, really, no change in terms of the interest level that our LPs are having from a fundraising side, and it continues to feel like we have a lot of momentum, which is great. Why don't I give a little bit more granularity in terms of all of those--the areas where we're fundraising to give you a sense of the breadth of that activity for us? Rob obviously, ran through the four areas of focus for us in 2022.

More narrowly, in private equity, we're still fundraising for Americas Private Equity. We're fundraising for our Europe private equity strategy. In growth, fundraising is launched for both the impact and next-gen tech strategies.

In core, we're fundraising across the core businesses, so that's core private equity, as well as core infra and core plus real estate strategies. Now, the latter two are open ended.

And in addition to core plus in the U.S. that we've spoken about, we've also launched fundraising for core plus real estate in Europe and Asia. Both of those are also open ended, as well as in infra, where fundraising continues for the benchmark infra strategy.

In real estate, in addition to the core plus strategies in all three geographies, we're fundraising for a stabilized real estate credit strategy and our opportunistic real estate credit strategy as well. In credit, we're active in the U.S., Europe and Asia.

We're fundraising for lending partners, European revolving credit, Asia credit, asset-based finance, credit opportunities, and that's in addition to a Global Atlantic sidecar strategy.

Our CLO business has been active. And as we look to raise capital across the leveraged credit platforms and our hedge fund partnerships on a more continuous basis, and that's all in addition to the suite of democratized products that we have.

So again, really, it's--I think the overall takeaway, lots of activity, and it just continues to feel like we have a lot of momentum.

Scott Nuttall

Yeah, the only thing I would add, Alex, agree with Craig, no change in LP appetite. The only incremental color I'd give is, if anything, we're seeing more interest in real assets with yield. So, anything with some inflation protection, so think infrastructure and real estate.

As we've seen inflation expectations go up, we're finding even more interest in those asset classes. Rob, do you want to pick up on the second part?

Robert Lewin

Yes, hey, Alex. As it relates to the management fee piece of it, Alex, we've never felt as good as we do, right now, about our ability to sustainably grow management fees, over time.

Obviously, I referenced the \$38 billion of capital that hasn't yet flown through our management fee line item, the 30-plus products Craig just went through, our relationship with Global Atlantic where assets are much higher than where we thought it would be and, frankly, just the new product innovation that's happening across the firm today that gives us visibility around our ability to grow management fees, tomorrow.

So, I think the expectation should certainly be continued management fee growth from us and being able to do so on a sustainable basis, over time.

Alexander Blostein

Great, thanks for that. And then just my follow-up is around capital management. So you guys obviously picked up the pace of buyback, so far, in the first quarter.

Given your comments around the robustness of the business going forward, obviously, lots of capacity on the balance sheet given realizations and embedded gains.

How are you thinking about the buyback at this level for the share price? And should we be thinking about acceleration in share repurchases from here?

Robert Lewin

Yeah, Alex, the key for us on capital allocation is to have a consistent approach, and you've heard that for us, over the last number of years, and we'd anticipate that continuing.

And so, as we think about our overall capital allocation strategy, we want to make sure that we're striking the right balance between capital return to shareholders and investing back into KKR for growth, so long as that can be done at high ROEs and above our cost of equity.

So, let's take those in order. You would have seen, obviously, that we just increased our dividend 7%, third consecutive year since we became a C-corp where we've increased our dividend.

And then, we want to continue to invest back into KKR stock, as you said. Certainly at these levels, we feel really good about our overall body of work on our share buyback. We've repurchased or retired north of 80 million shares, now.

That's almost 10% of KKR shares outstanding, almost 15% of our free float. And our goal is to keep our share count flat, as it relates to employee dilution. So, I think the expectation over time would certainly see us be in the market and acquiring and retiring KKR stock.

In terms of balancing that with overall opportunity to grow KKR, it is a big priority for us to reinvest back into KKR, whether that's in M&A or supporting new products or supporting new innovations, so long as we're seeing returns that are commensurate with that capital commitment. And over the last number of years, we certainly have.

So, we're going to continue to have a capital allocation framework that is very much ROE-based. We feel that's a real core competency of ours, as we think about moving capital around to the highest ROE opportunity.

And if you think about our overall capital allocation framework, I think it's also worth remembering that KKR is an employee base is the single-largest shareholder in KKR. So, we come at that from a very aligned basis.

Alexander Blostein

Great, thanks for all that.

Robert Lewin

Thanks, Alex.

Operator

Thank you. Our next question comes from the line of Robert Lee with KBW. Please proceed with your question.

Robert Lee

Great. Good morning, everyone. Thanks for taking my questions. Maybe, first, looking at wealth management. Generating 30% to 50% of your fundraising from that channel in several years is a pretty big step-up, particularly, in light of your overall fundraising. So, could you maybe put a little bit more meat on the bone?

Like, I know you had just hired a new Head of Global Wealth Management. But whether it's specific products or specific things that kind of give you that confidence sitting here today that in the next couple of years, you can have that magnitude of an increase coming from that channel. I mean, what would drive that?

Craig Larson

Yeah, Rob, it's Craig. Why don't I begin? So, private wealth is as big a priority as we have as a firm. And the addressable market here, as everyone knows, is massive. Total client assets are estimated to be around \$280 trillion. That's pension funds, sovereign wealth, insurance, private wealth, combined.

And private wealth is almost 65% of that and is growing, so it's a massive end market. But at the same time, allocations, as we all know, for individual investors is a fraction of what you find at institutions. And so, individual investors are less than 5%. And by our research, we actually think that number is in around 2% to 3%.

We have this enormous end market. It's underpenetrated with allocations that are increasing. And so, it's a huge opportunity. And I think as we think of our investment skills, our track

record, combined with our brand, we really think we're exceptionally well positioned to be a winner, here.

And the focus, I'd say, is really threefold. So one, we're focused on our partnerships with private wealth platforms. So in the U.S., that's the warehouses, the independent broker-dealers, the RIAs.

And outside the U.S., it's the global private banks and the regional private banks. And so, the business is organized by geography here. And you're correct. You've seen some hiring related to that.

Second, we're related--we're focused on the family capital part, so think about that single-family offices, multifamily, ultra-high net worth. And some of those folks are very large and very sophisticated. And again, we're organized by geography, here.

And then third, we're focused on product creation. So, historically, we've offered private fund solutions, through the private wealth space.

But really, there are only a limited number of private wealth investors that are qualified who could look at private funds as appropriate. So, we're focusing on creating these new investment solutions, these more democratized products, democratized solutions that are in a registered fund format and have much wider applicability, within the private wealth channel.

So, I think suffice to say, when you combine with where we are in the development of the channel, the maturing of our product set, including, and Scott mentioned this a moment ago, all the products that we have with the yields, real assets, etc., and put that together with our brands, which is really encouraged with how we're situated and all of the opportunities that we have ahead of us.

Robert Lee

Okay. Great, thanks. And maybe as a follow-up, I mean, lease equity mark has been a pretty rocky start to the year, so, I guess investors are generally concerned about kind of the realization outlook from here. Could you maybe update us on where things are for you guys right now, through the start of the year, the first half of the quarter in Q1?

Robert Lewin

Yeah, Rob, some good news here. As it relates to Q1, we already have a good amount of visibility into some pretty meaningful revenue from monetization activity. As of now, that figure is around \$700 million, maybe a bit above that.

As you know, that's collectively, across both our performance as well as our investment income. And as a reminder, that is from deals that are already closed or have been signed up and that

we expect to close in Q1. So, we're off to a really good start, there. This is one of the strongest figures we've ever had at this stage of the quarter.

And then the other I know relevant thing for your models is the split. It's weighted around 75-25 carry-investment income, right now. So yes, we feel like a pretty good start to the year and gives us some support going into Q1 in 2022.

Robert Lee

Great. Thanks for taking my questions, guys.

Robert Lewin

Thank you, Rob.

Operator

Thank you. Our next question comes from the line of Bill Katz with Citi. Please proceed with your questions.

William Katz

Okay. Thank you very much for taking the questions, this morning. So, maybe come back to interest rates for a moment. I was wondering if you could let us know what is your rate assumption that you have that sort of supports your sort of 12% to 13% ROE for Global Atlantic?

And then, if rates were to go up, can you walk us through what the net impact would be between maybe a higher ROE there versus any impact on management fees?

Robert Lewin

Hey, Bill, it's Rob. Thanks for the question. Maybe let's start with where we think interest rates are going, and so, we do see rates certainly increasing like the rest of the market. I think we're likely to get four more fed funds increases, this year. But at the same time, we do see that coming on the back of robust financial conditions.

So, our expectation is that we can be in an environment here where rates are still low or negative, over the next couple of years, which I think is an overall positive place for us to be from a business model perspective.

Now of course, there are uncertainties around rates are going, but I think there's a number of areas where we're, I think, pretty well competitively positioned. As you referenced, Global Atlantic, they are largely biased to benefit from interest rates rising, over time.

So, \$120 billion of capital there, as well as how we think about their individual channel and our ability to be able to generate sales from that channel, we think, are all positively biased in a rising rate environment.

And so, I think there's a number of other areas around KKR, as well, where we think we're competitively well positioned. You look at our credit business, over \$200 billion or close to \$200 billion of AUM. Much of our third-party business there is floating rate exposure in nature.

So, as interest rates rise, all things equal, our returns go up. And the hurdle rates across many of those products tend to be fixed in nature, so, the likelihood of earning additional incentive fees is that much higher. So hopefully, that helps answer your question.

William Katz

Okay, thanks. And just a follow-up, just coming back to maybe your prior guidance. I certainly appreciate the tone and tenor of what you're saying about the confidence.

But can you sort of still triangulate back to sort of your guidance for this year in terms of \$2 plus of FRE and sort of how you think about that, not only for this year, but maybe into 2023, just given the compounding nature of growth?

And then maybe just sort of level set where you are, in terms of the capital raising flagship of the \$100 billion plus, well into that, as well. Thank you.

Robert Lewin

Yeah, no updates to the numbers. Bill. Obviously, we're well ahead of where we thought we would be even 6 or 12 months ago.

And as it relates to both fundraising, as well as management fee growth, this isn't just a result of acceleration of fundraises. In many cases, we have well exceeded the expectations that we have for ourselves. And so, we continue to see a robust environment to be able to raise capital.

And as I mentioned earlier, we continue to see an environment where we should be able to really drive substantial management fee growth, as well as FRE growth off of a base of \$2.23. So, we should be well ahead of our target for 2022 that we laid out. I think it was about 12 months ago.

Scott Nuttall

Yeah, the only thing I'd add, Bill, is last quarter, we said we thought we could double fee-related earnings in TDE, over the next five years. That's still very much the case. So, no updated guidance for '22, but suffice it to say, we well exceeded what we told you, a year ago.

William Katz

Okay, thank you.

Scott Nuttall

Thanks.

Operator

Thank you. Our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed with your question.

Glenn Schorr

Hello, there.

Scott Nuttall

Hey, Glenn.

Glenn Schorr

Hello. So, there's--it's been a slower start to the year for just Capital Markets activity. It's early. But if you look at all the pipelines for M&A and IPOs, they're down. I think that's just a market jitters thing. But anyway, with the slower pipeline, just curious how insulated you think--you just gave us the number on dollars for realization pipeline.

But just broader picture, as you look at the year, how susceptible could a realization pipeline or Capital Markets pipeline may or may not be to that? In the past, you've given some--what you think the core run rate of transactional monitoring fees or Capital Markets, that would be helpful. Thanks.

Robert Lewin

It's Rob. So let's--I think it's worth spending a little bit of time on our Capital Markets business. It did have a really step-function increase in 2021. If you take a step back, our Capital Markets business over the last several quarters has averaged about \$200 million of revenue, per quarter.

Now, markets have definitely been open and pliant, but I think we've also continued to really take share, here.

So I think that's--as you think about our business in a market environment where capital is being deployed, it can be still a relatively volatile market environment. But in one where there's activity, we think that's a reasonable run rate for our business.

But much more important for us is how we take our business from the \$850 million of revenue in 2021 and over the next several years, continue to take a lot of share and grow that in a meaningful way. And we think we've got plans in place to be able to do that.

We've gone through these a bunch of times. It includes following KKR, in terms of its own product expansion, following KKR, in terms of its own geographic expansion. We think by hiring the right capabilities, internally, that could lead to a lot of revenue growth.

And I think it's worth calling out our non-KKR issuer business, our third-party business, it generated almost \$200 million of revenue in 2021. And I think that really speaks to our business model and the quality of our people, that we were able to take that business and scale to the point that is not too different from a revenue perspective from where our Capital Markets business was in aggregate, not too long ago.

Craig Larson

Glenn, it's Craig. We were looking at some of these statistics and are kind of interesting, just to give you another sense of the breadth in Capital Markets fees. When you look at deployment for us as a firm, deployments increased materially, obviously.

We were \$30 billion in 2020, \$70 billion in 2021. And if you look at where that came from and the impact of that, it had a big impact on Capital Markets revenues.

So, that increase in deployment for us, it really didn't come from private equity. So, we invested \$10 billion in 2020. We invested \$10.2 billion in 2021. And so, KCM fees from Capital Markets went from \$230 million to \$250 million in the year. Like, they were up modestly.

But what you really saw, the big driver, when you add up deployment for us in infrastructure, core private equity growth and real estate equity, so these are the areas that are going to generate on deployment, can generate sizable capital markets fees. That deployment for us went 2.3x, went up 2.3x in 2021.

And Capital Markets fees cumulatively, similarly, went up 2.3x, went from \$150 million to about \$350 million.

So, it is a--the dynamic that you have is one where deployment is becoming a lot more broad-based. And again, KCM is not solely going to be based on how we're deploying capital, but it's certainly going to be one of those factors.

So, I think, really, in that number, as Rob said, you're seeing a real development in the footprint, in the framework of the firm, which is exciting from a management fee standpoint. And it's also exciting from a Capital Markets standpoint.

Robert Lewin

Glenn, one other. I know you had referenced the impact of the Capital Markets environment have on monetizations. I think the big advantage here as we come into 2022 with over \$15 billion of embedded revenue that sits in our balance sheet between gross unrealized carry and the embedded gains of our investment portfolio.

And I think Q1, and we were off to a good start from the monetization perspective, a good example of that. We don't need straight-line markets up to be able to monetize that \$15 billion

of embedded revenue, but what we will need is we will need a market environment that does have some stability over periods of time and is flexible in nature.

And I think there's going to be areas where we're going to be able to continue to pick our spots in this kind of a market environment and generate monetizations for our shareholders.

Glenn Schorr

Great, I appreciate all that. Thank you.

Scott Nuttall

Thank you.

Operator

Thank you. Our next question comes from the line of Jerry O'Hara with Jefferies. Please proceed with your question.

Gerald O'Hara

Great, thanks. Thanks, good morning. Hoping we could get an update just on the strategic investments within your kind of perpetual capital sleeves. Clearly, a nice uptick, year-over-year, but perhaps, you can talk about some of the drivers of that increase and what we might be able to expect on a go-forward basis. Thank you.

Craig Larson

I think--hey, Jerry, it's Craig, very broad-based again. I think when you look at a lot of the core is an example area for us in--from a perpetual standpoint where we're raising capital. Infrastructure, real estate, as I mentioned, two aspects of both Europe and Asia real estate perpetual or capital is going to be perpetual in nature.

Global dynamic, by itself, continues to grow and scale, in addition to that, which is great. And I think we've, over time, also mentioned these longer-dated strategic-type partnerships.

That activity continues. It's multi-asset class. It's again, capital where you can have recycling, which can be very valuable from an economic standpoint. You're not going to see that activity from us every quarter.

But again, those dialogues continue, and we'll keep you up to date and abreast on that.

Robert Lewin

Jerry, one other thing, if you look at Page 5 on our press release, you can see our perpetual capital. It was up, year-on-year, over 7x. Now, a lot of that is Global Atlantic. But what we don't want to get lost in that slide is that ex Global Atlantic, our perpetual capital year-on-year was still up 4x versus this time last year.

And so, there's a lot of momentum, across that part of our business.

Gerald O'Hara

Great. That's helpful. And then just as a follow-up, I appreciate the thoughts around the private wealth channel. But as it relates to the sort of investment, I think last quarter you talked about sort of looking to triple headcount, if my notes are right, and continuing to sort of invest in operations and technology.

Can you just perhaps give us an update on how things have progressed there and how we're tracking, relative to perhaps, where you were last quarter. Thank you.

Craig Larson

Hey, Jerry, it's Craig. So, we don't really want to get into the habit, honestly, of giving individual headcount updates on the part of the business and where we are from that. But again, suffice to say, this part is a real strategic priority for us, as we've spoken about.

And there's lots of underlying activity and growth. We feel really well positioned, and we're very active as it relates to hiring talent on a global basis. I hope that that gives you a clear sense of the importance for us.

Gerald O'Hara

Fair enough. Thanks for taking my questions, this morning.

Scott Nuttall

Thank you.

Operator

Thank you. Our next question comes from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler

Hey, good morning, everyone.

Scott Nuttall

Good morning.

Craig Siegenthaler

So, my question is on Global Atlantic. I just want to get an update on your progress to reinvest Global Atlantic's portfolio into KKR-originated product. And also how this could or will impact your blended fee rate, as GA reaches your longer-term objective?

Robert Lewin

Hey, Craig, it's Rob. That's going to be a multiyear process, and we're going to do it in a very prudent way and make sure that we're rotating GA's balance sheet from quality investments that they had today into opportunities for KKR to be able to invest that capital with a similar or better risk level and at an increased yield. And so, that process is taking place.

And I would say 11 months in, we're probably in a better place than we thought we'd be at the beginning of the deal. But there's no doubt, as we complete that rotation or we make progress on that rotation, that's going to increase the blended management fee rate in our overall relationship with Global Atlantic.

I think that blended management fee rate, today, is in the mid-teens, and so, it definitely has the ability to go up over time, based on the rotation that you referenced.

Scott Nuttall

The only thing I'd add, Craig, is that it's going to be a constantly evolving answer to your question because if you think, especially as Global Atlantic pursues block activity, we're bringing on more assets, and then those blocks need to be rotated, themselves.

So, I'm not sure we'll ever reach stasis, frankly. But to Rob's point, we're a bit ahead of where we thought we'd be, and we'll keep you updated. But the block activity has obviously been significant, since we signed the deal.

Craig Siegenthaler

Thanks, Scott and Rob. And just one other question on that one. What assets or KKR-originated assets are being allocated into Global Atlantic, today?

Robert Lewin

Yeah, it's a lot across our real estate credit franchise, our private credit franchise, structured finance, asset-based finance. Those are really the big areas of opportunity that we're working together with the GA team on.

Craig Siegenthaler

Guys, thank you very much.

Robert Lewin

Thanks, Craig.

Operator

Thank you. Our next question comes from the line of Devin Ryan with JMP Securities. Please proceed with your question.

Brian McKenna

Hi, this is Brian McKenna for Devin. So, there's clearly a lot of momentum across the entire platform, and I appreciate all the color on the outlook. But what do you think will be the biggest driver of growth over the next five years?

And then, what products will be the biggest contributor to achieving your FRE and DE targets of \$4 plus and \$7 plus?

Robert Lewin

Hey, Brian, it's Rob. I'll take the first shot at it. The reality is we've got a lot of confidence, across many parts of our business. I'll call out a few, and we talked about them on our prepared remarks.

Asia is a really massive long-term opportunity for us, and we've talked about in the past that we think we could take our Asia business and make it, one day, as big as our North America business. That's for a couple of reasons.

One, we think more than global--excuse me, half of global growth is going to come out of that region, over the next several years.

Two, we have a huge head start and competitive advantage versus our competitors. And really, the key for us is to take our leading position there with our leading position across infrastructure, real estate, credit growth equity on a global base in the marriage of those two things. And we think that could lead to a lot of growth for us in that part of the world.

We've got five products, ex private equity, that will be fundraising for capital in Asia in 2022. So, that's really a big theme for us. What we're doing across real assets and real estate and infrastructure we think is really exciting. We've talked about our buildout of private wealth.

So, there's a number of different avenues and ways that we have to be able to achieve P&L growth, over the next several years.

Scott Nuttall

Yeah, Brian, it's Scott. Thanks for asking the question, it's kind of fun to answer, honestly. Because we talked about last April, we just got a lot going on. We went from six to something like 28 investing strategies, over the last decade, plus. So it's kind of--the answer to your question, it's hard to be succinct, frankly.

We've got to scale everything we started, which is a long list of asset classes, real estate, infrastructure, growth, insurance, core. The list goes on and on. We have an opportunity to, meaningfully, expand our client base. We talked about private wealth a lot today, but there's a lot happening also in the institutional channels.

We're creating new growth vectors, so not just the existing 28, but you're going to see more things from us, in terms of other ways that we can grow.

I think smart M&A is going to continue to play a real role here, not only expanding through Global Atlantic, but we're also looking at other acquisitions, and then having the balance sheet and the currency gives us real tools to accelerate our growth.

So, we've got lots of opportunities to scale, and we haven't even hit all of them, today. I'm not sure we're going to be able to identify one or two biggest drivers, I think it's going to come from a lot of different places.

And part of the reason you hear such confidence in our voices to double again, after we doubled in such a short period of time, is everything I just mentioned.

Brian McKenna

Yeah, got it. Appreciate all the color there. And then just two quick modeling questions for Rob. How should we think about margin expansion in 2022, relative to 2021? And then, is there any updated guidance on the tax rate, moving forward?

Robert Lewin

Yeah, I'll start with the second one. What we--our tax rate this year was a little over 17%. And what we said, over time, is we would expect that to migrate up to statutory rate in the low 20s.

As it relates to margin, we've talked about operating in the low 60s. In Q4, we were at 63%. In 2021, we were at 63%, so a little bit ahead of where we thought we would be. We're investing a lot back into the firm, right now.

So, I think low 60s is the right level to think about in the near term. But we believe over the medium term, that we could take our margins to the mid-60s on a sustainable basis, if we're able to execute on the revenue opportunity in front of us. And so, that's what we're very much focused on, as we continue to invest back into the business.

Brian McKenna

Thank you, guys.

Scott Nuttall

Thank you.

Operator

Thank you. Our next question comes from the line of Brian Bedell with Deutsche Bank. Please proceed with your question.

Brian Bedell

Great. Good morning, folks. Thanks for taking my question. Just back on the retail side. Of the \$50 billion in private wealth assets right now, are you able to break that out between what you would call democratized products? I know those are still very much in development but just to try to get a sense of how you're thinking about that fundraising in retail from new products.

Scott, you mentioned, obviously, some products on the yield side gaining attention. Maybe just a flavor of that growth path of that 10% to 20% to 30% to 50%. Maybe even just in the next one to two years, what kind of AUM you think you could raise in new democratized products in retail?

And then to what extent would there be significant placement fees attached with the retail side of that?

Craig Larson

Hey, Brian, it's Craig. Why don't I start? Look, in terms of where we are today, we have three broad democratized solutions that are on a bunch of different platforms, in addition to bespoke solutions that are tailored for individual platforms.

To your first question, we have about \$5 billion of AUM, across that family, if you will. And we do believe, over time, that we'll have democratized products really across all of our asset classes. And alongside of that, we're going to continue to invest in sales, marketing, data, digital talent, etc.

And alongside of where we are today, we do expect we'll see these products launched on additional platforms, over the course of the year, which will be additive to all of this.

So, it feels like, collectively, we're off to a great start. It still feels to us like we're in the earliest stages.

One of those products that seems to be taking or having a lot of mind share, we only began accepting capital in June, it's off to a great start. It's KREST in the real estate business. So, it just feels like we have a lot of momentum, which is really exciting for us.

We don't have any breakdown of democratized products for you, in terms of where we think that number could grow. There's certainly lots of data points out there that highlight the opportunity.

And again, just given the investment we have, the brand investment performance, we think we're really well-positioned to be a big winner in a massive end market.

Brian Bedell

Fair enough. And then just on the follow-up, just the timing of a couple of things. The--your expectation of the \$38 billion that's not earning management fees, now. Over what time frame do you expect the rest of that to move into fee-paying AUM?

And then the dry powder also, \$112 billion, is almost double what it was six quarters ago. As you raise product, should we be thinking of that deployment that dry powder running down, in terms of how you're seeing opportunities to invest that you kind of circled to on the call? Or is it possible that that dry powder will continue to build, given your fundraising?

Robert Lewin

Hey, Brian, it's Rob. So on your--on the first part of your question, I'd say in that \$38 billion, I mean, it's a mix of different things. In some cases, it's some investment products where the fee turns on when you invest it, and some of those have lives of three, four, or five years from an investment period perspective. And so, I think about that on a blended basis of about three years.

And some of the other products, it's just capital we've raised and funds that we haven't yet turned on. And so, we would think that that's more in the next three, six-ish month time frame. So I think on a blended basis, a couple of years, overall. Feels like a reasonable assumption for that \$38 billion, maybe a little bit inside of that.

And then, as it relates to the dry powder, it's a tough question to answer. It is really a function of how active the investment environment is, coupled with our fundraising activity.

And so, I think what you've heard from us a number of times on this call is the excitement we have for future fundraising. At the same time, in these volatile markets, we think the opportunity for us to be lean and get from an investment perspective might get more interesting.

And so, I think it will just be a balance of those two things. Hard to be prescriptive about where that number goes, over the next couple of quarters.

Brian Bedell

That's fair. Thank you for all the color.

Operator

Thank you. Our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys

Hey, good morning. Thanks for taking the question. I want to circle back to a comment Scott had made. Scott, you had mentioned that the quantum of opportunity was greater than anticipated. I'd just be curious to hear your perspectives on why that's been the case.

What's changed across the industry, over the past 12 to 18 months? And as you look forward, are there any sort of risks to the outlook that you're paying attention to, either regulatory-wise? Clearly, there's been some movement there or on the macro front. Just curious your perspectives, there.

Scott Nuttall

Thanks for the question, Michael. Yeah, I think part of it is--let me take it back to kind of the strategy that we laid out last April, which is that we said that we only wanted to be in businesses where we thought we already were or could get to be top three in the world. And we wanted to stay focused in those areas.

And I think part of the reason you hear us saying now that we think the quantum of the opportunity is greater than we anticipated is the end markets that we're facing off against are growing, quite rapidly. And we're finding investor appetite, not only from the traditional sources, but new sources are increasing faster than we'd anticipated.

So, end markets are growing very quickly, and more and more people are investing in what we do. And so, that's kind of part one to the answer to your question as to why the quantum is greater than we'd anticipated. We already expected growth. I think it's a bit more than we expected.

The other thing I'd say is that we are approaching top three, faster than we'd anticipated in some of these asset classes. And a lot of that's on the back of good investment performance and building like and trust with a broader client base.

And so, the end opportunity is bigger than probably we thought, and we're getting there more rapidly than we thought.

And so, the definition of top three in terms of what that means in terms of magnitude of AUM, revenue, profitability is, therefore, bigger than what we'd anticipated probably 12, 18 months ago.

The risks, I think, are pretty straightforward. We've got to execute. It's a pretty straightforward business when you back up. If you have strong investment performance and you have products that clients want to invest in and they like you and they trust your judgment and you perform for them through a cycle, it's very straightforward to scale.

So, a lot of the risks, and this is one of the reasons we like our business so much, it's on us. We've got execution in front of us. We just need to perform.

And I think a big part of the reason you've seen us scaling so rapidly is we've had really strong investment performance, at the same time that we've been operationalizing a broader client base. And we do see a significant amount of running room on both of those topics.

So, I know there's been a couple of questions today about market volatility, and it's been a little more bumpy at the beginning of this year than what we saw, last. But from our standpoint, that tends to be quite good news.

We've talked about the \$112 billion of dry powder. If we can invest into volatility, that tends to create long-term opportunity for us, in terms of incremental revenue and profit down the road. So, a long way of saying we really like the way we're positioned, right now.

Low volatility is probably good for our business long term, and the opportunity ahead is significant.

Michael Cyprys

And just on the regulatory point, just any sort of thoughts there around potential for regulatory changes, enhanced transparency around fees, etc.?

Scott Nuttall

Look, I think the level of regulatory scrutiny of our space is probably a positive for larger players that are more institutionalized. And so, there's aspects of how the regulatory environment is developed that I think the barriers to entry in our space have gone up, and that's good for incumbent players.

So, nothing that we see that I would call out, today. Our job is to react to what the regulators talk to us about. And so far, we actually think it's been long term helpful to our business.

Michael Cyprys

Great. And just a quick cleanup question for Rob, if I could. Just hoping you might be able to update us on the amount of capital that was invested off the balance sheet in '21 and the realizations, as well off the balance sheet in 2021 and how that compared to 2020, if you have that.

Robert Lewin

Yeah, activity was certainly up across the board, Mike. We monetized just over \$3 billion of the balance sheet in 2021. And we deployed about \$3.7 billion. That deployment does not include Global Atlantic.

So, if you include Global Atlantic in that number, we'd be a little bit below \$7 billion of deployment for the year.

Michael Cyprys

Great, thanks so much.

Robert Lewin

Yeah, thanks, Mike.

Scott Nuttall

Thank you.

Operator

Thank you. Our next question comes from the line of Finian O'Shea with Wells Fargo Securities. Please proceed with your question.

Finian O'Shea

Hi, good morning. To follow on the insurance topic, are you able to touch on what you're seeing on the regulatory agenda, focusing more on structured products and alternative asset manager affiliates and if you see any major impact to the product that you and your peers are providing to insurance clients?

Robert Lewin

Thanks for the question. It's a topical one, and we're spending a lot of time, internally focused, on it. Part of the answer is similar to the answer Scott just gave from a regulatory--overall regulatory environment perspective.

I'd say the insurance industry, just like other financial services industries, is going through a period of change. In general, the industry is getting more sophisticated, and we think that is, ultimately, a good thing for policyholders.

And so, as a result of that, we think it's entirely appropriate for regulators to adapt as the industry evolves, and we think smart regulation is a good thing for the industry, overall.

And so as it relates to Global Atlantic, specifically, we've got really close and transparent relationships with all of our regulators. We know they are working to gather information and industry feedback.

And beyond that, there's really not a lot that we can comment on. All that we can say is that we don't anticipate really any major change to our core business model, which is investing thoughtfully behind the long-term promises that we're making as an institution to policyholders. I appreciate the question, and it is a topical one.

Finian O'Shea

Thank you.

Operator

Thank you. Our final question, this morning comes, from the line of Rufus Hone with Bank of Montreal. Please proceed with your question.

Rufus Hone

Great. Thanks for taking my question. Had one on Global Atlantic. Clearly, strong AUM and earnings growth since the acquisition, and I was curious if you anticipate any change in the appetite for block transactions and on your regular quarterly inflows, as interest rates start to rise. Any details there would be helpful. Thank you.

Robert Lewin

So, no change in our appetite. It's been an area of very meaningful and we think very smart growth that Global Atlantic has had, over the past 12 months. I would say the space around block transactions, I'm sure, as you noted, has become a little bit more competitive.

But we think with our capital base, quality of our management team, the relationships we have and really our systems and processes, they position us all to compete really effectively for block transactions.

I think a big reason why Global Atlantic partnered up with KKR, in addition to that, was our capabilities on the asset management side and our ability to rotate assets in these blocks into KKR-originated product. And so, when you combine all of that, we think we're really well positioned.

No change in appetite, and the institutional part of GA's business will continue to be a big growth driver for them, going forward.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Larson for any final comments.

Craig Larson

We would just really like to thank everybody for your interest in KKR, and we look forward to chatting with you, next quarter. Take care. Thanks again.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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