

KKR & Co. L.P.
Form 10-K
February 27, 2015

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[ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA](#)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

Form 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2014

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the Transition period from _____ to _____
Commission File Number 001-34820

KKR & CO. L.P.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

26-0426107
(I.R.S. Employer
Identification Number)

**9 West 57th Street, Suite 4200
New York, New York 10019
Telephone: (212) 750-8300**

(Address, zip code, and telephone number, including
area code, of registrant's principal executive office.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common units representing limited
partner interests

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common units of the registrant held by non-affiliates as of June 30, 2014, was approximately \$9.9 billion.

As of February 20, 2015, there were 433,522,550 common units of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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KKR & CO. L.P.

**FORM 10-K
For the Year Ended December 31, 2014**

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward looking statements by the use of words such as "outlook," "believe," "expect," "potential," "continue," "may," "should," "seek," "approximately," "predict," "intend," "will," "plan," "estimate," "anticipate," the negative version of these words, other comparable words or other statements that do not relate strictly to historical or factual matters. Without limiting the foregoing, statements regarding the expected synergies from the acquisitions of KKR Financial Holdings LLC, Avoca Capital, Prisma Capital Partners LP, and their affiliates may constitute forward-looking statements that are subject to the risk that the benefits and anticipated synergies from such transactions are not realized. Forward looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include those described under the section entitled "Risk Factors" in this report. These factors should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We do not undertake any obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

In this report, references to "KKR," "we," "us," "our" and "our partnership" refer to KKR & Co. L.P. and its consolidated subsidiaries. Prior to KKR & Co. L.P. becoming listed on the New York Stock Exchange ("NYSE") on July 15, 2010, KKR Group Holdings L.P. ("Group Holdings") consolidated the financial results of KKR Management Holdings L.P. and KKR Fund Holdings L.P. (together, the "KKR Group Partnerships") and their consolidated subsidiaries. On August 5, 2014, KKR International Holdings L.P. became a KKR Group Partnership. Each KKR Group Partnership has an identical number of partner interests and, when held together, one Class A partner interest in each of the KKR Group Partnerships together represents one KKR Group Partnership Unit.

References to "our Managing Partner" are to KKR Management LLC, which acts as our general partner and unless otherwise indicated, references to equity interests in KKR's business, or to percentage interests in KKR's business, reflect the aggregate equity of the KKR Group Partnerships and are net of amounts that have been allocated to our principals in respect of the carried interest from KKR's business as part of our "carry pool" and certain minority interests. References to "principals" are to our senior employees and non-employee operating consultants who hold interests in KKR's business through KKR Holdings L.P., which we refer to as "KKR Holdings," and references to our "senior principals" are to our senior employees who hold interests in our Managing Partner entitling them to vote for the election of its directors.

References to non-employee operating consultants include employees of KKR Capstone and are not employees of KKR. KKR Capstone refers to a group of entities that are owned and controlled by their senior management. KKR Capstone is not a subsidiary or affiliate of KKR. KKR Capstone operates under several consulting agreements with KKR and uses the "KKR" name under license from KKR.

Prior to October 1, 2009, KKR's business was conducted through multiple entities for which there was no single holding entity, but were under common control of senior KKR principals, and in which senior principals and KKR's other principals and individuals held ownership interests (collectively, the "Predecessor Owners"). On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR & Co. (Guernsey) L.P. (f/k/a KKR Private Equity Investors, L.P. or "KPE") and, in connection with such acquisition, completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure. The reorganization involved a contribution of certain equity interests in KKR's business that were held by KKR's Predecessor Owners to the KKR

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Group Partnerships in exchange for equity interests in the KKR Group Partnerships held through KKR Holdings. We refer to the acquisition of the assets and liabilities of KPE and to our subsequent reorganization into a holding company structure as the "KPE Transaction."

In this report, the term "GAAP" refers to accounting principles generally accepted in the United States of America.

We disclose certain financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to unitholders in assessing the overall performance of KKR's businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with GAAP if available. We caution readers that these non-GAAP financial measures may differ from the calculations of other investment managers, and as a result, may not be comparable to similar measures presented by other investment managers. Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, where applicable, are included within "Financial Statements and Supplementary Data Note 13. Segment Reporting" and later in this report under "Economic Net Income (Loss)" and "Segment Book Value."

This report uses the terms total distributable earnings, net realized investment income, assets under management or AUM, fee paying assets under management or FPAUM, fee related earnings or FRE, fee and yield earnings, economic net income or ENI, equity invested, gross dollars invested and syndicated capital. You should note that our calculations of these financial measures and other financial measures may differ from the calculations of other investment managers and, as a result, our financial measures may not be comparable to similar measures presented by other investment managers. These and other financial measures are defined in the section "Management's Discussion and Analysis of Financial Condition & Results of Operations Key Financial Measures Segment Operating and Performance Measures" and "Liquidity Liquidity Needs Distributions."

References to "our funds" or "our vehicles" refer to investment funds, vehicles and/or accounts advised, sponsored or managed by one or more subsidiaries of KKR including CLOs, unless context requires otherwise. They do not include investment funds, vehicles or accounts of any hedge fund manager in which we may acquire a non-controlling interest, including Nephila Capital Ltd. or BlackGold Capital Management L.P.

Unless otherwise indicated, references in this report to our fully exchanged and diluted common units outstanding, or to our common units outstanding on a fully exchanged and diluted basis, reflect (i) actual common units outstanding, (ii) common units into which KKR Group Partnership Units not held by us are exchangeable pursuant to the terms of the exchange agreement described in this report, (iii) common units issuable in respect of exchangeable equity securities issued in connection with the acquisition of Avoca Capital ("Avoca"), and (iv) common units issuable pursuant to any equity awards actually issued under the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our "Equity Incentive Plan," but do not reflect common units available for issuance pursuant to our Equity Incentive Plan for which grants have not yet been made.

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PART I

ITEM 1. BUSINESS

Overview

We are a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. We aim to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation in the assets we manage. We invest our own capital alongside the capital we manage for fund investors and bring debt and equity investment opportunities to others through our capital markets business.

Our business offers a broad range of investment management services to our fund investors and provides capital markets services to our firm, our portfolio companies and third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 250 private equity investments in portfolio companies with a total transaction value in excess of \$505 billion. We have grown our firm by expanding our geographical presence and building businesses in new areas, such as credit, special situations, hedge funds, collateralized loan obligations ("CLOs"), capital markets, infrastructure, energy and real estate. These efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on meeting the needs of our existing fund investors and in developing relationships with new investors in our funds.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors in our funds, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

We have also used our balance sheet as a significant source of capital to further grow and expand our business, increase our participation in our existing businesses and further align our interests with those of our fund investors and other stakeholders. The majority of our balance sheet consists of general partner interests in KKR investment funds, limited partner interests in certain KKR investment funds, co-investments in certain portfolio companies of KKR private equity funds and interests in CLOs, corporate loans, debt securities and energy and real estate assets acquired in connection with our acquisition of KKR Financial Holdings on April 30, 2014. Our balance sheet also holds other assets used in the development of our business, including seed capital for new strategies.

As a global investment firm, we earn management, monitoring, transaction and incentive fees for providing investment management, monitoring and other services to our funds, vehicles, CLOs, managed accounts and portfolio companies, and we generate transaction-specific income from capital markets transactions. We earn additional investment income from investing our own capital alongside that of our fund investors and from other balance sheet investments and from the carried interest we receive from our funds and certain of our other investment vehicles. A carried interest entitles the sponsor of a fund to a specified percentage of investment gains that are generated on third-party capital that is invested.

Our investment teams have deep industry knowledge and are supported by a substantial and diversified capital base, an integrated global investment platform, the expertise of operating consultants and senior advisors and a worldwide network of business relationships that provide a significant source of investment opportunities, specialized knowledge during due diligence and substantial resources for creating and realizing value for stakeholders. These teams invest capital, a substantial portion of which

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is of a long duration and not subject to redemption. With over 75% of our fee paying assets under management not subject to redemption for at least 8 years from inception, we have significant flexibility to grow investments and select exit opportunities. We believe that these aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

Our Firm

With offices around the world, we have established ourselves as a leading global investment firm. We have multilingual and multicultural investment teams with local market knowledge and significant business, investment, and operational experience in the countries in which we invest. We believe that our global capabilities have helped us to raise capital, capture a greater number of investment opportunities, and assist our portfolio companies in their increasing reliance on global markets and sourcing, while enabling us to diversify our operations.

Though our operations span multiple continents and asset classes, our investment professionals are supported by an integrated infrastructure and operate under a common set of principles and business practices that are monitored by a variety of committees. The firm operates with a single culture that rewards investment discipline, creativity, determination, and patience and the sharing of information, resources, expertise, and best practices across offices and asset classes. When appropriate, we staff transactions across multiple offices and businesses in order to take advantage of the industry-specific expertise of our investment professionals, and we hold regular meetings in which investment professionals throughout our offices share their knowledge and experiences. We believe that the ability to draw on the local cultural fluency of our investment professionals while maintaining a centralized and integrated global infrastructure distinguishes us from other investment firms and has been a substantial contributing factor to our ability to raise funds, invest internationally and expand our businesses.

Since our inception, one of our fundamental philosophies has been to align the interests of the firm and our principals with the interests of our fund investors, portfolio companies and other stakeholders. We achieve this by putting our own capital behind our ideas. As of December 31, 2014, we and our employees and other personnel have approximately \$12.7 billion invested in or committed to our own funds and portfolio companies, including \$9.3 billion funded through our balance sheet, \$1.2 billion of additional commitments from our balance sheet to investment funds, \$1.6 billion in personal investments and \$0.6 billion of additional commitments from personal investments.

Our Segments

Private Markets

Through our Private Markets segment, we manage and sponsor a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. We also manage and sponsor a group of funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy and real estate. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. As of December 31, 2014, the segment had \$61.5 billion of AUM and FPAUM of \$47.3 billion, consisting of \$38.3 billion in private equity and \$9.0 billion in real assets (including infrastructure, energy and real estate) and other strategies. Prior to 2010, FPAUM in the Private Markets segment consisted entirely of private equity funds.

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Private Markets Assets Under Management(1)
(\$ in billions)

-
- (1) For the years 2006 through 2008, assets under management are presented pro forma for the KPE Transaction, and therefore, exclude the net asset value of KPE and its former commitments to our investment funds.
- (2) As of December 31, 2014, our AUM excluded approximately \$0.3 billion of unallocated commitments from a strategic partnership with a state pension plan, and \$2.8 billion in commitments in connection with other infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees. Such commitments will not contribute to AUM unless and until we are entitled to receive fees or carried interest in accordance with our definition of AUM.

The table below presents information as of December 31, 2014 relating to our current private equity funds and other investment vehicles for which we have the ability to earn carried interest. This

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data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after December 31, 2014.

	Investment Period(1)		Amount						
	Commencement Date	End Date	Commitment(2)	Uncalled Commitments	Percentage Committed by General Partner	Invested	Realized	Remaining Cost(3)	Remaining Fair Value
Private Markets									
Private Equity Funds									
European Fund IV	12/2014	12/2020	\$ 1,609.8	\$ 1,609.8	12.0%	\$	\$	\$	\$
Asian Fund II	4/2013	4/2019	5,825.0	4,065.0	1.3%	1,760.0		1,760.0	2,180.0
North America Fund XI	9/2012	9/2018	8,718.4	4,535.3	2.9%	4,183.1	205.6	4,183.1	5,308.1
China Growth Fund	11/2010	11/2016	1,010.0	507.5	1.0%	502.5	42.4	485.0	540.5
E2 Investors (Annex Fund)	8/2009	11/2013	208.7	12.9	4.6%	195.8	163.1	36.1	152.2
European Fund III	3/2008	3/2014	6,177.4	693.7	4.6%	5,483.7	3,635.6	3,848.3	4,797.3
Asian Fund 2006 Fund	7/2007	4/2013	3,983.3	168.0	2.5%	3,815.3	4,192.9	2,405.3	3,632.2
European Fund II	9/2006	9/2012	17,642.2	553.1	2.1%	17,089.1	13,758.1	9,782.6	15,886.9
Millennium Fund	11/2005	10/2008	5,750.8		2.1%	5,750.8	5,559.5	1,470.3	2,487.2
European Fund	12/2002	12/2008	6,000.0		2.5%	6,000.0	11,342.9	1,318.7	2,288.0
European Fund	12/1999	12/2005	3,085.4		3.2%	3,085.4	8,736.6		40.9
Total Private Equity Funds			60,011.0	12,145.3		47,865.7	47,636.7	25,289.4	37,313.3
Co-Investment Vehicles	Various	Various	3,462.0	786.5	Various	2,675.5	1,034.7	2,356.4	3,058.4
Total Private Equity			63,473.0	12,931.8		50,541.2	48,671.4	27,645.8	40,371.7
Real Assets									
Energy Income and Growth Fund	9/2013	9/2018	1,974.2	1,476.1	12.8%	498.1	78.1	467.0	352.6
Natural Resources Fund	Various	Various	889.5	72.0	Various	817.5	96.6	742.9	273.7
Global Energy Opportunities	Various	Various	1,032.5	909.1	Various	123.4	27.7	118.8	53.5
Infrastructure Fund	9/2011	10/2014	1,040.7	153.1	4.8%	887.6	81.8	887.6	922.0
Infrastructure Fund II	10/2014	10/2020	1,990.7	1,940.3	6.3%	50.4		50.4	47.2
Infrastructure Co-Investments	Various	Various	1,104.5		Various	1,104.5	296.6	1,104.5	1,470.6
Real Estate Partners Americas	5/2013	12/2016	1,330.2	790.0	16.3%	540.2	229.8	438.8	484.0
Real Assets			9,362.3	5,340.6		4,021.7	810.6	3,810.0	3,603.6
Private Markets Total			\$ 72,835.3	\$ 18,272.4		\$ 54,562.9	\$ 49,482.0	\$ 31,455.8	\$ 43,975.3

(1) The commencement date represents the date on which the general partner of the applicable fund commenced investment of the fund's capital or the date of the first closing. The end date represents the earlier of (i) the date on which the general partner of the applicable fund was or will be required by the fund's governing agreement to cease making investments on behalf of the fund, unless extended by a vote of the fund investors, or (ii) the date on which the last investment was made.

(2) The commitment represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on December 31, 2014, in the case of uncalled commitments.

(3)

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The remaining cost represents the initial investment of the general partner and limited partners, with the limited partners' investment reduced for any return of capital and realized gains from which the general partner did not receive a carried interest.

Performance

We take a long-term approach to Private Markets investing and measure the success of our investments over a period of years rather than months. Given the duration of these investments, the firm focuses on realized multiples of invested capital and IRRs when deploying capital in these transactions. We have more than doubled the value of capital that we have invested in our Private Markets investment funds, turning \$67.1 billion of capital into \$137.8 billion of value from our inception in 1976 to December 31, 2014. Over this same period, the value of capital that we have

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invested in our Private Markets investment funds and that has been realized and partially realized has grown from \$39.4 billion to \$106.2 billion

**Amount Invested and Total Value for
Private Markets Investment Funds
As of December 31, 2014**

Total Investments

Realized/Partially Realized Investments

From our inception in 1976 through December 31, 2014, our investment funds with at least 36 months of investment activity generated a cumulative gross IRR of 26.0%, compared to the 11.9% and 9.1% gross IRR achieved by the S&P 500 Index and MSCI World Index, respectively, over the same period, despite the cyclical and sometimes challenging environments in which we have operated. The S&P 500 Index and MSCI World Index are unmanaged indices and our returns assume reinvestment of distributions and do not reflect any fees or expenses. Such past performance, however, may not be representative of performance in any given period. For example, as of March 31, 2009, the date of the lowest aggregate valuation of our private equity funds during the most recent downturn, the investments in certain of our private equity funds at the time were marked down to 67% of original cost. For additional information regarding impact of market conditions on the value and performance of our investments, see "Risk Factors Risks Related to Our Business Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition." and " Risks Related to the Assets We Manage The historical returns attributable to our funds, including those presented in this report, should not be considered as indicative of the future results of our funds or of our future results or of any returns on our common units."

The tables below present information as of December 31, 2014 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. The information presented under Total Investments includes all of the investments made by the specified investment vehicle, while the information presented under Realized/Partially Realized Investments includes only those investments for which realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. This data does not reflect additional capital raised since December 31, 2014 or

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acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is no guarantee of future results.

Private Markets Investment Funds	Amount		Fair Value of Investments		Total Value	Gross IRR*	Net IRR*	Multiple of Invested Capital**
	Commitment	Invested	Realized	Unrealized				
(\$ in millions)								
Total Investments								
<i>Legacy Funds(1)</i>								
1976	\$ 31.4	\$ 31.4	\$ 537.2	\$	\$ 537.2	39.5%	35.5%	17.1
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.5%	28.9%	6.0
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1
1996	6,011.6	6,011.6	12,476.9		12,476.9	18.0%	13.3%	2.1
Subtotal Legacy Funds	16,474.5	16,474.5	50,269.3		50,269.3	26.1%	19.9%	3.1
<i>Included Funds</i>								
European Fund (1999)(2)	3,085.4	3,085.4	8,736.6	40.9	8,777.5	27.0%	20.3%	2.8
Millennium Fund (2002)	6,000.0	6,000.0	11,342.9	2,288.0	13,630.9	22.3%	16.3%	2.3
European Fund II (2005)(2)	5,750.8	5,750.8	5,559.5	2,487.2	8,046.7	5.6%	3.9%	1.4
2006 Fund (2006)	17,642.2	17,089.1	13,758.1	15,886.9	29,645.0	11.5%	8.7%	1.7
Asian Fund (2007)	3,983.3	3,815.3	4,192.9	3,632.2	7,825.1	20.1%	14.6%	2.1
European Fund III (2008)(2)	6,177.4	5,483.7	3,635.6	4,797.3	8,432.9	15.9%	9.9%	1.5
E2 Investors (Annex Fund) (2009)(2)	208.7	195.8	163.1	152.2	315.3	14.1%	11.8%	1.6
China Growth Fund (2010)	1,010.0	502.5	42.4	540.5	582.9	6.6%	0.2%	1.2
Natural Resources Fund (2010)	889.5	817.5	96.6	273.7	370.3	49.2%	52.5%	0.5
Infrastructure Fund (2011)	1,040.7	887.6	81.8	922.0	1,003.8	8.0%	6.7%	1.1
North America Fund XI (2012)(3)	8,718.4	4,183.1	205.6	5,308.1	5,513.7	N/A	N/A	N/A
Asian Fund II (2013)(3)	5,825.0	1,760.0		2,180.0	2,180.0	N/A	N/A	N/A
Real Estate Partners Americas (2013)(3)	1,330.2	540.2	229.8	484.0	713.8	N/A	N/A	N/A
Energy Income and Growth Fund (2013)(3)	1,974.2	498.1	78.1	352.6	430.7	N/A	N/A	N/A
Infrastructure Fund II (2014)(3)	1,990.7	50.4		47.2	47.2	N/A	N/A	N/A
European Fund IV (2014)(2)(3)	1,609.8					N/A	N/A	N/A
Subtotal Included Funds	67,236.3	50,659.5	48,123.0	39,392.8	87,515.8	15.2%	11.0%	1.7
All Funds	\$ 83,710.8	\$ 67,134.0	\$ 98,392.3	\$ 39,392.8	\$ 137,785.1	26.0%	19.2%	2.1

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Private Markets Investment Funds	Amount		Fair Value of Investments		Total Value	Gross IRR*	Net IRR*	Multiple of Invested Capital**
	Commitment	Invested	Realized	Unrealized				
(\$ in millions)								
Realized/Partially Realized Investments(4)								
<i>Legacy Funds(1)</i>								
1976	\$ 31.4	\$ 31.4	\$ 537.2	\$	\$ 537.2	39.5%	35.5%	17.1
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.5%	28.9%	6.0
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1
1996	6,011.6	6,011.6	12,476.9		12,476.9	18.0%	13.3%	2.1
Subtotal Legacy Funds	16,474.5	16,474.5	50,269.3		50,269.3	26.1%	19.9%	3.1
<i>Included Funds</i>								
European Fund (1999)(2)	3,085.4	3,085.4	8,736.6	40.9	8,777.5	27.0%	20.3%	2.8
Millennium Fund (2002)	6,000.0	4,518.2	10,934.1	1,479.8	12,413.9	33.5%	25.9%	2.7
European Fund II (2005)(2)	5,750.8	5,096.8	5,559.5	2,487.2	8,046.7	7.6%	6.4%	1.6
2006 Fund (2006)	17,642.2	5,273.5	12,903.7	3,605.1	16,508.8	25.5%	23.1%	3.1
Asian Fund (2007)	3,983.3	1,657.7	4,059.6	612.6	4,672.2	27.8%	24.3%	2.8
European Fund III (2008)(2)	6,177.4	2,150.2	3,547.8	949.3	4,497.1	20.9%	17.7%	2.1
E2 Investors (Annex Fund) (2009)(2)	208.7	67.5	163.1	23.2	186.3	26.3%	25.8%	2.8
China Growth Fund (2010)	1,010.0	17.5	28.5		28.5	33.5%	33.5%	1.6
Natural Resources Fund (2010)	889.5	817.5	96.6	273.7	370.3	49.2%	52.5%	0.5
Infrastructure Fund (2011)	1,040.7	28.1	26.5	46.3	72.8	60.6%	60.6%	2.6
North America Fund XI (2012)(4)	8,718.4							
Asian Fund II (2013)(4)	5,825.0							
Real Estate Partners Americas (2013)	1,330.2	229.4	221.4	137.8	359.2	64.4%	54.9%	1.6
Energy Income and Growth Fund (2013)(4)	1,974.2							
Infrastructure Fund II (2014)(4)	1,990.7							
European Fund IV (2014)(4)	1,609.8							
Subtotal Included Funds	67,236.3	22,941.8	46,277.4	9,655.9	55,933.3	23.3%	19.5%	2.4
All Realized/Partially Realized Investments								
	\$ 83,710.8	\$ 39,416.3	\$ 96,546.7	\$ 9,655.9	\$ 106,202.6	26.0%	21.1%	2.7

(1) These funds were not contributed to KKR as part of the KPE Transaction.

(2) The capital commitments of the European Fund, European Fund II, European Fund III, E2 Investors (Annex Fund) and European Fund IV include euro-denominated commitments of €196.5 million, €2,597.5 million, €2,882.8 million, €55.5 million and €953.8 million,

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respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on December 31, 2014 in the case of unfunded commitments.

- (3) The gross IRR, net IRR and multiple of invested capital are calculated for our investment funds that have invested for at least 36 months prior to December 31, 2014. None of the North America Fund XI, Asian Fund II, Real Estate Partners Americas, Energy Income and Growth Fund, Infrastructure Fund II or European Fund IV have invested for at least 36 months as of December 31, 2014. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.
- (4) Investments are considered partially realized when realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. None of the North America Fund XI, Asian Fund II, Energy Income and Growth Fund, Infrastructure Fund II or European Fund IV have realized a material portion of invested

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capital. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to the investments of those funds.

*

IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs presented under Total Investments are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Net IRRs presented under Realized/Partially Realized Investments are calculated after giving effect to the allocation of realized and unrealized carried interest, but before payment of any applicable management fees as management fees are applied to funds, not investments. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees. Existing KKR private equity funds may utilize financing facilities in connection with the management of capital calls to provide liquidity to such funds and may temporarily provide debt or equity financing to companies to facilitate permanent investments therein by such fund, or bridge financing. The principal amount of a bridge financing returned within 18 months is considered recyclable capital which is restored to the unused commitments of the investors in the relevant fund, and the interest paid thereon is distributed pro rata. If a bridge financing is not refunded within 18 months, it is considered to be a permanent investment in the company from the date of the original investment. In addition, commencing with KKR European Fund II, any portion of a permanent investment returned within 13 months or 18 months for some of our newer funds is considered recyclable capital and is restored to the unused commitments of the investors in the relevant fund. For the purposes of calculating the internal rates of return and multiples of invested capital herein, recyclable capital (both principal repaid for bridge financings and permanent investments returned within 13 or 18 months, as applicable) and any related interest income has been disregarded.

**

The multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees.

For more information, see "Risk Factors Risks Related to the Assets We Manage The historical returns attributable to our funds, including those presented in this report, should not be considered as indicative of the future results of our funds or of our future results or of any returns on our common units."

Private Equity

We are a world leader in private equity, having raised 19 funds with approximately \$76.5 billion of capital commitments through December 31, 2014. We invest in industry-leading franchises and attract world-class management teams. Our investment approach leverages our capital base, sourcing advantage, global network and industry knowledge. It also leverages a sizeable team of operating consultants, who work exclusively with our investment professionals and portfolio company management teams and otherwise at our direction, as well as senior advisors, many of whom are former chief executive officers and leaders of the business community.

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Portfolio

The following chart presents information concerning the amount of capital invested by private equity funds by geography through December 31, 2014. We believe that this data illustrates the benefits of our business approach and our ability to source and invest in deals in multiple geographies.

**Dollars Invested by Geography
(European Fund and Subsequent Funds
as of December 31, 2014)**

Our current private equity portfolio consists of over 90 companies with approximately \$200 billion of annual revenues. These companies are headquartered in 21 countries and operate in 18 general industries which take advantage of our broad and deep industry and operating expertise. Many of these companies are leading franchises with global operations, strong management teams and attractive growth prospects, which we believe will provide benefits through a broad range of business conditions.

Investment Approach

Our approach to making private equity investments focuses on achieving multiples of invested capital and attractive risk-adjusted IRRs by selecting high- quality investments that may be made at attractive prices, applying rigorous standards of due diligence when making investment decisions, implementing strategic and operational changes that drive growth and value creation in acquired businesses, carefully monitoring investments, and making informed decisions when developing investment exit strategies.

We believe that we have achieved a leading position in the private equity industry by applying a disciplined investment approach and by building strong partnerships with highly motivated management teams who put their own capital at risk. When making private equity investments, we seek out strong business franchises, attractive growth prospects, leading market positions, and the ability to generate attractive returns. In our private equity funds, we do not effect transactions that are "hostile", meaning a target company's board of directors makes an unfavorable recommendation with respect to the transaction or publicly opposes the consummation of the transaction.

Sourcing and Selecting Investments

We have access to significant opportunities for making private equity investments as a result of our sizeable capital base, global platform, and relationships with leading executives from major companies, commercial and investment banks, and other investment and advisory institutions. Members of our global network contact us with new investment opportunities, including a substantial number of exclusive investment opportunities and opportunities that are made available to only a limited number of other firms. We also proactively pursue business development strategies that are designed to

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generate deals internally based on the depth of our industry knowledge and our reputation as a leading financial sponsor.

To enhance our ability to identify and consummate private equity investments, we have organized our investment professionals in industry-specific teams. Our industry teams work closely with our operating consultants and other advisors to identify businesses that can be grown and improved. These teams conduct their own primary research, develop a list of industry themes and trends, identify companies and assets in need of operational improvement, and seek out businesses and assets that they believe will benefit from our involvement. They possess a detailed understanding of the economic drivers, opportunities for value creation, and strategies that can be designed and implemented to improve companies across the industries in which we invest.

Due Diligence and the Investment Decision

When an investment team determines that an investment proposal is worth consideration, the proposal is formally presented to the applicable regional investment committee and the due diligence process commences if appropriate. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational improvement and value creation. When conducting due diligence, investment teams evaluate a number of important business, financial, tax, accounting, environmental, social, governance, legal and regulatory issues in order to determine whether an investment is suitable. While the due diligence process differs depending on the type of investment we make, generally, in connection with the private equity due diligence process, investment professionals spend significant amounts of time meeting with a company's management and operating personnel, visiting plants and facilities, and where appropriate, speaking with other stakeholders interested in and impacted by the investment in order to understand the opportunities and risks associated with the proposed investment. Our investment professionals may also use the services of outside accountants, consultants, lawyers, investment banks, and industry experts as appropriate to assist them in this process. Investment committees monitor all due diligence practices, and the applicable investment committee must approve an investment before it may be made.

Building Successful and Competitive Businesses

Portfolio management committees are responsible for working with our investment professionals from the date on which a private equity investment is made until the time it is exited in order to ensure that strategic and operational objectives are accomplished and that the performance of the investment is closely monitored. When investing in a private equity portfolio company, we partner with management teams to execute on our investment thesis, and we rigorously track performance through regular monitoring of detailed operational and financial metrics as well as appropriate environmental, social and governance issues. We have developed a global network of experienced managers and operating executives who assist the private equity portfolio companies in making operational improvements and achieving growth. We augment these resources with operational guidance from operating consultants at KKR Capstone, senior advisors, and investment teams, and with "100-Day Plans" that focus the firm's efforts and drive our strategies. We seek to emphasize efficient capital management, top-line growth, R&D spending, geographical expansion, cost optimization, and investment for the long-term.

Realizing Investments

We have developed substantial expertise for realizing private equity investments. From our inception through December 31, 2014, the firm has generated approximately \$98.4 billion of cash proceeds from the sale of our private equity portfolio companies in initial public offerings and secondary offerings, dividends, and sales to strategic buyers. When exiting private equity investments,

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our objective is to structure the exit in a manner that optimizes returns for fund investors and, in the case of publicly traded companies, minimizes the impact that the exit has on the trading price of the company's securities. We believe that our ability to successfully realize investments is attributable in part to the strength and discipline of our portfolio management committees and capital markets business, as well as the firm's longstanding relationships with corporate buyers and members of the investment banking and investing communities.

Private Equity Fund Structures

The private equity funds that we sponsor and manage have finite lives and investment periods. Each fund is organized as one or more partnerships, and each partnership is controlled by a general partner. Private equity fund investors are limited partners who agree to contribute a specified amount of capital to the fund from time to time for use in qualifying investments during the investment period, which generally lasts up to six years depending on how quickly capital is deployed. The investment period for certain funds may be terminated upon supermajority vote (based on capital commitment) of the fund's limited partners or by the fund's advisory committee. The term of our private equity funds generally last for 10 to 12 years and may last up to 15 years from the date of the fund's first or last investment, subject to a limited number of extensions with the consent of the limited partners or the applicable advisory committee. Given the length of the investment periods and terms of our private equity funds and the limited conditions under which such periods can be terminated and commitments may be withdrawn, the AUM of our private equity funds provide a long-term stable capital base.

Each private equity fund's general partner is generally entitled to a carried interest that allocates to it 20% of the net profits realized by the limited partners from the fund's investments. Our newer private equity funds, the North America Fund XI, Asian Fund II and European Fund IV have a performance hurdle which requires that we return 7%, compounded annually, to limited partners in the fund prior to receiving our 20% share of net profits realized by limited partners. Such performance hurdles are subject to a catch-up allocation to the general partner after the hurdle has been reached. Our earlier private equity funds do not include a performance hurdle. The timing of receipt of carried interest in respect of investments of our carry funds is dictated by the terms of the partnership agreements that govern such funds, and is distributed to the general partner of a private equity fund only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund investors in an amount sufficient to reduce remaining cost to the investments' fair value. For a fund that has a fair value above cost, overall, but has one or more investments where fair value is below cost, the shortfall between cost and fair value for such investments is referred to as a "netting hole." See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity Sources of Liquidity" for a discussion of netting holes. Net realized profit or loss is not netted between or among funds except for the Annex Fund as discussed below under "Other Private Equity Investment Vehicles E2 Investors (Annex Fund)". In addition, the agreements governing KKR's private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to fund investors at the end of the life of the fund. Our newer private equity funds do not have a net loss sharing provision. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Clawback Provision", "Management's Discussion and Analysis of Financial Condition Critical Accounting Policies Net Loss Sharing Provision" and "Risk Factors The "clawback" or "net loss sharing" provisions in our governing agreements may give rise to a contingent obligation that may require us to return or contribute amounts to our funds and fund investors."

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We enter into management agreements with our private equity funds pursuant to which we receive management fees in exchange for providing the funds with management and other services. Gross management fees for our private equity funds generally range from 1% to 2% of committed capital during the fund's investment period and is generally 0.75% to 1.25% of invested capital after the expiration of the fund's investment period with subsequent reductions over time, which causes the fees to be reduced as investments are liquidated. These management fees are paid by private equity fund investors, who generally contribute capital to the fund in order to allow the fund to pay the fees to us. Our private equity funds generally require that management fees be returned to fund investors before a carried interest may be paid.

We also enter into monitoring agreements with our portfolio companies pursuant to which we receive periodic monitoring fees in exchange for providing them with management, consulting, and other services, and we typically receive transaction fees for providing portfolio companies with financial, advisory and other services in connection with specific transactions. Monitoring fees may provide for a termination payment following an initial public offering or change of control. In some cases, we may be entitled to other fees that are paid by an investment target upon closing a transaction or when a potential investment is not consummated. Our private equity fund agreements typically require us to share 80% to 100% of any monitoring, transaction and other fees that are allocable to a fund (after reduction for expenses incurred allocable to a fund from unconsummated transactions) with fund investors.

In addition, the agreements governing our private equity funds enable investors in those funds to reduce their capital commitments available for further investments, on an investor-by-investor basis, in the event certain "key persons" (for example, both of Messrs. Kravis and Roberts, and, in the case of certain geographically or product focused funds, one or more of the investment professionals focused on such funds) cease to be actively involved in the management of the fund. While these provisions do not allow investors in our funds to withdraw capital that has been invested or cause a fund to terminate, the occurrence of a "key man" event could cause disruption in our business, reduce the amount of capital that we have available for future investments, and make it more challenging to raise additional capital in the future.

Because private equity fund investors typically are unwilling to invest their capital in a fund unless the fund's manager also invests its own capital in the fund's investments, our private equity fund documents generally require the general partners of the funds to make minimum capital commitments to the funds. The amounts of these commitments, which are negotiated by fund investors, generally range from 2% to 4% of a fund's total capital commitments at final closing, but may be greater for certain funds pursuing newer strategies. When investments are made, the general partner contributes capital to the fund based on its fund commitment percentage and acquires a capital interest in the investment that is not subject to a carried interest or management fees.

Other Private Equity Investment Vehicles

E2 Investors (Annex Fund). We established the Annex Fund in 2009 to enable fund investors in the European Fund II and the Millennium Fund to make additional investments in portfolio companies of the European Fund II, which had already been fully invested. This fund has several features that distinguish it from our other private equity funds, including: (i) it does not pay a management fee to us; (ii) its general partner is only entitled to a carried interest after netting any losses, costs, and expenses relating to European Fund II and certain Millennium Fund investments from the profits of the Annex Fund investments; and (iii) no transaction or incremental monitoring fees are charged in connection with investments in which the Annex Fund participates. The Annex Fund reached the end of its investment period in November 2013.

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Other Private Equity Products. We have offered significant co-investment opportunities to both fund investors and other third parties. We have built out our capital markets and distribution capabilities and created new investment structures and products that allow us to syndicate a portion of the equity needed to finance acquisitions. These structures include co-investment vehicles and a principal-protected private equity product, which generally entitles the firm to receive management fees and/or a carried interest. In addition, we manage certain separately managed accounts in the form of separate investment vehicles based on terms that are separately negotiated with investors in those vehicles. We have also launched multi-strategy products, which invest in our funds, co-investment vehicles and external funds.

Real Assets

Energy

In 2010 we launched our first dedicated energy fund, the KKR Natural Resources Fund, which seeks to acquire and operate oil and natural gas properties in mature basins located primarily in the United States. In acquiring these properties, which are typically considered to be non-core by their sellers, we seek to generate value through optimizing production around the acquired properties (via workovers and other operational initiatives), reducing operating costs, and optimizing commercial and marketing arrangements.

Since the launch of the KKR Natural Resources Fund, we have invested in our capabilities, both with respect to our team of investment professionals and our relationships with technical partners. With these capabilities, we have expanded our energy strategy to target real asset investment opportunities across the upstream and midstream segments of the oil and gas industry. As part of this effort, we have completed investments in oil and gas drilling development transactions with operating companies and have also acquired mineral and royalty interests. We invest in various of these energy strategies through our newest energy fund, the KKR Energy Income and Growth Fund. As of December 31, 2014, we have received \$2.9 billion of capital commitments to our energy funds and \$1.0 billion of capital commitments to this strategy through separately managed accounts.

Our energy business aims to deliver current returns to fund investors through distributions generated by producing and selling oil and natural gas reserves and providing fund investors with exposure to commodity prices and the optionality of future drilling and production. We work closely with external teams of technical and operational experts to assist in the selection, evaluation and operation of investments.

Infrastructure

We manage investments in infrastructure assets and began investing through our first dedicated infrastructure fund, KKR Global Infrastructure Investors L.P., in 2011. We believe that the global infrastructure market provides an opportunity for the firm's combination of private investment, operational improvement and stakeholder engagement skills. This strategy seeks to achieve returns including current income through the acquisition and operational improvement of assets important to the functioning of the economy. Through this strategy we have made investments in parking, alternative energy, district heating and contracted electricity generation, water and wastewater and telecommunications infrastructure. As of December 31, 2014, we had received \$3.0 billion of capital commitments to our infrastructure funds and \$1.1 billion of capital commitments to this strategy through separately managed accounts and co-investment vehicles.

Real Estate

The firm developed a dedicated real estate strategy beginning in 2011 using our own seed capital. We launched our first dedicated real estate fund, KKR Real Estate Partners Americas, in 2013. We are

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also using seed capital to pursue real estate investments in Western Europe. In addition, we have the flexibility to invest in real estate transactions across the capital structure through various vehicles, including our private equity and alternative credit funds. This platform targets real estate opportunities, including direct investments in real property, debt, special situations transactions and businesses with significant real estate holdings that can benefit from KKR's operational expertise. We seek to partner with real estate owners, lenders, operators, and developers to provide flexible capital to respond to transaction specific needs, including the outright purchase or financing of existing assets or companies and the funding of future development or acquisition opportunities. Through this strategy, we have made real estate investments in residential and commercial assets. As of December 31, 2014, we have received \$1.3 billion of capital commitments through our real estate fund.

Real Asset Investment Process

Our energy, infrastructure and real estate funds have a similar investment process as that described under " Private Equity." Investment teams for a particular real asset strategy formally present investments to the applicable strategy oriented investment committee, which monitors all due diligence practices and must approve an investment before it may be made. Each of our real asset strategies also has a portfolio management committee that works with our investment professionals from the date on which an investment is made until the time it is exited in order to ensure that strategic and operational objectives are accomplished and that the performance of the investment is closely monitored. In addition to leveraging the resources of the firm, our energy and real estate investment teams partner with technical experts and operators to manage our real asset investments.

Real Asset Fund Structures

Our energy, infrastructure and real estate funds generally have investment periods of up to 6 years and generally have a fund term of up to 13 years. Management fees for such funds range from 0.75% to 1.5% on commitments, invested capital or net asset value during the investment period and on invested capital or net asset value for investments thereafter, subject to certain adjustments. These funds generally have performance hurdles of 8% to 10% subject to a catch-up allocation to the general partner after the hurdle has been reached. Thereafter the general partners of such funds generally share in 10% to 20% of net profits realized by limited partners.

Public Markets

We operate and report our combined credit and hedge funds businesses through the Public Markets segment. Our credit business advises funds, CLOs, separately managed accounts, and investment companies registered under the Investment Company Act, including a business development company or BDC, undertakings for collective investment in transferable securities or UCITS, and alternative investments funds or AIFs, which invest capital in (i) leveraged credit strategies, such as leveraged loans, high yield bonds and opportunistic credit, and (ii) alternative credit strategies such as mezzanine investments, direct lending investments, special situations investments and long/short credit investment strategies. The funds, accounts, registered investment companies and CLOs in our leveraged credit and alternative credit strategies are managed by KKR Credit Advisors (US) LLC (formerly known as KKR Asset Management LLC), which is an SEC-registered investment adviser, KKR Credit Advisors (Ireland), regulated by the Central Bank of Ireland, and KKR Credit Advisors (UK), regulated by the United Kingdom Financial Conduct Authority, or FCA. KKR Credit Advisors (Ireland) and KKR Credit Advisors (UK) (formerly known collectively as Avoca Capital) were acquired by KKR on February 19, 2014. Our Public Markets segment also includes our hedge funds business that offers a variety of investment strategies including customized hedge fund portfolios, hedge fund-of-fund solutions and acquiring stakes in or seeding hedge fund managers. The funds and

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accounts in our hedge fund business are managed by Prisma Capital Partners LP (KKR Prisma or Prisma), an SEC-registered investment adviser.

In our hedge funds stakes and seeding business, we have a 24.9% interest in Nephila Capital Ltd., or Nephila, an investment manager focused on investing in natural catastrophe and weather risk, and a 24.9% interest in BlackGold Capital Management L.P., or BlackGold, a credit-oriented investment manager focused on investing in energy and hard asset investments.

We intend to continue to grow the Public Markets business by leveraging our global investment platform, experienced investment professionals and the ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at various levels of the capital structure and across market cycles.

As of December 31, 2014, this segment had \$37.1 billion of AUM, comprised of \$17.5 billion of assets managed in our leveraged credit strategies, \$8.7 billion of assets managed in our alternative credit strategies \$10.2 billion of assets managed in our hedge fund solutions strategies and \$0.7 billion of assets managed in other strategies. Our alternative credit investments include \$1.8 billion of assets managed in our mezzanine strategy, \$2.4 billion of assets managed in our direct lending strategy, \$3.5 billion of assets managed in our special situations strategies and \$1.0 billion of assets managed in our long/short credit strategy. The following chart presents the growth in the AUM of our Public Markets segment from the commencement of its operations in August 2004 through December 31, 2014.

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Public Markets Assets Under Management(1)

(\$ in billions)

-
- (1) For years 2006 through 2008, assets under management are presented pro forma for the KPE Transaction and, therefore, exclude the net asset value of KPE and its former commitments to our investment funds. Assets under management of KKR Prisma and Avoca are included in the years on and after the completion of the respective acquisitions. In addition, assets managed by entities in which we hold a minority interest, such as Nephila and BlackGold, are not included.

Credit

Performance

We generally review our performance in our credit business by investment strategy. Our leveraged credit strategies principally invest in leveraged loans and high yield bonds, or a combination of both. In certain cases these strategies have meaningful track records and may be compared to widely-known indices. The following table presents information regarding larger leveraged credit strategies managed by KKR from inception to December 31, 2014. Past performance is no guarantee of future results.

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Leveraged Credit Strategies: Inception-to-Date Annualized Gross Performance vs. Benchmark by Strategy

(\$ in millions)	Inception Date	AUM	Gross Returns	Net Returns	Benchmark(1)	Benchmark Gross Returns
Bank Loans Plus High Yield(2)	Jul 2008	\$ 3,401	9.33%	8.65%	65% S&P/ LSTA, 35% BoAML HY Master II Index(3)	6.97%
Opportunistic Credit	May 2008	1,308	14.24%	12.08%	BoAML HY Master II Index(4)	8.82%
Bank Loans(2)	Apr 2011	2,237	5.29%	4.66%	S&P/ LSTA Loan Index(5)	4.09%
High Yield(2)	Apr 2011	1,099	7.47%	6.89%	BoAML HY Master II Index(6)	6.77%
Bank Loans Conservative	Apr 2011	958	4.77%	4.15%	S&P/ LSTA BB-B Loan Index(7)	4.05%
European Securitised Loans(8)	Mar 2004	1,441	4.85%	4.05%	S&P European Leveraged Loan Index(9)	4.44%
European Leveraged Loans(8)	Sep 2009	1,665	6.23%	5.70%	CS Inst West European Leveraged Loan Index(10)	5.09%

- (1) The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the "S&P/LSTA Loan Index"), the Bank of America Merrill Lynch High Yield Master II Index (the "BoAML HY Master II Index"), the S&P European Leveraged Loan Index (the "ELLI") and Credit Suisse Institutional Western European Leveraged Loan Index (the "CS Inst European Leveraged Loan Index"). The S&P/LSTA Loan Index is an index that comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: (i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; (ii) secured; (iii) U.S. dollar denominated; (iv) minimum term of one year at inception; and (v) minimum initial spread of LIBOR plus 1.25%. The BoAML HY Master II Index is a market value weighted index of below investment grade U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BoAML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US\$100 million. In addition, issuers having a credit rating lower than BBB3, but not in default, are also included. The ELLI is based upon Euro denominated facilities. The index reflects the market-weighted performance of institutional leveraged loan portfolios investing in European credits. All the index components are loans syndicated to European loan investors. The ELLI series uses real-time market weightings, spreads and interest payments. The Index was calculated monthly from January 1, 2002 to January 1, 2004; then weekly until May 2, 2013, and is currently calculated daily. The CS Inst European Leveraged Loan Index contains only institutional loan facilities priced above 90, excluding TL and TLA facilities and loans rated CC, C or in default. It is designed to more closely reflect the investment criteria of institutional investors. While the returns of these strategies reflect the reinvestment of income and dividends, none of the indices presented in the chart above reflect such reinvestment, which has the effect of increasing the reported relative performance of these strategies as compared to the indices. Furthermore, these indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.
- (2) The AUM of the Bank Loans Plus High Yield strategy is also included in the AUM of the High Yield strategy and the AUM of the Bank Loans strategy.
- (3) Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The Benchmark used for purposes of comparison for the Bank Loans Plus High Yield strategy is based on 65% S&P/LSTA Loan Index and 35% BoAML HY Master II Index.
- (4) The Opportunistic Credit strategy invests in high yield securities and corporate loans with no preset allocation. The Benchmark used for purposes of comparison for the Opportunistic Credit strategy presented herein is based on the BoAML HY Master II Index.

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- (5) Performance is based on a composite of portfolios that primarily invest in leveraged loans. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA Loan Index.
- (6) Performance is based on a composite of portfolios that primarily invest in high yield securities. The Benchmark used for purposes of comparison for the High Yield strategy is based on the BoAML HY Master II Index.
- (7) Performance is based on a composite of portfolios that primarily invest in leveraged loans rated B-/Baa3 or higher. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA BB/B Loan Index.
- (8) The AUM amounts reflected have been converted to U.S. dollars based on the exchange rate prevailing on December 31, 2014. The returns presented are calculated based on local currency.
- (9) Performance is based on a composite of portfolios that primarily invest in CLOs. The Benchmark used for purposes of comparison for the European Securitized Loans strategy is based on the S&P European Leveraged Loan Index.
- (10) Performance is based on a composite of portfolios that primarily invest in higher quality leveraged loans. The Benchmark used for purposes of comparison for the European Senior Loans strategy is based on the CS Inst West European Leveraged Loan Index.

Our alternative credit strategies primarily invest in more illiquid instruments through private investment funds. The following table presents information regarding our Public Markets alternative credit vehicles where investors are subject to capital commitments from inception to December 31, 2014. Our other alternative credit strategies have begun investing more recently and therefore have not yet developed meaningful track records, and thus their performance is not included below. Past performance is no guarantee of future results.

Alternative Credit Strategies: Fund Performance

Public Markets Investment Funds	Inception Date	Amount		Fair Value of Investments			Gross IRR*	Net IRR*	Multiple of Invested Capital**	
		Commitment	Investment	Realized Value	Unrealized Value	Total Value				
		(\$ in Millions)								
Special Situations Fund	Dec-12	\$ 2,017.9	\$ 1,813.3	\$ 53.5	\$ 2,096.3	\$ 2,149.8	22.6%	14.7%	1.2	
Mezzanine Partners	Mar-10	1,022.8	753.8	248.2	759.3	1,007.5	16.9%	10.2%	1.3	
Lending Partners	Dec-11	414.3	414.3	93.0	412.6	505.6	12.5%	10.1%	1.2	
Lending Partners II	Jun-14	1,046.4	517.3		522.2	522.2	n/a	n/a	n/a	
All Funds		\$ 4,501.4	\$ 3,498.7	\$ 394.7	\$ 3,790.4	\$ 4,185.1			1.2	

*

IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs presented are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

**

The multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner.

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pursuant to a carried interest or the payment of any applicable management fees.

Such past performance may not be representative of performance in any given period. For additional information regarding impact of market conditions on the value and performance of our investments, see "Risk Factors Risks Related to Our Business Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial

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condition." and " Risks Related to the Assets We Manage The historical returns attributable to our funds, including those presented in this report, should not be considered as indicative of the future results of our funds or of our future results or of any returns on our common units."

Investment Approach

Our approach to making investments focuses on creating investment portfolios that seek to generate attractive risk-adjusted returns by selecting investments that may be made at attractive prices, subjecting investments to regular monitoring and oversight, and, for more liquid investments, making buy and sell decisions based on price targets and relative value parameters. The firm employs both "top-down" and "bottom-up" analyses when making investments. Our top-down analysis involves, as appropriate, a macro analysis of relative asset valuations, long-term industry trends, business cycles, regulatory trends, interest rate expectations, credit fundamentals and technical factors to target specific industry sectors and asset classes in which to invest. From a bottom-up perspective, our investment decision is predicated on an investment thesis that is developed using our proprietary resources and knowledge and due diligence.

Sourcing and Selecting Investments

We source investment opportunities through a variety of channels, including internal deal generation strategies and the firm's global network of contacts at major companies, corporate executives, commercial and investment banks, financial intermediaries, other private equity sponsors and other investment and advisory institutions. We are also provided with opportunities to invest in certain strategies, where appropriate, in the securities of KKR's private equity portfolio companies, though there are limitations across the platform on the maximum size of such KKR-affiliated investments.

Due Diligence and the Investment Decision

Once a potential investment has been identified, our investment professionals screen the opportunity and make a preliminary determination concerning whether we should proceed with further diligence. When evaluating the suitability of an investment for our funds, we typically employ a relative value framework and subject the investment to due diligence. This review considers, as appropriate, expected returns, capital structure, credit ratings, historical and projected financial data, the issuer's competitive position, the quality and track record of the issuer's management team, margin stability, and industry and company trends. Investment professionals use the services of outside advisors and industry experts as appropriate to assist them in the due diligence process and, when relevant and permitted, leverage the knowledge and experience of our Private Markets investment professionals. Strategy-specific investment committees monitor all due diligence practices.

Monitoring Investments

We monitor our portfolios of investments using, as applicable, daily, quarterly and annual analyses. Daily analyses include morning market meetings, industry and company pricing runs, industry and company reports and discussions with the firm's private equity investment professionals on an as-needed basis. Quarterly analyses include the preparation of quarterly operating results, reconciliations of actual results to projections and updates to financial models (baseline and stress cases). Annual analyses involve conducting internal audits, and testing compliance with monitoring and documentation requirements.

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Credit Strategies and Vehicles

KFN

KKR Financial Holdings LLC, or KFN, is a specialty finance company that through its majority-owned subsidiaries finances and invests in financial assets. On April 30, 2014, KKR completed its acquisition of KFN pursuant to a merger agreement at which time KFN's common shares were delisted from the New York Stock Exchange and KFN became a subsidiary of KKR. While KFN has historically formed part of our Public Markets business, subsequent to the merger, on a segment basis, the financial results of KFN are included within each of the Private Markets segment, Public Markets segment and Capital Markets and Other segment, based on the character of each asset of KFN. The majority of KFN's holdings consist of corporate loans and high yield debt securities held in CLO transactions that are structured as on-balance sheet securitizations and are used as long term financing for its investments in corporate debt. The corporate loans held by KFN are typically purchased via assignment or participation in the primary or secondary market. Additionally, KFN, through its subsidiaries has made additional investments in other asset classes including energy, specialty finance and real estate.

Credit Strategies

Our credit strategies business pursues investments in debt securities ranging from liquid securities such as leveraged loans and high-yield bonds to alternative credit including longer-duration strategies such as mezzanine, special situations and direct lending. These investments may be made across a range of vehicles including funds, single- or cross-strategy separately managed accounts and BDCs. These managed accounts enable us to tailor an investment program to meet the specific risk, return and investment objective of investors in our funds.

Leveraged Credit. Our leveraged credit strategies are principally directed at investing in leveraged loans, high-yield bonds or a combination of both. Our opportunistic credit strategy seeks to deploy capital across investment themes that take advantage of credit market dislocations, spanning asset types and liquidity profiles. These leveraged credit strategies are pursued primarily through separately managed accounts and registered investment companies, with a smaller amount of capital residing in funds. We are entitled to receive a fee for managing these vehicles.

Structured Credit Vehicles. We manage structured credit vehicles in the form of collateralized loan obligation transactions, or CLOs. CLOs are typically structured as bankruptcy-remote, special purpose investment vehicles which acquire, monitor and, to varying degrees, manage a pool of credit assets. The CLOs serve as long term financing for credit investments and as a way to minimize refinancing risk, minimize maturity risk and secure a fixed cost of funds over an underlying market interest rate. We may receive a fee for managing certain CLOs.

Alternative Credit. Our alternative credit strategies leverage the knowledge and relationships developed in the leveraged credit business. These strategies include private credit strategies such as mezzanine and distressed investing and special situations strategies. As with our leveraged credit strategy, these are pursued through a combination of separately managed accounts, a BDC and funds. For managing these accounts and funds, we are entitled to receive either fees or a combination of fees and carried interest.

Direct Lending. We manage investments in proprietarily sourced primarily senior debt financings for middle-market companies through our direct lending strategy. We closed our first dedicated direct lending fund, KKR Lending Partners L.P. in December 2012 and had AUM of \$2.4 billion in this strategy as of December 31, 2014.

Mezzanine. We manage mezzanine investments primarily through a fund that invests in directly sourced third-party mezzanine transactions. These investments often consist of mezzanine debt, which generates a current yield, coupled with marginal equity exposure with additional upside potential. We closed our first dedicated mezzanine fund, KKR Mezzanine Partners L.P. in August 2011 and had AUM of \$1.8 billion in this strategy as of December 31, 2014.

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Special Situations. We seek to make opportunistic investments largely in distressed companies through our special situations investment strategy. These investments include secondary market distressed investments (including post- restructuring equity), control-oriented opportunities, rescue financing (debt or equity investments made to address covenant, maturity or liquidity issues), debtor-in-possession or exit financing, structured principal investments, and other event-driven investments in debt or equity. We closed our first dedicated special situations fund, KKR Special Situations Fund L.P., in December 2013 and had AUM of \$3.5 billion in this strategy as of December 31, 2014.

Long/short credit. Our long/short credit strategy invests across capital structures with a focus primarily on corporate credit opportunities and had AUM of \$1.0 billion in this strategy as of December 31, 2014.

Products for Individual Investors

KKR Credit Advisors (US) LLC serves as the registered investment adviser to investment companies registered under the Investment Company Act (or, in the case of the BDC we manage, as its sub-adviser), which are subject to the Investment Company Act and the rules thereunder. The management fees we receive from these registered investment companies are generally paid on a regular basis (typically monthly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing these investment companies will generally be subject to contractual rights that require their board of directors to provide prior notice (or, in the case of the BDC we manage, the investment adviser) in order to terminate our investment management services.

Hedge Funds

Overview

Our hedge fund business is comprised of customized hedge fund solutions and minority interests in other public markets managers and funds. We established our hedge fund business in October 2012 with the acquisition of Prisma Capital Partners LP through which we provide customized hedge fund portfolio and hedge fund-of-fund solutions. We expect to grow this business with the acquisition of majority and minority interests or stakes in third party hedge fund management companies or by seeding strategies with strategic hedge fund partners.

KKR Prisma

KKR Prisma constructs and manages customized hedge fund portfolios and hedge fund-of-funds. It seeks to deliver superior performance by utilizing portfolio construction techniques and an integrated, quantitative approach to risk management. KKR Prisma takes a specialist approach by seeking leading niche hedge fund managers in various alternative investment strategies. Various strategies are offered to investors, including moderate and low-volatility, equity, credit and opportunistic, in both commingled and separate account portfolios. For the period beginning in June 2004 through December 31, 2014, our hedge fund-of-funds low volatility strategy, which consists of the majority of our hedge fund-of-funds AUM and FPAUM, generated a gross annualized return of 7.5%. As of December 31, 2014, our hedge fund-of-funds accounted for \$10.2 billion of AUM.

Stakes and Seeding

Through our hedge funds stakes and seeding business, we have a 24.9% interest in Nephila Capital Ltd., an investment manager focused on investing in natural catastrophe and weather risk, and a 24.9% interest in BlackGold Capital Management L.P., a credit-oriented investment manager focused on investing in energy and hard asset investments.

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The table below presents information as of December 31, 2014 relating to our Public Markets Vehicles.

(\$ in millions)	AUM	FPAUM	Typical Mgmt Fee Rate	Incentive Fee / Carried Interest	Preferred Return	Duration of Capital
Leveraged Credit:						
Leveraged Credit SMAs/Funds	7,571	7,328	0.50% - 1.50%	Various(1)	Various(1)	Subject to redemptions
CLO's	8,528	8,528	0.50%	Various(1)	Various(1)	10 - 14 Years(2)
Total Leveraged Credit	16,099	15,856				
Alternative Credit(3)	7,543	6,643	0.75% - 1.50%(4)	10.00 - 20.00%	8.00 - 12.00%	8 - 15 Years(2)
Hedge Fund Solutions	10,156	10,151	0.50% - 1.50%	Various(1)	Various(1)	Subject to redemptions
Corporate Capital Trust(5)	3,008	3,008	1.00%	10.00%	7.00%	7 years(5)
Other	301	125	0.50% - 1.50%	Various	Various	Various
Total	\$ 37,107	\$ 35,783				

-
- (1) Certain funds and CLOs are subject to a performance fee in which the manager or general partner of the funds share in up to 20% of the net profits earned by investors in excess of performance hurdles (generally tied to a benchmark or index) and subject to a provision requiring the funds and vehicles to regain prior losses before any performance fee is earned.
- (2) Term for duration of capital is since inception. Inception dates for CLOs were between 2004 and 2014 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2014.
- (3) AUM and FPAUM include all assets invested by vehicles that principally invest in alternative credit strategies, respectively, and consequently may include a certain amount of assets invested in other strategies.
- (4) Lower fees on uninvested capital in certain vehicles.
- (5) Corporate Capital Trust is a BDC sub-advised by KKR. By December 31, 2018, the capital in the Corporate Capital Trust vehicle may have an indefinite duration. This vehicle invests in both leveraged credit and alternative credit strategies.

Capital Markets and Other

Our Capital Markets and Other segment is comprised primarily of our global capital markets business. Our capital markets business supports our firm, our private equity and other portfolio companies and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing for transactions, placing and underwriting securities offerings and providing other types of capital markets services. When we underwrite an offering of securities or a loan on a firm commitment basis, we commit to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When we act in an agency capacity, we generate revenue for arranging financing or placing securities or debt with capital markets investors. KKR Capital Markets LLC is an SEC-registered broker-dealer and a FINRA member, and we are also registered or authorized to carry out certain broker-dealer activities in various countries in North

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America, Europe, Asia-Pacific and the Middle East. Our third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with two other unaffiliated partners, and non-bank financial companies, or NBFCs, in India.

Client & Partner Group

We have a Client & Partner Group that is responsible for raising capital for us globally across all products, expanding our client relationships across asset classes and across types of fund investors, developing products to meet our clients' needs, and servicing existing fund investors and products. We

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also provide fundraising services to fund managers in whom we have invested through our stakes business. As of December 31, 2014, we had 80 executives and professionals dedicated to our Client & Partner Group.

As of December 31, 2014, we had 820 investors in funds across all our strategies, which reflects the addition of over 100 investors during the year. On average, a fund investor is invested in approximately 1.6 of our products as of December 31, 2014. The following charts detail our investor base by type and geography as of December 31, 2014.

Investor Base By Type(1)

Investor Base By Geography(1)

(1) Based on the AUM of our Private Markets investment funds, Private Markets co-investment vehicles, and Public Markets separately managed accounts and investment funds with allocations assigned to a type or geographic region according to subscriptions received from a limited partner.

Competition

We compete with other investment managers for both fund investors and investment opportunities. The firm's competitors consist primarily of sponsors of public and private investment funds, real estate development companies, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers. We believe that competition for fund investors is based primarily on investment performance, investor liquidity and willingness to invest, investor perception of investment managers' drive, focus and alignment of interest, business reputation, duration of relationships, quality of services, pricing, fund terms including fees, and the relative attractiveness of the types of investments that have been or are to be made. We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution. In addition to these traditional competitors within the global investment management industry, we also face competition from local and regional firms, financial institutions and sovereign wealth funds, in the various countries in which we invest. In certain emerging markets, local firms may have more established relationships with the companies in which we are attempting to invest. These competitors often fall into one of the aforementioned categories but in some cases may represent new types of fund investors, including high net worth individuals, family offices and state-sponsored entities.

There are numerous funds focused on private equity, real assets, credit and hedge fund strategies that compete for investor capital. Fund managers have also increasingly adopted investment strategies outside of their traditional focus. For example, funds focused on credit and equity strategies have become active in taking control positions in companies, while private equity funds have acquired minority equity or debt positions in publicly listed companies. This convergence could heighten

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competition for investments. Furthermore, as institutional fund investors increasingly consolidate their relationships for multiple investment products with a few investment firms, competition for capital from such institutional fund investors may become more acute.

Some of the entities that we compete with as an investment firm may have greater financial, technical, marketing and other resources and more personnel than us and, in the case of some asset classes, longer operating histories, more established relationships or greater experience. Several of our competitors also have raised, or may raise, significant amounts of capital and have investment objectives that are similar to the investment objectives of our funds, which may create additional competition for investment opportunities. Some of these competitors may also have lower costs of capital and access to funding sources that are not available to us, which may create competitive advantages for them. For example, master limited partnerships, or MLPs, which typically invest in oil and gas assets, may have a lower cost of capital than, and may compete with our energy funds for investment opportunities. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider range of investments and to bid more aggressively than us for investments. Strategic buyers may also be able to achieve synergistic cost savings or revenue enhancements with respect to a targeted portfolio company, which may provide them with a competitive advantage in bidding for such investments.

We expect to compete as a capital markets business primarily with investment banks and independent broker-dealers in the North America, Europe, Asia-Pacific and the Middle East. We principally focus our capital markets activities on the firm, our portfolio companies and fund investors, but we also seek to service other third parties, principally through Merchant Capital Solutions LLC. While we generally target customers with whom we have existing relationships, those customers may have similar relationships with the firm's competitors, many of whom will have access to competing securities transactions, greater financial, technical or marketing resources or more established reputations than us. The limited operating history of our capital markets business could make it difficult for us to compete with established investment banks or broker-dealers, participate in capital markets transactions of issuers or successfully grow the firm's capital markets business over time.

Competition is also intense for the attraction and retention of qualified employees and consultants. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and consultants and retain and motivate our existing employees and consultants.

Employees, Consultants and Advisors

As of December 31, 2014, we employed over 1,200 people worldwide:

Investment Professionals	335
Other Professionals	597
Support Staff	277
Total Employees(1)	1,209

(1) Does not include consolidated consultants and other consultants who provide services to us or our funds.

Investment Professionals

Our 335 investment professionals come from diverse backgrounds in private equity, real assets, credit, hedge funds and other asset classes and include executives with operations, strategic consulting, risk management, liability management and finance experience. As a group, these professionals provide us with a strong global team for identifying attractive investment opportunities, creating value, and generating superior returns.

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Other Professionals

Our 597 other professionals come from diverse backgrounds in capital markets, capital raising, client services, public affairs, finance, tax, legal, compliance, human resources, and information technology. As a group, these professionals provide us with a strong team for overseeing investments and performing capital markets activities, servicing our existing fund investors and creating relationships with new fund investors globally. Additionally, a majority of these other professionals are responsible for supporting the global infrastructure of KKR.

KKR Capstone

We have developed an institutionalized process for creating value in investments. As part of our effort, we utilize a team of 52 operating consultants at KKR Capstone, who are not KKR employees but work exclusively with our investment professionals and portfolio company management teams or our designees. With professionals in North America, Europe and the Asia-Pacific, KKR Capstone provides additional expertise for assessing investment opportunities and assisting managers of portfolio companies in defining strategic priorities and implementing operational changes. During the initial phases of an investment, KKR Capstone's work seeks to implement our thesis for value creation. These operating consultants may assist portfolio companies in addressing top-line growth, cost optimization and efficient capital allocation and in developing operating and financial metrics. Over time, this work shifts to identifying challenges and taking advantage of business opportunities that arise during the life of an investment. KKR Capstone is consolidated in KKR's financial results for GAAP purposes, but is not a subsidiary or affiliate of KKR.

Senior Advisors

To complement the expertise of our investment professionals, we have a team of senior advisors and other advisors. While not KKR employees, they provide us with additional operational and strategic insights. The responsibilities of senior advisors include serving on the boards of our portfolio companies, helping us source and evaluate individual investment opportunities and assisting portfolio companies with operational matters. These individuals include former chief executive officers, chief financial officers and chairmen of Fortune 500 companies, as well as other individuals who have held leading positions in major corporations and public agencies worldwide.

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Organizational Structure

The following simplified diagram illustrates our organizational structure as of December 31, 2014, unless otherwise noted. Certain entities depicted below may be held through intervening entities not shown in the diagram.

-
- (1) KKR Management LLC serves as the general partner of KKR & Co. L.P., which is governed by a Board of Directors consisting of a majority of independent directors. KKR Management LLC does not hold any economic interests in KKR & Co. L.P. and is owned by senior KKR employees.
 - (2) KKR Holdings is the holding vehicle through which certain of our current and former employees and other persons indirectly own their interest in KKR. KKR Group Partnership Units that are held by KKR Holdings are exchangeable for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable vesting and transfer restrictions. As limited partner interests, these KKR Group Partnership Units are non-voting and do not entitle KKR Holdings to participate in the management of our business and affairs. As of December 31, 2014, KKR Holdings had a 46.5% interest in our business indirectly through its limited partner interests in the KKR Group Partnerships.
 - (3) KKR Holdings holds special non-economic voting units in our partnership that entitle it to cast, with respect to those limited matters that may be submitted to a vote of our unitholders, a number of votes equal to the number of KKR Group Partnership Units that it holds from time to time.
 - (4) KKR Group Finance Co. LLC is a wholly-owned subsidiary of KKR Management Holdings Corp. and the issuer of our \$500 million aggregate principal amount of 6.375% Senior Notes due 2020 (the "2020 Senior Notes"). The 2020 Senior Notes are guaranteed by KKR & Co. L.P. and the KKR Group Partnerships.
 - (5) KKR Group Finance Co. II LLC is a wholly-owned subsidiary of KKR Management Holdings Corp. and the issuer of our \$500 million aggregate principal amount of 5.500% Senior Notes due 2043 (the "2043 Senior Notes"), which were issued on February 1, 2013. The 2043 Senior Notes are guaranteed by KKR & Co. L.P. and the KKR Group Partnerships.

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- (6) KKR Group Finance Co. III LLC is a wholly-owned subsidiary of KKR Management Holdings Corp. and the issuer of our \$500 million aggregate principal amount of 5.125% Senior Notes due 2044 (the "2044 Senior Notes"), which were issued on May 29, 2014. The 2044 Senior Notes are guaranteed by KKR & Co. L.P. and the KKR Group Partnerships.
- (7) Because the income of KKR Management Holdings L.P. is likely to be primarily non-qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules, we formed KKR Management Holdings Corp., which is subject to taxation as a corporation for U.S. federal income tax purposes, to hold our KKR Group Partnership Units in KKR Management Holdings L.P. Accordingly, our allocable share of the taxable income of KKR Management Holdings L.P. will be subject to taxation at a corporate rate. KKR Management Holdings L.P., which is treated as a partnership for U.S. federal income tax purposes, was formed to hold interests in our fee generating businesses and other assets that may not generate qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules. KKR Fund Holdings L.P., which is also treated as a partnership for U.S. federal income tax purposes, was formed to hold interests in our businesses and assets that will generate qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules. KKR International Holdings L.P. was formed generally to hold certain non-U.S. assets that may generate non-qualifying income under the U.S. federal income tax laws applicable to publicly traded partnerships. As of February 20, 2015, KKR International Holdings L.P. holds no assets.
- (8) KKR Management Holdings L.P. is the parent company of Kohlberg Kravis Roberts & Co. L.P., the SEC-registered investment adviser, which in turn is generally the parent company for most of KKR's other management and capital markets subsidiaries including KKR Credit Advisors (US) LLC, Prisma Capital Partners LP and KKR Capital Markets Holdings L.P., the holding company for KKR Capital Markets LLC. KKR Fund Holdings L.P. is the parent company of KKR Credit Advisors (Ireland).
- (9) 40% of the carried interest earned in relation to our investment funds and carry paying co-investment vehicles is allocated to a carry pool, from which carried interest is allocable to our employees and selected other individuals. No carried interest has been allocated with respect to co-investments acquired from KPE in the KPE Transaction.

Regulation

Our operations are subject to regulation and supervision in a number of jurisdictions. The level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. We, in conjunction with our outside advisors and counsel, seek to manage our business and operations in compliance with such regulation and supervision. The regulatory and legal requirements that apply to our activities are subject to change from time to time and may become more restrictive, which may make compliance with applicable requirements more difficult or expensive or otherwise restrict our ability to conduct our business activities in the manner in which they are now conducted. Changes in applicable regulatory and legal requirements, including changes in their enforcement, could materially and adversely affect our business and our financial condition and results of operations. As a matter of public policy, the regulatory bodies that regulate our business activities are generally responsible for safeguarding the integrity of the securities and financial markets and protecting fund investors who participate in those markets rather than protecting the interests of our unitholders.

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United States

Regulation as an Investment Adviser

We conduct our advisory business through our investment adviser subsidiaries, including Kohlberg Kravis Roberts & Co. L.P. and its wholly-owned subsidiaries KKR Credit Advisors (US) LLC (formerly known as KKR Asset Management LLC) and Prisma Capital Partners LP, each of which is registered as an investment adviser with the SEC under the Investment Advisers Act. The investment advisers are subject to the anti-fraud provisions of the Investment Advisers Act and to fiduciary duties derived from these provisions which apply to our relationships with our advisory clients globally, including funds that we manage. These provisions and duties impose restrictions and obligations on us with respect to our dealings with our fund investors and our investments, including for example restrictions on agency cross and principal transactions. Our registered investment advisers are subject to periodic SEC examinations and other requirements under the Investment Advisers Act and related regulations primarily intended to benefit advisory clients. These additional requirements relate, among other things, to maintaining an effective and comprehensive compliance program, recordkeeping and reporting requirements and disclosure requirements. The Investment Advisers Act generally grants the SEC broad administrative powers, including the power to limit or restrict an investment adviser from conducting advisory activities in the event it fails to comply with federal securities laws. Additional sanctions that may be imposed for failure to comply with applicable requirements include the prohibition of individuals from associating with an investment adviser, the revocation of registrations and other censures and fines.

KKR Credit Advisors (US) LLC is also subject to regulation under the Investment Company Act as an investment adviser to registered investment companies. The KKR Income Opportunities Fund is a closed-end management investment company registered under the Investment Company Act. The closed-end management company and KKR Credit Advisors (US) LLC are subject to the Investment Company Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or restrict principal transactions and joint transactions.

Regulation as a Broker-Dealer

KKR Capital Markets LLC, one of our subsidiaries, is registered as a broker-dealer with the SEC under the Exchange Act and in all 50 U.S. States and U.S. territories and is a member of the Financial Industry Regulatory Authority, or FINRA. MCS Capital Markets LLC is registered as a broker-dealer with the SEC under the Exchange Act and in 35 U.S. States. As registered broker-dealers, KKR Capital Markets LLC and MCS Capital Markets LLC are subject to periodic SEC and FINRA examinations and reviews. A broker-dealer is subject to legal requirements covering all aspects of its securities business, including sales and trading practices, public and private securities offerings, use and safekeeping of customers' funds and securities, capital structure, record-keeping and retention and the conduct and qualifications of directors, officers, employees and other associated persons. These requirements include the SEC's "uniform net capital rule," which specifies the minimum level of net capital that a broker-dealer must maintain, requires a significant part of the broker-dealer's assets to be kept in relatively liquid form, imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing its capital and subjects any distributions or withdrawals of capital by a broker-dealer to notice requirements. These and other requirements also include rules that limit a broker-dealer's ratio of subordinated debt to equity in its regulatory capital composition, constrain a broker-dealer's ability to expand its business under certain circumstances and impose additional requirements when the broker-dealer participates in securities offerings of affiliated entities. Violations of these requirements may result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of the broker-dealer or its officers or employees or other similar consequences by regulatory bodies.

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United Kingdom

We have several subsidiaries which are authorized and regulated by the United Kingdom Financial Conduct Authority, or FCA, under the Financial Services and Markets Act 2000, or FSMA, and are authorized in the United Kingdom with permission to engage in certain specified activities. FSMA and related rules govern most aspects of investment business, including sales, research and trading practices, provision of investment advice, corporate finance, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. The FCA is responsible for administering these requirements and our compliance with the FSMA and related rules. Violations of these requirements may result in censures, fines, imposition of additional requirements, injunctions, restitution orders, revocation or modification of permissions or registrations, the suspension or expulsion from certain "controlled functions" within the financial services industry of officers or employees performing such functions or other similar consequences.

KKR Capital Markets Limited has permission to engage in a number of regulated activities regulated under FSMA, including dealing as principal or agent and arranging deals in relation to certain types of specified investments and arranging the safeguarding and administration of assets. KKR Capital Markets Limited also benefits from a passport under the single market directives to offer services cross border into all countries in the European Economic Area and Gibraltar. Kohlberg Kravis Roberts & Co. Partners LLP has permission to engage in a number of regulated activities including advising on and arranging deals relating to corporate finance business in relation to certain types of specified investments. KKR Asset Management Partners LLP has permission to engage in a number of regulated activities including and advising on and arranging deals in relation to certain types of specified investments. KKR Credit Advisors (UK) has permission to advise, arrange, manage and deal as agent in certain types of investments. Prisma Capital Management International LLP is authorized to carry on any investment services and activities on a regular basis except reception and transmission of orders in relation to one or more financial instruments or investment advice.

Other Jurisdictions

Certain other subsidiaries or funds that we advise are registered with, have been licensed by or have obtained authorizations to operate in their respective jurisdictions outside of the United States. These registrations, licenses or authorizations relate to providing investment advice, broker-dealer activities, marketing of securities and other regulated activities. Failure to comply with the laws and regulations governing these subsidiaries and funds that have been registered, licensed or authorized could expose us to liability and/or damage our reputation.

KKR Credit Advisors (Ireland) and KKR Alternative Investment Management are regulated by the Central Bank of Ireland. KKR Credit Advisors (Ireland) is authorized to carry out a number of regulated activities including receiving and transmitting orders, portfolio management and providing investment advice. KKR Alternative Investment Management is an authorized EU alternative investment manager permitted to conduct portfolio management, risk management and certain administrative activities.

KKR Capital Markets LLC and MCS Capital Markets LLC, respectively, are also registered as an international dealer under the Securities Act (Ontario). This registration permits us to trade in non-Canadian equity and debt securities with certain types of investors located in Ontario, Canada.

KKR Capital Markets Japan Limited, a joint stock corporation, is a certified Type II Financial Instruments Business Operator (broker dealer) registered under the Financial Instruments and Exchange Act of Japan, and a certified money lender registered under the Money Lending Business Act of Japan.

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KKR MENA Limited, a Dubai International Financial Centre company, is licensed to arrange credit or deals in investments, advise on financial products or credit, and manage assets, and is regulated by the Dubai Financial Services Authority.

KKR Saudi Limited is licensed by the Capital Market Authority in Saudi Arabia and is authorized for the activity of arranging in the securities business.

KKR Australia Pty Limited and KKR Australia Investment Management Pty Limited are Australian financial services licensed and are authorized to provide advice on and deal in financial products for wholesale clients, and are regulated by the Australian Securities and Investments Commission.

KKR Capital Markets Asia Limited is licensed by the Securities and Futures Commission in Hong Kong to carry on dealing in securities and advising on securities regulated activities.

KKR Singapore Pte. Ltd. is licensed by the Monetary Authority of Singapore to conduct fund management for accredited and/or institutional investors only through a capital markets services license.

KKR Holdings Mauritius, Ltd. and KKR Account Adviser (Mauritius), Ltd. are unrestricted investment advisers authorized to manage portfolios of securities and give advice on securities transactions, and are regulated by the Financial Services Commission, Mauritius.

KKR Account Adviser (Mauritius), Ltd. is registered as a foreign portfolio investor with the Securities and Exchange Board of India, or SEBI, under the SEBI (Foreign Portfolio Investors) Regulations, 2014, pursuant to which it is permitted to make and manage investments into listed and unlisted securities of Indian issuers.

KKR Mauritius Direct Investments I, Ltd. is registered as an FII sub account with SEBI pursuant to which it can make investments in listed and unlisted securities of Indian issuers, and is incorporated as an investment holding company in Mauritius regulated by the Financial Services Commission, Mauritius.

KKR India Financial Services Private Limited is registered with the Reserve Bank of India as a non-deposit taking non-banking financial company and is authorized to undertake lending and financing activities.

KKR Capital Markets India Private Limited is licensed by the SEBI as a merchant bank that is authorized to execute capital market mandates, underwrite issues, offer investment advisory and other consultancy/advisory services.

KKR India Alternative Credit Opportunities Fund I, KKR India Debt Fund I, KKR India Debt Opportunities Fund III are licensed by the SEBI as a Category II Alternative Investment Fund Debt Fund pursuant to which it can raise capital from eligible investors and make investments primarily in debt or debt securities of listed or unlisted Indian issuers.

Silview Investments Pte. Ltd. is registered as an FII sub-account with SEBI pursuant to which it can make investments in listed and unlisted securities of Indian issuers.

KKR Asia II Portfolio Investors Pte. Ltd. is registered as an FII sub-account with SEBI pursuant to which it can make investments in listed and unlisted securities of Indian issuers.

KKR India Asset Finance Private Limited (formerly known as Motichand Finance Private Limited) is registered with the Reserve Bank of India as a non-deposit taking non-banking financial company and is authorized to undertake lending and financing activities.

Daena Venture Capital Investments, Ltd. is registered with SEBI as a foreign venture capital investor, or FVCI, pursuant to which it can make certain investments in securities of Indian issuers and

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is incorporated as an investment holding company in Mauritius regulated by the Financial Services Commission, Mauritius.

KKR Asia II Venture Investments Pte Ltd. is registered with SEBI as a foreign venture capital investor, or FVCI, pursuant to which it can make certain investments in securities of Indian issuers and is incorporated as an investment holding company in Singapore.

From time to time, one or more of our investment funds or their related investment vehicles may be regulated as a mutual fund by the Cayman Islands Monetary Authority, regulated as an investment limited partnership by the Central Bank of Ireland, listed on the Irish Stock Exchange, notified with the Financial Services Agency of Japan for sale pursuant to certain private placement exemptions, registered with the Financial Supervisory Service of the Republic of Korea, subject to the regulatory supervision of the Commission de Surveillance du Secteur Financier of Luxembourg, notified with the Netherlands Authority for Financial Markets for sale pursuant to certain private placement exemptions, or registered under the Investment Company Act.

There are a number of legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see "Risk Factors Risks Related to Our Business Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business."

Website and Availability of SEC Filings

Our website address is www.kkr.com. Information on our website is not incorporated by reference herein and is not a part of this Form 10-K. We make available free of charge on our website or provide a link on our website to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. To access these filings, go to the "KKR & Co. L.P." portion of our "Investor Center" page on our website, then click on "SEC Filings". You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition these reports and the other documents we file with the SEC are available at a website maintained by the SEC at www.sec.gov.

From time to time, we may use our website as a channel of distribution of material information. Financial and other material information regarding our company is routinely posted on and accessible at www.kkr.com. In addition, you may automatically receive e-mail alerts and other information about our company by enrolling your e-mail address by visiting the "E-mail Alerts" section at under the "KKR & Co. L.P." section of the "Investor Center" heading at www.kkr.com.

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ITEM 1A. RISK FACTORS

Investing in our securities involves risk. Persons investing in our securities should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated and combined financial statements and accompanying notes. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. Our business, financial condition or results of operations could also be adversely affected by additional factors that apply to all companies generally, as well as other risks that are not currently known to us or that we currently view to be immaterial. In any such case, the trading price of our securities could decline and you may lose all or part of your original investment. While we attempt to mitigate known risks to the extent we believe to be practicable and reasonable, we can provide no assurance, and we make no representation, that our mitigation efforts will be successful.

Risks Related to Our Business

Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition.

Our business is materially affected by conditions in the financial markets and economic conditions or events throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). For example, the unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financing institutions, and had a material adverse effect on our businesses.

While the adverse effects of that period have abated to a significant degree, there continue to be lingering signs of economic weakness, characterized by low levels of growth and high levels of unemployment and governmental deficits in major markets including the United States and Europe. While a number of policy actions have been implemented with respect to debt and banks in a number of European countries, Europe continues to experience low growth and ongoing austerity. Concerns regarding sovereign defaults and the possibility that one or more countries might leave the European Union and the Eurozone have resurfaced. Deleveraging in the developed world is continuing and likely to persist in the near-term, which may slow growth for example, in China. Although lower commodity prices, including the falling price of oil, is expected to benefit the economies of commodity importing countries, certain of our investments focused on the development of oil and natural gas properties will suffer from such a decline. In addition, it is believed that the Federal Reserve may raise interest rates in the coming year, thus raising the cost of financing and possibly slowing economic growth in the United States. Furthermore, while U.S. financial institutions have seen recent improvements, global financial institutions have generally not yet provided debt financing in amounts and on terms commensurate with what they provided prior to 2008.

Such market and economic conditions and events are outside our control and may affect the level and volatility of securities prices and the liquidity and the value of our investments. In addition, we may not be able to or may choose not to manage our exposure to these conditions and/or events. For example, as of March 31, 2009, the date of the lowest aggregate valuation of our private equity funds during the 2008 and 2009 financial market turmoil, the investments in the private equity funds contributed to us in the KPE Transaction were marked down to 67% of original cost, and values across all geographies declined. For example, as of March 31, 2009, the European Fund II, European

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Fund III, 2006 Fund and Asian Fund had multiples of invested capital of 0.5x, 0.6x, 0.7x and 0.8x, respectively. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in net income relating to changes in market and economic conditions.

Unfavorable market conditions may reduce opportunities for our funds to make, exit and realize value from their investments. For example, when financing is not available, it is difficult for potential buyers to raise sufficient capital to purchase assets in our funds' portfolios. Consequently, we may earn lower than expected returns on investments, which could cause us to realize diminished or no carried interest. In addition, we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds because we can generally only raise capital for a successor fund following the substantial and successful deployment of capital from the existing fund. In the event of poor performance by existing funds or during periods of unfavorable fundraising conditions, pressures by fund investors for lower fees, different fee sharing arrangements for transaction or other fees, and other concessions (for example, the inclusion of performance hurdles that require us in our newer funds, including all our newer private equity funds such as North America Fund XI, Asian Fund II and European Fund IV, to generate a specified return on investment prior to our right to receive carried interest) will likely continue and could increase. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed. In addition, successor funds raised by us when such unfavorable circumstances described above exist would also likely result in smaller funds than our comparable predecessor funds. Fund investors may also seek to redeploy capital away from certain of our credit or other non-private equity investment vehicles, which permit redemptions on relatively short notice, in order to meet liquidity needs or invest in other asset classes or with other managers. Any of these developments could adversely affect our future revenues, net income, cash flow, financial condition or ability to retain our employees. See " Our inability to raise additional or successor funds could have a material adverse impact on our business" and " Our investors in future funds may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues."

During periods of difficult market or economic conditions or slowdowns (which may be across one or more industries, sectors or geographies), companies in which we have invested may experience decreased revenues, financial losses, credit rating downgrades, difficulty in obtaining access to financing and increased funding costs. These companies may also have difficulty in expanding their businesses and operations or be unable to meet their debt service obligations or other expenses as they become due, including amounts payable to us. Negative financial results in our funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our operating results and cash flow. To the extent the operating performance of such portfolio companies (as well as valuation multiples) deteriorate or do not improve, our funds may sell those assets at values that are less than we projected or even at a loss, thereby significantly affecting those funds' performance and consequently our operating results and cash flow and resulting in lower or no carried interest being paid to us. Adverse conditions may also increase the risk of default with respect to private equity, credit and other investments that we manage or the abandonment or foreclosure of our real asset investments. Even if economic and market conditions do improve broadly, adverse conditions in particular sectors may also cause our performance to suffer. Finally, low interest rates related to monetary stimulus, economic stagnation or deflation may negatively impact expected returns on all types of investments as the demand for relatively higher return assets increases and the supply decreases.

In addition, our Capital Markets and Other segment generates fees through a variety of activities in connection with the issuance and placement of equity and debt securities and credit facilities, with the size of fees generally correlated to overall transaction sizes. As a result, the conditions in financial

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markets as described above, as well as transaction activity in our Private Markets segment and to a lesser extent, Public Markets segment, impact both the frequency and size of fees generated by this segment.

Changes in the debt financing markets may negatively impact the ability of our investment funds, their portfolio companies and strategies pursued with our balance sheet assets to obtain attractive financing for their investments or refinance existing debt and may increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.

In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Any failure by lenders to provide previously committed financing can also expose us to potential claims by sellers of businesses which we may have contracted to purchase. Similarly, certain of the strategies pursued using our balance sheet assets rely on the use of leverage, including the issuance of CLOs, and other secured and unsecured borrowings. Our ability to generate returns on these assets and make cash available for distribution to our unitholders would be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets acquired and financed. Similarly, our portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that conditions in the credit markets impair the ability of our portfolio companies to refinance or extend maturities on their outstanding debt, either on favorable terms or at all, the operating performance of those portfolio companies may be negatively impacted, which could impair the value of our investment in those portfolio companies and lead to a decrease in the investment income earned by us. In some cases, the inability of our portfolio companies to refinance or extend maturities may result in the inability of those companies to repay debt at maturity and may cause the companies to sell assets, undergo a recapitalization or seek bankruptcy protection, which would also likely impair the value of our investment and lead to a decrease in investment income earned by us.

Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.

We expect that our primary liquidity needs will consist of cash required to:

continue to grow our business, including seeding new strategies and funding our capital commitments made to existing and future funds, co-investments and any net capital requirements of our capital markets companies;

warehouse an investment in a portfolio company or other investment for the benefit of one or more of our funds, accounts or CLOs pending the contribution of committed capital by the investors in such vehicles;

service debt obligations, as well as any contingent liabilities that may give rise to future cash payments;

fund cash operating expenses and amounts recorded for litigation matters;

pay amounts that may become due under our tax receivable agreement with KKR Holdings;

make cash distributions in accordance with our distribution policy;

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underwrite commitments within our capital markets business;

fund our equity commitment to joint ventures such as Merchant Capital Solutions LLC;

make future purchase price payments in connection with our proprietary acquisitions, such as our acquisition of Prisma and minority interest in certain hedge fund managers, including Nephila; and

acquire additional balance sheet assets, including other investment advisory and broker-dealer businesses.

These liquidity requirements are significant and, in some cases, involve capital that will remain invested for extended periods of time. As of December 31, 2014, we have approximately \$1.2 billion of remaining unfunded capital commitments to our investment funds. Our commitments to our funds will require significant cash outlays over time, and there can be no assurance that we will be able to generate sufficient cash flows from realizations of investments to fund them. In addition, as of December 31, 2014, we had \$1.5 billion of borrowings outstanding under our credit facilities and debt securities and \$1.1 billion of cash and short-term investments. This includes KFN's debt obligations of \$657.3 million and KFN's 7.375% Series A LLC preferred shares of \$373.8 million, which do not provide for recourse to KKR beyond the assets of KFN. While we have long-term committed financings with substantial facility limits, the terms of those facilities will expire in 2017 and 2019, and our senior notes become due in 2020, 2043 and 2044, and any borrowings thereunder will require refinancing or renewal, which could result in higher borrowing costs, or issuing equity. Depending on credit or other market conditions, we may not be able to renew all or part of these borrowings or find alternate sources of financing on commercially reasonable terms and we may not be able to raise equity. In addition, the incurrence of additional debt by us or our subsidiaries in the future could result in downgrades of our existing corporate credit ratings, which could limit the availability of future financing and increase our costs of borrowing. In addition, the underwriting commitments for our capital markets business may require significant cash obligations, and these commitments may also put pressure on our liquidity. The holding company for our capital markets business has entered into a credit agreement that provides for revolving borrowings of up to \$500 million, which can only be used in connection with our capital markets business, including placing and underwriting securities offerings. To the extent we commit to buy and sell an issue of securities in firm commitment underwritings or otherwise, we may be required to borrow under our credit agreement for our capital markets business to fund such obligations, which, depending on the size and timing of the obligations, may limit our ability to enter into other underwriting arrangements or similar activities, service existing debt obligations or otherwise grow our business. Regulatory capital requirements may also limit the ability of our broker-dealer subsidiaries to participate in underwriting or other transactions or to allocate our capital more efficiently across our businesses. In addition, in connection with our acquisitions of Prisma and minority interests in certain hedge fund managers including Nephila, we may be obligated to make future deferred purchase price payments based on the respective performance of these businesses. In the event that our liquidity requirements were to exceed available liquid assets for the reasons specified above or for any other reason, we could be forced to sell assets or seek to raise debt or equity capital on unfavorable terms. For further discussion of our liquidity needs see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity."

The "clawback" or "net loss sharing" provisions in our governing agreements may give rise to a contingent obligation that may require us to return or contribute amounts to our funds and fund investors.

The partnership documents governing our carry-paying funds, including funds relating to private equity, infrastructure, energy, real estate, mezzanine, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the

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end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to us in the KPE Transaction, as of December 31, 2014, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their December 31, 2014 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$2,288.9 million.

Certain private equity funds that were contributed to us in the KPE Transaction in 2009 also include a "net loss sharing provision." Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by us to the fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Based on the fair market values as of December 31, 2014, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$277.4 million as of December 31, 2014.

Prior to the KPE Transaction in 2009, certain of our principals who received carried interest distributions with respect to certain private equity funds contributed to us had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that our principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, this amount has been reduced to \$191.4 million as of December 31, 2014. Using valuations as of December 31, 2014, no amounts are due with respect to the clawback obligation required to be funded by our principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to us and our principals who participate in the carry pool. Unlike the clawback obligation, we will be responsible for amounts due under a net loss sharing obligation and will indemnify our principals for any personal guarantees that they have provided with respect to such amounts. In addition, guarantees of or similar arrangements relating to clawback or net loss sharing obligations in favor of third party investors in an individual investment partnership by entities we own may limit distributions of carried interest more generally.

Our earnings and cash flow are highly variable due to the nature of our business and we do not intend to provide earnings guidance, each of which may cause the value of interests in our business to be volatile.

Our earnings are highly variable from quarter to quarter due to the volatility of investment returns of most of our funds and other investment vehicles and our balance sheet assets and the fees earned from our businesses. We recognize earnings on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds and for certain of our recent funds, when a performance hurdle is achieved. A decline in realized or unrealized gains, a failure to achieve a performance hurdle or an increase in realized or unrealized losses, would adversely affect our net income. Fee income, which we recognize when contractually earned, can vary due to fluctuations in AUM, the number of investment transactions made by our funds, the number of portfolio companies we manage, the fee provisions contained in our funds and other investment products and transactions by our capital markets business. In any particular quarter, fee income may vary significantly due to the

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receipt of termination fees or fees received by our Capital Markets business from syndications, in particular large equity syndications. While these events occur periodically, they generally do not occur every quarter and their size and frequency are variable. Fees for the years ended December 31, 2012, 2013 and 2014 were \$568.4 million, \$762.5 million and \$1,110.0 million, respectively. We may create new funds or investment products or vary the terms of our funds or investment products (for example our newer funds include performance hurdles), which may alter the composition or mix of our income from time to time. We may also experience fluctuations in our results from quarter to quarter, including our revenue and net income, due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions or interest earned in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. In addition, our earnings and cash flows are dependent in part on the performance of KFN and is subject to the risks to KFN's businesses as described elsewhere in the report. Although KFN is a subsidiary of KKR, KFN has its own indebtedness and preferred shares outstanding. The terms of its indebtedness and preferred shares impose limitations on KFN's current and future operations and may restrict its ability to make distributions to KKR. Net income (loss) attributable to KKR & Co. L.P. for the years ended December 31, 2012, 2013 and 2014 was \$560.8 million, \$691.2 million and \$477.6 million, respectively. Such fluctuations may lead to variability in the value of interests in our business and cause our results for a particular period not to be indicative of our performance in future periods. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the value of interests in our business.

The timing and receipt of carried interest from our investment funds are unpredictable and will contribute to the volatility of our cash flows. For example, with respect to our private equity funds, carried interest is distributed to the general partner of a private equity fund with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund investors in an amount sufficient to reduce remaining cost to the investments' fair value. Carried interest payments from investments depend on our funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering or other exit. To the extent an investment is not profitable, no carried interest will be received from our funds with respect to that investment and, to the extent such investment remains unprofitable, we will only be entitled to a management fee on that investment. Furthermore, certain vehicles and separately managed accounts may not provide for the payment of any carried interest at all. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash. We cannot predict when, or if, any realization of investments will occur. In addition, if finance providers, such as commercial and investment banks, make it difficult for potential purchasers to secure financing to purchase companies in our investment funds' portfolio, it may decrease potential realization events and the potential to earn carried interest. A downturn in the equity markets would also make it more difficult to exit investments by selling equity securities. If we were to have a realization event in a particular quarter, the event may have a significant impact on our cash flows during the quarter that may not be replicated in subsequent quarters. A decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our investment income, which could further increase the volatility of our quarterly results.

The timing and receipt of carried interest also varies with the life cycle of certain of our funds. Our carry paying funds that have completed their investment periods and are able to realize mature investments, sometimes referred to as being in a harvesting period, are more likely to make larger distributions than our carry paying funds that are in their fund raising or investment periods that

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precede the harvesting period. During times when a significant portion of our assets under management is attributable to carry paying funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

In addition, with respect to certain of the funds that we advise, such as hedge funds and fund of funds, we are entitled to incentive fees that are generally paid annually or semi-annually if the net asset value of a fund has increased over a certain pre-determined hurdle rate or a specified high-water mark. These funds generally also have "high-water mark" provisions whereby if the funds have experienced losses in prior periods, we will not be able to earn incentive fees with respect to a fund investor's account until the net asset value of the fund investor's account exceeds the highest period end value on which incentive fees were previously paid. The incentive fees we earn are therefore dependent on the net asset value of these funds or vehicles, which could lead to volatility in our quarterly results and cash flow. Fees, including incentive fees, from KFN have been eliminated upon the completion of the KFN merger on a segment basis.

A decline in the pace or size of investment by our funds or a change in the terms governing transaction fees, management fees or monitoring fees would result in our receiving less revenue from fees.

The transaction and management or monitoring fees that we earn are driven in part by the pace at which our funds make investments and the size of those investments. Any decline in that pace or the size of investments would reduce our revenue from transaction and management or monitoring fees. Many factors could cause such a decline in the pace of investment or the transaction and management or monitoring fees we receive, including:

the inability of our investment professionals to identify attractive investment opportunities;

competition for such opportunities among other potential acquirers;

decreased availability of capital or financing on attractive terms;

our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets;

terms we may agree with or provide to our fund investors or investors in separately managed accounts with respect to fees such as increasing the percentage of transaction or other fees we may share with our fund investors; and

new regulations, guidance or other actions provided or taken by regulatory authorities.

Our inability to raise additional or successor funds (or raise successor funds of a comparable size as our predecessor funds) could have a material adverse impact on our business.

Our current private equity funds and certain other funds and investment vehicles have a finite life and a finite amount of commitments from fund investors. Once a fund nears the end of its investment period, our success depends on our ability to raise additional or successor funds in order to keep making investments and, over the long term, earning management fees (although our funds and investment vehicles generally continue to earn management fees at a reduced fee rate after the expiration of their investment periods). Even if we are successful in raising successor funds, to the extent we are unable to raise successor funds of a comparable size to our predecessor funds or the extent that we are delayed in raising such a successor fund, our revenues may decrease as the investment period of our predecessor funds expire and associated fees decrease. For example, KKR North America Fund XI, our most recent private equity fund focused primarily on North America, is smaller than its predecessor fund and our European IV Fund is currently smaller than its predecessor fund. The performance of our funds also impacts our ability to raise capital, and deterioration in the performance of our funds would result in challenges to future fundraising. The evolving preferences of

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our fund investors may necessitate that alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles, become a larger part of our business going forward. This could increase our cost of raising capital at the scale we have historically achieved. Furthermore, in order to raise capital for new strategies and products without drawing capital away from our existing products, we will need to seek new sources of capital. To raise new funds and pursue new strategies, we have and expect to continue to use the capital from our balance sheet, which may decrease the liquidity available for other parts of our business. In addition if a new strategy or fund does not develop as anticipated and such assets are not ultimately transferred to a fund, we may be forced to realize losses on these retained assets. Institutional investors in funds that have suffered from decreasing returns, liquidity pressure, increased volatility or difficulty maintaining targeted asset allocations, may materially decrease or temporarily suspend making new fund investments. Such investors may elect to reduce their overall portfolio allocations to alternative investments such as private equity funds, resulting in a smaller overall pool of available capital in our industry. In addition, the asset allocation rules or regulations or investment policies to which such third-party investors are subject, could inhibit or restrict the ability of third-party investors to make investments in our investment funds. Coupled with a lack of distributions from their existing investment portfolios, many of these investors may have been left with disproportionately outsized remaining commitments to, and invested capital in, a number of investment funds, which may significantly limit their ability to make new commitments to third-party managed investment funds such as those advised by us.

Fund investors may also seek to redeploy capital away from certain of our credit vehicles, hedge fund, fund of funds or other investment vehicles, which permit redemptions on relatively short notice in order to meet liquidity needs or invest in other asset classes. We believe that our ability to avoid excessive redemption levels primarily depends on our funds' continued satisfactory performance, although redemptions may also be driven by other factors important to our fund investors, including their need for liquidity and compliance with investment mandates, even if our performance is superior. Any such redemptions would decrease our AUM and revenues. Investors may also deploy capital away from funds of funds due to this asset class's fee structure.

In addition, the Dodd Frank Wall Street Reform and Consumer Protection Act, or Dodd Frank Act, under what has become known as the "Volcker Rule," broadly prohibits depository institution holding companies (including foreign banks with U.S. branches or agencies), insured depository institutions and their subsidiaries and controlled affiliates, or banking entities, from investing in "covered funds," including third party private equity funds like ours. Final regulations implementing the Volcker Rule were approved by the federal banking agencies, the SEC and the CFTC on December 10, 2013, although there is still some uncertainty regarding the implementation of the Volcker Rule and the final regulations and their practical implications. Although banking entities are expected to have until July 21, 2017 to conform their existing covered funds activities and investments to the requirements of the final regulations, they may be limited in their ability to undertake new contractual commitments to private equity funds like ours. Banking entities have historically represented an important class of investors for our funds, with financial institutions constituting approximately 18% of our AUM as of December 31, 2014, and it is possible that other institutions will not be available to replace this traditional source of capital for our private equity funds. Furthermore, divestitures by banking entities of interests in private equity funds and hedge funds over the next several years to comply with the Volcker Rule may lead to lower prices in the secondary market for our fund interests, which could have adverse implications for our ability to raise funds from investors who may have considered the availability of secondary market liquidity as a factor in determining whether to invest. In addition to federal law, changes in state and local law may limit investment activities of state pension plans and insurance companies.

The number of funds raising capital varies from year to year, and in years where relatively few funds are raising capital, the growth of our AUM, FPAUM and associated fees may be significantly

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lower. For example, for the year ended December 31, 2013 several large, private equity funds, namely our North America Fund XI and Asian Fund II, were actively fundraising. AUM for the year ended December 31, 2013 totaled \$94.3 billion, up from \$75.5 billion as of December 31, 2012, of which \$21.2 billion was attributable to new capital raised. By comparison, AUM for the year ended December 31, 2014 increased to \$98.6 billion of which \$13.3 billion was attributable to new capital raised. As two of our three flagship private equity funds have completed fundraising and our fourth flagship fund focused on Europe held its first close in 2014, the growth in AUM, FPAUM and associated fees attributable to new capital raised may be significantly lower than in recent years. In addition, although we had several successful fundraises in 2013 for newer strategies such as Real Estate Partners Americas, Energy Income and Growth Fund and our Special Situations Fund and in 2014 fundraises for successor funds for our Infrastructure and certain alternative credit strategies, there is no assurance that fundraises for other new strategies or successor funds will experience similar success in the future.

Our investors in future funds, including separately managed accounts, may negotiate to pay us lower management fees or reimburse us for fewer expenses and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues or profitability.

In connection with raising new funds or securing additional investments in existing funds, we negotiate terms for such funds and investments with investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than the terms of prior funds we have advised or funds advised by our competitors. For example, such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, reduce fee revenues we earn, reduce the percentage of profits on third-party capital in which we share, include a performance hurdle that requires us to generate a specified return on investment prior to our right to receive carried interest or add expenses and obligations for us in managing the fund or increase our potential liabilities. For example our newer private equity funds, including North America Fund XI, Asian Fund II and European Fund IV, include a performance hurdle that requires us to generate a 7% return on investment prior to receiving our share of fund gains. Furthermore, as institutional investors increasingly consolidate their relationships with investment firms and competition becomes more acute, we may receive more of these requests to modify the terms in our new funds. Certain of our newer funds also include more favorable terms for fund investors that commit to early closes for our funds. Agreement to terms that are materially less favorable to us could result in a decrease in our profitability.

Certain institutional investors have also publicly criticized certain fund fee and expense structures, including monitoring fees and transaction and advisory fees. We have received and expect to continue to receive requests from a variety of fund investors and groups representing such investors to decrease fees and to modify our carried interest and incentive fee structures, which could result in a reduction or delay in the timing of receipt of the fees and carried interest and incentive fees we earn. In our newer flagship private equity funds, we have increased the percentage of transaction and monitoring fees that are credited against fund management fees to as much as 100% of the amount of the transaction and monitoring fee attributable to that fund. In September of 2009, the Institutional Limited Partners Association, or "ILPA," published a set of Private Equity Principles, or the "Principles," which were revised in January 2011. The Principles were developed in order to encourage discussion between limited partners and general partners regarding private equity fund partnership terms. Certain of the Principles call for enhanced alignment of interests between general partners and limited partners through modifications of some of the terms of fund arrangements, including proposed guidelines for fees and carried interest structures. We provided ILPA our endorsement of the Principles, representing an indication of our general support for the efforts of ILPA.

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In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, specialized funds and co-investment vehicles. We also have entered into strategic partnerships with individual investors whereby we manage that investor's capital across a variety of our products on separately negotiated terms. There can be no assurance that such alternatives will be as profitable to us as the traditional investment fund structure, and the impact such a trend could have on our results of operations, if widely implemented, is unclear. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of investment advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Any agreement to or changes in terms less favorable to us could adversely affect our revenues and profitability.

The investment management business is intensely competitive, which could have a material adverse impact on our business.

We compete as an investment manager for both fund investors and investment opportunities. The investment management business is highly fragmented, with our competitors consisting primarily of sponsors of public and private investment funds, real estate development companies, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers of businesses. We believe that competition for fund investors is based primarily on:

investment performance;

investor liquidity and willingness to invest;

investor perception of investment managers' drive, focus and alignment of interest;

business reputation;

the duration of relationships with fund investors;

the quality of services provided to fund investors;

pricing;

fund terms (including fees); and

the relative attractiveness of the types of investments that have been or will be made.

We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution.

A number of factors serve to increase our competitive risks:

a number of our competitors in some of our businesses may have greater financial, technical, marketing and other resources and more personnel than we do, and, in the case of some asset classes, longer operating histories, more established relationships or greater experience;

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fund investors may materially decrease their allocations in new funds due to their experiences following an economic downturn, the limited availability of capital, regulatory requirements or a desire to consolidate their relationships with investment firms;

some of our competitors may have better expertise or be regarded by fund investors as having better expertise in a specific asset class or geographic region than we do;

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some of our competitors have agreed to terms on their investment funds or products that may be more favorable to fund investors than our funds or products, such as lower management fees, greater fee sharing, or performance hurdles for carried interest, and therefore we may be forced to match or otherwise revise our terms to be less favorable to us than they have been in the past;

some of our funds may not perform as well as competitors' funds or other available investment products;

our competitors have raised or may raise significant amounts of capital, and many of them have similar investment objectives and strategies to our funds, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit;

some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;

some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments;

some of our competitors may be subject to less regulation or less regulatory scrutiny and accordingly may have more flexibility to undertake and execute certain businesses or investments than we do and/or bear less expense to comply with such regulations than we do;

there are relatively few barriers to entry impeding the formation of new funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into our various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition;

some fund investors may prefer to invest with an investment manager that is not publicly traded, is smaller, or manages fewer investment products; and

other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment. Alternatively, we may experience decreased investment returns and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, as a result, if we are forced to compete with other investment firms on the basis of price, we may not be able to maintain our current fund fee, carried interest or other terms. There is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, if interest rates were to rise or if market conditions for competing investment products become or are favorable and such products begin to offer rates of return superior to those achieved by our funds, the attractiveness of our funds relative to investments in other investment products could decrease. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future funds, either of which would adversely impact our business, results of operations and cash flow.

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Our structure involves complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. These structures also are subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of our unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the Internal Revenue Service, or IRS, and the U.S. Department of the Treasury, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The present U.S. federal income tax treatment of owning our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. The maintenance of the structure and tax attributes of the KKR Group Partnerships, which comprise our businesses, requires significant monitoring and resources. Failure to maintain this structure could result in material adverse tax consequences. Our organizational documents and agreements give the Managing Partner broad authority to modify the amended and restated partnership agreement from time to time as the Managing Partner determines to be necessary or appropriate, without the consent of the unitholders, to address changes in U.S. federal, state and local income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all unitholders.

The U.S. Congress has considered legislation that would have (i) in some cases after a ten-year period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after-tax income and gain related to our business, as well as the market price of our units, could be reduced.

Over the past several years, a number of legislative and administrative proposals have been introduced and, in certain cases, have been passed by the U.S. House of Representatives, that would have, in general, treated all or a portion of our carried interest as income subject to a tax rate that is higher than under current law. It is unclear when or whether the U.S. Congress will pass such legislation or what provisions will be included in any legislation, if enacted.

Some legislative and administrative proposals have provided that, for taxable years beginning after the date of enactment (or in some cases, beginning ten years after the date of enactment), income derived with respect to carried interest would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation is enacted, following such enactment (or such ten-year period), we would be precluded from qualifying as a partnership for U.S. federal income tax purposes. If we were taxed as a U.S. corporation, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, you could be subject to tax on our conversion into a corporation.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York has periodically considered legislation under which you could be subject to New York state income tax on income in respect of our common units as a result of certain activities of our affiliates in New York, although it is unclear when or whether such legislation will be enacted.

If the proposed legislation described above or any similar legislation were to be enacted and apply to us, the after-tax income and gain related to our business, our ability to fund cash distributions, as well as the market price of our units, could be reduced.

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Additional proposed changes in the U.S. and foreign taxation of businesses could adversely affect us.

The U.S. Congress, the Organization for Economic Co-operation and Development (or, OECD) and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting (or, BEPS) project, which is focused on a number of issues, including the distribution of profits between affiliated entities in different tax jurisdictions. Additionally, the Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities, like many of our entities, currently treated as partnerships for tax purposes to an entity-level income tax similar to the corporate income tax. Several of these proposals for reform, if enacted by the U.S. or by other countries in which we or our affiliates invest or do business, could adversely affect our investment returns and could reduce the cash we have available for distributions to unitholders or for other uses by us. It is unclear what any actual legislation could provide, when it would be proposed or what its prospects for enactment could be.

We depend on our founders and other key personnel, the loss of whose services could have a material adverse effect on our business, results and financial condition.

We depend on the efforts, skills, reputations and business contacts of our employees, including our founders, Henry Kravis and George Roberts, and other key personnel, the information and deal flow they and others generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success depends on the continued service of these individuals, who are not obligated to remain employed with us. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow AUM in existing funds or raise additional funds in the future.

Our employees and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds and members of the business community and result in the reduction of AUM or fewer investment opportunities. For example, if any of our principals were to join or form a competing firm, our business, results and financial condition could suffer.

Furthermore, the agreements governing our private equity funds and certain non-private equity investment funds managed by us provide that in the event certain "key persons" in these funds (for example, both of Messrs. Kravis and Roberts for our private equity funds, and, in the case of certain geographically or product focused funds, one or more of the executives focused on such funds) generally cease to actively manage a fund, investors in the fund will be entitled to: (i) in the case of our private equity funds, reduce, in whole or in part, their capital commitments available for further investments; and (ii) in the case of certain of our credit or other non-private equity investment funds, withdraw all or any portion of their capital accounts, in each case on an investor-by-investor basis (which could lead possibly to a liquidation of those funds). The occurrence of such an event would likely have a significant negative impact on our revenue, net income and cash flow.

If we cannot retain and motivate our principals and other key personnel and recruit, retain and motivate new principals and other key personnel, our business, results and financial condition could be adversely affected.

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our employees and other key personnel, and to a substantial degree on our ability to retain and motivate our employees and other key personnel and to strategically recruit, retain and motivate

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new talented employees, including qualified investment professionals. However, we may not be successful in these efforts as the market for qualified investment professionals is extremely competitive. Our ability to recruit, retain and motivate our employees is dependent on our ability to offer highly attractive incentive opportunities. If previously proposed legislation regarding the increased taxation of carried interest were to be enacted, income and gains recognized with respect to carried interest would be treated for U.S. federal income tax purposes as ordinary income rather than as capital gain. Such legislation would materially increase the amount of taxes that we, our employees and other key personnel would be required to pay, thereby adversely affecting our ability to offer such attractive incentive opportunities. See " Risks Related to U.S. Taxation". In addition, there have been proposed laws and regulations that sought to regulate the compensation of certain of our employees. See " Extensive Regulation of our business affects our activities and creates the potential for significant liabilities and penalties." The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business." The loss of even a small number of our investment professionals could jeopardize the performance of our funds and other investment products, which would have a material adverse effect on our results of operations. Efforts to retain or attract employees, including our investment professionals, may result in significant additional expenses, which could adversely affect our profitability.

Many of our employees hold interests in our business through KKR Holdings. These individuals currently receive financial benefits from our business in the form of distributions and amounts funded by KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. While all of our employees receive base salaries from us, annual cash bonuses for certain employees currently are borne by KKR Holdings from cash reserves based upon distributions on a portion of KKR Group Partnership Units held by KKR Holdings. In 2014, the amount of such annual cash bonuses paid by KKR Holdings L.P. was \$83.7 million. There can be no assurance that KKR Holdings will have sufficient cash available to continue to make annual cash bonus payments in the future, and we expect to pay an increasing portion and potentially all, of these cash bonus payments as the KKR Group Partnership Units held by KKR Holdings become fully allocated and vested (at which time our principals who hold equity interests through KKR Holdings would become entitled to all of the cash distributions on the KKR Group Partnership Units held by KKR Holdings and KKR Holdings would become unable to reserve additional cash for bonus compensation). In addition, certain cash payments to employees are also provided by the carry pool. There can be no assurance that the carry pool will have sufficient cash available to continue to make such cash payments in the future. In any of these circumstances, a higher percentage of our revenue may be paid out in the form of cash compensation, which would be expected to have an adverse impact on our profit margins.

Moreover, in connection with the KPE Transaction, we made large grants of KKR Holdings units that vest in installments over a five year period commencing October 1, 2009 and that completely vested on October 1, 2014, subject to certain transfer restrictions. In lieu of granting equity in KKR Holdings, we have granted and expect to grant equity awards from our Equity Incentive Plan, which has caused dilution. While we evaluate the grant of equity awards from our Equity Incentive Plan to employees on an annual basis, the size of the grants, if any, is made at our discretion and is expected to be generally smaller in number of units than the grants of KKR Holdings units made on October 1, 2009 and with service-based vesting periods generally of approximately three years from date of grant. As we increase the use of equity awards from our Equity Incentive Plan in the future, expense associated with equity based compensation may increase materially. For example, in December 2014 we allocated equity awards relating to 9.7 million KKR & Co. L.P. common units under the Equity Incentive Plan, with a total estimated grant-date fair value of approximately \$181.7 million. In addition, less carried interest from the carry pool may be allocated to certain of our employees, which may result in less cash payments to such employees. To the extent our equity incentive or carry pool programs are

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not effective, we may be limited in our ability to attract, retain and motivate talented employees and other key personnel and we may need to increase the level of cash compensation that we pay.

In addition, there is no guarantee that the confidentiality and restrictive covenant agreements to which our employees and other key personnel are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us. Depending on which entity is a party to these agreements and/or the laws applicable to them, we may not be able to enforce them or become subject to lawsuits or other claims, and certain of these agreements might be waived, modified or amended at any time without our consent. Even when enforceable, these agreements expire after a certain period of time, at which point each of our employees and other key personnel are in any event free to compete against us and solicit our fund investors and employees. See "Certain Relationships and Related Transactions, and Director Independence Confidentiality and Restrictive Covenant Agreements."

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with fund investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain our culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

Operational risks and data security breaches may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our financial, accounting and other data processing systems. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention or reputational damage. In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, may be subject to security risks, and the cost of maintaining such systems may increase from our current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on our business. Furthermore, we depend on our principal offices in New York City, where most of our administrative personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our principal offices, could have a material adverse impact on our ability to continue to operate our business without interruption. Our business continuation or disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, theft, misuse, computer viruses or other malicious code, and other events that could have a security impact. We and our employees may be the target of fraudulent emails. If one or more of such events occur, this potentially could jeopardize our or our fund investors' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our fund investors', our counterparties' or third parties' operations, which could result in significant losses, increased costs or reputational damage. Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems, technology, administration, tax and compliance matters. Any interruption or deterioration in the performance of these third parties could impair the quality of our and our funds' operations and could impact our reputation and adversely affect our businesses and limit our ability to grow.

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Our portfolio companies also rely on data processing systems and the secure processing, storage and transmission of information, including payment and health information. A disruption or compromise of these systems could have a material adverse effect on the value of these businesses. Certain of our funds invest in strategic assets having a national or regional profile or in infrastructure assets, the nature of which could expose them to a greater risk of being subject to a terrorist attack or security breach than other assets or businesses. Such an event may have adverse consequences on our investment or assets of the same type or may require portfolio companies to increase preventative security measures or expand insurance coverage.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

We intend, to the extent that market conditions warrant, to seek to grow our businesses by increasing AUM in existing businesses, pursuing new investment strategies, including investment opportunities in new asset classes, developing new types of investment structures and products (such as managed accounts and structured products), and expanding into new geographic markets and businesses. We have in recent years opened offices in Asia, the Middle East and Latin America, and also developed a capital markets business in the United States, Europe, the Middle East and Asia Pacific, which we intend to grow and diversify. We have also launched a number of new investment initiatives in areas such as real estate, energy, infrastructure, hedge funds and growth equity. We have and may continue to pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners, strategic partnerships or other strategic initiatives, which may include entering into new lines of business. For example, we formed Merchant Capital Solutions LLC, a joint venture partnership that seeks to provide capital markets services to mid market and sponsor backed companies, and Maritime Finance Company, a new specialty finance company created to lend to the maritime industry. In addition, we expect opportunities will arise to acquire other alternative or traditional investment managers. For example, we have built and expanded our hedge fund solutions business with the acquisition of Prisma and expanded our European credit business with our acquisition of Avoca. We have also made minority investments in hedge fund managers, and we have entered into joint ventures with third parties to participate in new real estate investment strategies. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with:

the required investment of capital and other resources;

the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk or liability or have not appropriately planned for such activities;

the possibility of diversion of management's time and attention from our core business;

the possibility of disruption of our ongoing business;

combining, integrating or developing operational and management systems and controls including an acquired business's internal controls and procedures;

integration of employees of an acquired business;

potential increase in concentration of the investors in our funds;

disagreements with joint venture partners or other stakeholders in strategic partnerships;

the broadening of our geographic footprint, including the risks associated with conducting operations in foreign jurisdictions, including taxation; and

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regulatory scrutiny or litigation exposure due to the activities of the third party hedge fund managers or joint venture partners.

Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives include joint ventures or the acquisition of minority interests in third parties, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

We may not be successful in executing upon or managing the complexities of new investment strategies, markets and businesses, which could adversely affect our business, results of operations and financial condition.

Our growth strategy is based, in part, on the expansion of our platform through selective investment in, and development or acquisition of, businesses and investment strategies complementary to our business. The expansion into new products and geographies has demanded greater management attention and dedication of resources to manage the increasing complexity of operations and regulatory compliance. This growth strategy involves a number of risks, including the risk that the expected synergies from a newly developed product or strategic alliance will not be realized, that the expected results will not be achieved, that new strategies are not appropriately planned for or integrated into the firm, that the new strategies may conflict, detract from or compete against our existing businesses, that the investment process, controls and procedures that we have developed around our existing platform will prove insufficient or inadequate or that our information systems and technology, including related security systems, may prove to be inadequate. We have also entered into strategic partnerships and separately managed accounts, which lack the scale of our traditional funds and are more costly to administer. The prevalence of these accounts may also present conflicts and introduce complexity in the deployment of capital. The offering of investment products to retail investors, including any funds registered under the Investment Company Act, may result in increased compliance and litigation costs. We may also incur significant charges in connection with such investments, which ultimately may result in significant losses and costs. Such losses could adversely impact our business, results of operations and financial condition, as well as do harm to our professional reputation.

If we are unable to successfully consummate new development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.

From time to time, we or our affiliates acquire or agree to acquire other businesses or invest in other businesses. These acquisitions are subject to various conditions and may expose us to increased risks and liabilities, such as:

We may be unable to obtain the regulatory clearances required to complete the acquisitions or, in order to do so, we may be required to comply with material restrictions or satisfy material conditions. If we must take such actions, it could be detrimental to us or to the combined organization following the consummation of the relevant acquisition. Furthermore, these actions could have the effect of delaying or preventing completion of the relevant acquisition or imposing additional costs on or limiting the revenues of the combined organization following the consummation of the relevant acquisitions.

We may incur substantial transaction-related costs in connection with our acquisitions including non-recurring transaction-related costs. Non-recurring transaction costs include, but are not

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limited to, fees paid to legal, financial and accounting advisors, filing fees and printing costs. Additional unanticipated costs may be incurred in the integration of the businesses.

Failure to successfully combine an acquired business in the expected timeframe may adversely affect the future results of the combined organization, and, consequently, the value of our common units. The success of our acquisitions will depend, in part, on our ability to realize the anticipated benefits from combining our businesses and the acquired business on a timely basis. Failure to fully realize the anticipated benefits of the acquisition could result in declines in the market value of KKR common units.

Failure to complete an acquisition, or significant delays in completing an acquisition, could negatively affect the trading prices of our common units and our future business and financial results. Completion of an acquisition is not assured and is subject to risks, including the risks that approval by the shareholders or by governmental agencies is not obtained or that other closing conditions including obtaining financing are not satisfied. If an acquisition is not completed we may also be liable for damages or have to pay certain significant costs relating to the acquisition; and the attention of our management will have been diverted to the acquisition rather than our own operations and pursuit of other opportunities that could have been beneficial to us.

Lawsuits may be filed challenging the acquisition, and an unfavorable judgment or ruling in these lawsuits could prevent or delay the consummation of an acquisition and result in substantial costs. If these lawsuits are not dismissed or otherwise resolved, they could prevent or delay the completion of the acquisition and result in substantial costs, including any costs associated with the indemnification of directors. We may not prevail in such lawsuits, and the defense, settlement or loss of any lawsuit or claim may adversely affect our business, financial condition or results of operations.

Acquisitions, if consummated, subject us to additional risks related to the acquired entity's business and operations.

If we are unable to syndicate the securities or indebtedness or realize returns on investments financed with our balance sheet assets, our liquidity, business, results of operations and financial condition could be adversely affected.

Our balance sheet assets provide us with a significant source of capital to grow and expand our business, increase our participation in our transactions and underwrite commitments in our capital markets business. Our balance sheet assets have provided a source of capital to underwrite loans, securities or other financial instruments, which we generally expect to syndicate to third parties. To the extent that we are unable to do so, we may be required to sell such investments at a significant loss or hold them indefinitely. If we are required to retain investments on our balance sheet for an extended period of time, the inability of our capital markets business to complete additional transactions would impair our results.

We generally have a larger balance sheet than many of our competitors, and consequently, the performance of these balance sheet assets has a greater impact on our results of operations. Our success in deploying our balance sheet assets and generating returns on this capital will depend among other things on the availability of suitable opportunities after giving priority in investment opportunities to our advised investment funds and accounts, the level of competition from other companies that may have greater financial resources and our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities. To the extent we are unsuccessful in deploying our balance sheet assets, our business and financial results may suffer. In addition, as our balance sheet assets have been a significant source of capital for new strategies, to the extent that such strategies are not successful or our balance sheet assets cease to provide adequate

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liquidity, we would be limited in our ability to seed new businesses or support our existing business as effectively as contemplated. See also " If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully."

Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could adversely affect our business.

Our business is subject to extensive regulation, including periodic examinations, inquiries and investigations by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. federal and state and foreign government agencies and self-regulatory organizations, are empowered to impose fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of applicable licenses and memberships; any of the foregoing may damage our relations with existing fund investors, may impair our ability to raise capital for successor funds, or may contravene provisions concerning compliance with law in agreements to which we are a party. Even if a sanction is not imposed or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the regulatory activity or imposition of these sanctions could harm our reputation and cause us to lose existing fund investors or fail to gain new fund investors.

In addition, the private equity industry has come under increased regulatory and news media scrutiny with governmental officials and regulators focusing on the private equity industry's fees, allocation of expenses to funds, valuation practices, and disclosures to fund investors.

Any changes in the regulatory framework applicable to our business, including the changes and potential changes described below, as well as adverse news media attention, may impose additional expenses or capital requirements on us, limit our fundraising for our investment products, result in limitations in the manner in which our business is conducted, have an adverse impact upon our financial condition, results of operations, reputation or prospects, impair employee retention or recruitment and require substantial attention by senior management. It is impossible to determine the extent of the impact of any new laws, regulations, initiatives or regulatory guidance that may be proposed or may become law on our business or the markets in which we operate. If enacted, any new regulation or regulatory framework could negatively impact our funds and us in a number of ways, including increasing our costs and the cost for our funds of investing, borrowing, hedging or operating, increasing the funds' or our regulatory operating costs, imposing additional burdens on the funds' or our staff, and potentially requiring the disclosure of sensitive information. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. New laws or regulations could make compliance more difficult or more expensive, affect the manner in which we conduct business and divert significant management and operational resources and attention from our business. Moreover, we anticipate the potential for an increase in regulatory investigations and new or enhanced reporting requirements of the trading and other investment activities of alternative investment management funds and firms, including our funds and us. Such investigations and reporting obligations will likely impose additional expenses on us, may require the attention of senior management and increase the complexity of managing our business and may result in fines or other sanctions if we or any of our funds are deemed to have violated any law or regulations.

Regulation under the Dodd-Frank Act. There have been a number of legislative or regulatory proposals affecting the financial sector in the United States. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, that President Obama signed into law on

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July 21, 2010, created a significant amount of new regulation. Among other things, the Dodd-Frank Act:

established the Financial Stability Oversight Council, or FSOC, an inter-agency body charged with, among other things, designating systemically important nonbank financial companies for heightened prudential supervision and making recommendations regarding the imposition of enhanced regulatory standards regarding capital, leverage, conflicts and other requirements for financial firms deemed to pose a systemic threat to the financial stability of the U.S. economy;

requires private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act (as described elsewhere in this report, Kohlberg Kravis Roberts & Co. L.P. and its wholly-owned subsidiaries KKR Credit Advisors (US) LLC and Prisma Capital Partners LP are registered with the SEC as investment advisers under the Investment Advisers Act), to maintain extensive records and to file reports if deemed necessary for purposes of systemic risk assessment by certain governmental bodies;

authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions;

requires public companies to adopt and disclose policies requiring, in the event the company is required to issue an accounting restatement, the clawback of related incentive compensation from current and former executive officers;

restricts the ability of banking organizations to sponsor or invest in private equity and hedge funds;

granted the U.S. government resolution authority to liquidate or take emergency measures with regard to troubled financial institutions that fall outside the existing resolution authority of the Federal Deposit Insurance Corporation, or FDIC; and

created a Consumer Financial Protection Bureau within the U.S. Federal Reserve.

Some of these provisions are subject to further rule making and to the discretion of regulatory bodies, such as the FSOC. For example, the following rulemakings have been enacted and the following notices of proposed rulemakings have been announced that may apply to us or our subsidiaries:

On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it designates nonbank financial companies as systemically important. The rule and guidance detail a three-stage review process, with the level of scrutiny increasing at each stage. During the first stage, the FSOC applies a broad set of uniform quantitative metrics to identify nonbank financial companies that warrant additional review. In this first stage, the FSOC considers whether a nonbank financial company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets of 10%. A company that meets both the asset test and at least one of the other thresholds will be subject to additional review in Stage 2. Although we have more than \$50 billion in total consolidated assets as of December 31, 2014 and we believe we should not currently meet the Stage 1 criteria outlined above, those criteria as well as our business may evolve over time. Additional uncertainty is created because the FSOC retains authority to designate any nonbank financial company as systemically important, even if the company does not meet the Stage 1 criteria. The FSOC will consider in the future whether to establish "an additional set of metrics or thresholds tailored to evaluate hedge funds and private equity firms and their advisers." The preamble to the final rule notes

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that less regulatory data is generally available for hedge funds and private equity firms, but indicates that, in developing any such additional metrics or thresholds, it intends to review financial disclosures that private fund advisers are required to file with the SEC and CFTC, as further described below.

In May 2014, the FSOC hosted a public conference devoted exclusively to the asset management industry to help inform the FSOC's ongoing assessment of potential risks to U.S. financial stability. On December 18, 2014, the FSOC issued a notice seeking public comment on potential systemic risks from asset management products and activities, focusing in particular on (1) liquidity and redemption risks, (2) use of leverage, (3) operational functions, and (4) resolution-related issues. According to such notice, the FSOC has not made any determination regarding the existence or nature of any potential risks to financial stability posed by the asset management industry.

If the FSOC were to determine that we were a systemically important nonbank financial company, we would be subject to a heightened degree of regulation, including more stringent standards relating to capital, leverage, liquidity, risk management, resolution planning, credit exposure reporting, and concentration limits, restrictions on acquisitions and annual stress testing by the Federal Reserve. There can be no assurance that nonbank financial firms such as us will not become subject to the aforementioned restrictions or other requirements for financial firms deemed to be systemically important to the financial stability of the U.S. economy.

The Dodd-Frank Act, under what has become known as the "Volcker Rule," broadly prohibits depository institution holding companies (including foreign banks with U.S. branches or agencies), insured depository institutions and their subsidiaries and controlled affiliates (or banking entities), from investing in third-party private equity funds like ours. See "Our inability to raise additional or successor funds (or raise successor funds of a comparable size as our predecessor funds) could have a material adverse impact on our business."

On October 26, 2011, the SEC adopted a rule requiring certain advisers to private funds to periodically file reports on Form PF. Large private fund advisers including advisers with at least \$1.5 billion in assets under management attributable to hedge funds and advisers with at least \$2 billion in assets under management attributable to private equity funds are subject to more detailed and in certain cases more frequent reporting requirements. The information is to be used by the FSOC in monitoring risks to the U.S. financial system.

On March 2, 2011, the SEC proposed a rule as part of a joint rule-making effort with federal banking regulators designed to prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would cover financial institutions with total consolidated assets of at least \$1 billion, including investment advisers and broker-dealers, and provide heightened requirements for financial institutions with total consolidated assets of at least \$50 billion. The application of this rule to us could require us to substantially revise our compensation strategy and affect our ability to recruit and retain qualified employees.

The Dodd-Frank Act amends the Exchange Act to compensate and protect whistleblowers who voluntarily provide original information to the SEC and establishes a fund to be used to pay whistleblowers who will be entitled to receive a payment equal to between 10% and 30% of certain monetary sanctions imposed in a successful government action resulting from the information provided by the whistleblower.

As mandated by the Dodd-Frank Act, the Commodity Futures Trading Commission, or CFTC, has proposed or adopted a series of rules to establish a comprehensive new regulatory framework for swaps

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and security based swaps. Under Title VII of the Dodd-Frank Act, the CFTC has assumed regulatory authority over many types of swaps. As a result:

Operating pooled funds, or providing investment advice to clients that trade swaps is now a basis for registration with the CFTC, absent an applicable exemption. Also, although not mandated by the Dodd-Frank Act, the CFTC in 2012 issued a final rule that rescinded an exemption from CFTC registration for commodity pool operators in connection with privately offered funds. Operating our funds in a manner consistent with one or more exemptions from registration with the CFTC may limit the activities of certain of our funds, and monitoring and analysis of these exemptions requires management and operational resources and attention. Registration with the CFTC, if required, could impact our operations and add additional costs associated with ongoing compliance.

The Dodd-Frank Act also imposes regulatory requirements on the trading of swaps, including requirements that most swaps be executed on an exchange or "swap execution facility" and cleared through a central clearing house. Although these requirements presently apply only to certain classes of swaps, the CFTC is expected to mandate central execution and clearing with respect to additional classes of swaps in the future.

The CFTC issued regulations with quantitative tests and thresholds to determine whether entities acting as "swap dealers" or "major swap participants" must register in the appropriate category and comply with capital, margin, record keeping, reporting and business conduct rules. Our funds could become subject to the requirement to register as major swap participants due to changes to the funds' investment strategy or valuations, or revisions to the thresholds for registration.

The CFTC has proposed rules instituting position limits on certain physical commodity futures contracts that, if finalized as proposed, would limit positions in 28 agricultural, energy and metals commodities, including swaps, futures and options that are economically equivalent to those commodity contracts. If the proposed rules are adopted in substantially the form proposed and to the extent that we do not qualify for an exemption, we may be required to aggregate the positions of our various investment funds and the positions of our portfolio companies, which in turn may require us and our portfolio companies to limit our trading activities, and impact the ability of our investment funds to invest or remain invested in certain derivatives, or engage in otherwise profitable acquisitions in particular industries.

The CFTC, SEC and banking regulators have proposed, but not yet adopted, rules regarding margin and capital requirements for over-the-counter swaps. The imposition of these requirements could increase the cost of trading in the derivative markets, which could in turn make it more expensive and difficult for us or our funds to enter into swaps and other derivatives in the normal course of our business and reduce the effectiveness of the funds' investment strategies. These rules could also adversely impact liquidity in derivatives markets, which could expose our funds to greater risks and reduce hedging opportunities in connection with their trading activities.

The implementation of any new regulations could increase the cost of trading in the commodities and derivative markets, which could in turn make it more expensive and difficult for us or our funds to enter into swaps and other derivatives in the normal course of our business. Moreover, these increased regulatory responsibilities and increased costs could reduce trading levels in the commodities and derivative markets by a number of market participants, which could in turn adversely impact liquidity in the markets and expose our funds to greater risks in connection with their trading activities.

EU-Wide Regulations. The EU Alternative Investment Fund Managers Directive (AIFMD) entered into effect on July 22, 2013. The AIFMD establishes a comprehensive regulatory and supervisory

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framework for alternative investment fund managers (AIFMs) managing and/or marketing alternative investment funds (AIFs) in the EU. The AIFMD imposes various substantive requirements to authorized AIFMs including rules on the structure of remuneration for certain personnel that are similar to those applicable under CRD III and IV (as defined below), a threshold for regulatory capital, reporting obligations in respect of controlled EU portfolio companies and increased transparency towards investors and regulators and allows authorized AIFMs to market AIFs to professional investors throughout the EU under an "EU passport". Available since July 2013 to authorized EU AIFMs, the EU passport is expected to be available to authorized non EU AIFMs no sooner than late 2015. In the meantime (and until at least 2018), non-EU AIFMs may continue to market within the EU under the private placement regimes of the individual member states, where available, subject to complying with certain minimum requirements imposed by the AIFMD and any additional requirements that individual member states may impose. The AIFMD also imposes a new, strict depositary regime.

The AIFMD, the Level 2 Regulation and EU member state implementing measures could have an adverse effect on our businesses by, among other things, (i) imposing disclosure obligations and restrictions on distributions by EU portfolio companies of the funds we manage, (ii) potentially requiring changes in our compensation structures for key personnel, thereby potentially affecting our ability to recruit and retain these personnel, and (iii) generally increasing our compliance costs. Although a subsidiary of ours is registered as an Irish AIFM, we may not be able to benefit from the EU marketing passport for all of our funds under the AIFMD. In addition, there are areas of the AIFMD that are subject to legal uncertainty, including the scope of the legal structures qualifying as AIFs whose management and marketing requires authorization, and failure to comply even in areas where there is legal uncertainty can result in fines.

In July 2014, revisions to the Markets in Financial Instruments Directive (known as MiFID I), consisting of the revised directive, MiFID II, and a new related regulation, MiFIR, came into force and will apply to our businesses from January 3, 2017. MiFID II and MiFIR further strengthen the EU regulatory framework for the provision of investment services and trading in financial instruments by introducing a number of substantial reforms in regards to transaction reporting, market structure, securities trading and conduct of business rules, including new harmonized rules for authorization of EU branches of third country firms looking to provide certain investment services in the EU. Work on the Level 2 measures on MiFID II is currently under way. The application of MiFID II and MiFIR will result in new regulatory burdens, including the requirement to trade certain derivatives on regulated trading venues. The increased regulatory burden could result in increased costs, and any failure to comply with the new requirements, even in areas where there is legal uncertainty, could result in fines.

On January 1, 2011, an amendment to the Capital Requirements Directive (CRD III) entered into force. Among other things, CRD III required EU member states to introduce stricter controls on remuneration for key employees and risk takers within specified credit institutions and investment firms. The CRD III was further amended by the Capital Requirements Directive IV and the Capital Requirements Regulation as discussed below, which introduced a limited number of additional remuneration requirements, including a cap on variable remuneration. Two of our subsidiaries (established in the UK and Ireland) are subject to the remuneration-related requirements of CRD IV and similar requirements under the AIFMD. These measures required changes in our compensation structures for key personnel, thereby potentially affecting these subsidiaries' ability to recruit and retain these personnel.

In 2010, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, finalized a comprehensive set of capital and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These new standards, which are expected to be fully phased in by 2019, are expected to require banks to hold more capital, predominantly in the

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form of common equity, than under the current capital framework. In the EU, Basel III's capital and liquidity standards have been implemented in a revision to CRD III and a new Capital Requirements Regulation, collectively referred to as CRD IV, which came into force on January 1, 2014. CRD IV replaced CRD III and created a single harmonized prudential rule book for banks, introducing new corporate governance rules and enhanced the powers of regulators. Like CRD III, CRD IV applies to specified credit institutions and investment firms. CRD IV has enhanced our financial reporting obligations and subjected us to new reporting requirements, which increases costs and the risk of non-compliance.

In August 2012, the regulation on OTC Derivatives, Central Counterparties and Trade Repositories (also known as the European Market Infrastructure Regulation, or EMIR) became effective. EMIR applies to derivatives transactions in which one of the parties is established in the EU, and may in some circumstances apply to transactions between two non-EU counterparties where these contracts have a direct, substantial and foreseeable effect within the EU. Certain of the requirements of EMIR came into force in March 2013, and other obligations will be phased in. In particular, EMIR imposes a requirement that certain "standardized" OTC derivatives contracts are centrally cleared. This requirement is expected to be phased in as from early 2015. Based on proposals by ESMA, central clearing will be introduced first for four types of interest rate swaps: basis swaps, fixed-to-float swaps, forward rate agreements and overnight index swaps, each denominated in a range of currencies. Where OTC transactions are not subject to central clearing, techniques must be employed to monitor, measure and mitigate the operational and counterparty risks presented by the transaction. These risk mitigation techniques include trade confirmation, reconciliation processes, exchange of margin, and the daily mark to market of trades. Certain of these risk mitigation and reporting obligations are already in force. Variation margin requirements for uncleared trades are expected to be phased in between December 1, 2015, and December 1, 2019. The European Commission has not yet adopted an equivalence decision for the U.S., but "conditional" equivalence has been proposed in relation to certain parts of the CFTC and SEC regimes, whereby adherence to the relevant U.S. regimes as well as a number of additional stipulations would be deemed equivalent to EMIR. Ongoing regulatory uncertainty regarding the interaction between U.S. and EU requirements for central clearing and related activities could result in duplicative regulatory obligations in the two jurisdictions and could increase our costs of compliance. The implementation of any new regulations could increase the cost of trading in the commodities and derivative markets, which could in turn make it more expensive and difficult for us or our funds to enter into swaps and other derivatives in the normal course of our business. Moreover, these increased regulatory responsibilities and increased costs could reduce trading levels in the commodities and derivative markets by a number of market participants, which could in turn adversely impact liquidity in the markets and expose our funds to greater risks in connection with their trading activities.

A number of other EU financial regulatory initiatives have the potential to adversely affect our business. Future acquisitions by KKR or our funds could lead to application of the EU's Financial Conglomerates Directive, which introduced a prudential regime for financial conglomerates to address perceived risks associated with large cross-sector businesses, and could increase the costs of investing in insurance companies and banks in the EU. Other recent EU financial regulatory initiatives include the Short Selling Regulation, which limits sovereign and naked short selling of government bonds and stocks, the Bank Recovery and Resolution Directive (BRRD), which established a recovery and resolution framework for EU credit institutions and investment firms, a new regulation (CSDR) on central securities depositories (CSDs), which introduces common securities settlement standards across the EU and harmonizes the rules governing CSDs. The European Commission has also proposed a Money Market Funds (MMF) Regulation and a regulation on securities financing transactions (SFTs). The implementation of these new requirements could increase our and our funds' costs and the complexity of managing our business and could result in fines if we or any of our funds were deemed to have violated any of the new regulations.

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Other regulations of the financial markets. Certain requirements imposed by regulators are designed primarily to ensure the integrity of the financial markets and are not designed to protect holders of interests in our business or our funds. Consequently, these regulations often serve to limit our activities. In addition to many of the regulations and proposed regulations described above under " Regulation under the Dodd-Frank Act," and " EU-Wide Regulation," U.S. federal bank regulatory agencies have issued leveraged lending guidance covering transactions characterized by a degree of financial leverage. Such guidance limits the amount and may increase the cost of financing we are able to obtain for our transactions and may cause the returns on our investments to suffer.

Regulators in the U.S. and abroad are also considering a variety of regulatory measures that could affect various non-bank financial institutions that operate outside of the regulated banking system and the activities in which they engage. These reform measures are generally intended to mitigate against the kind of market disruptions that prevailed in 2008 and 2009 and that ultimately affected both banks and non-banks. If these regulations are adopted, they could impose additional regulatory burdens and costs, including potentially imposing capital requirements, limiting financing and leverage and increasing costs, in each case causing the returns on our lending and credit investment activities to suffer. Certain of our businesses may also be directly subject to such new regulation, which could cause such businesses to limit or cease engaging in certain activities.

Portfolio Company Regulatory Environment. We are subject to certain laws, such as certain environmental laws, takeover laws, anti-bribery and anti-corruption laws, escheat or abandoned property laws, and antitrust laws, that may impose requirements on us and our portfolio companies as an affiliated group. As a result, we could become jointly and severally liable for all or part of fines imposed on our portfolio companies or be fined directly for violations committed by portfolio companies, and such fines imposed directly on us could be greater than those imposed on the portfolio company. Compliance with these laws or contracts could also require us to commit significant resources and capital towards information gathering and monitoring thereby increasing our operating costs. For example, on April 2, 2014, the European Commission announced that it had fined 11 producers of underground and submarine high voltage power cables a total of 302 million euro for participation in a ten-year market and customer sharing cartel. Fines were also imposed on parent companies of the producers involved, including Goldman Sachs, the former parent company of one of the cartel members.

In the United States, certain statutes may subject us or our funds to the liabilities of our portfolio companies. The Comprehensive Environmental Response, Compensation and Liability Act, also referred to as the Superfund, requires cleanup of sites from which there has been a release or threatened release of hazardous substances, and authorizes the EPA to take any necessary response action at Superfund sites, including ordering potentially responsible parties liable for the release to pay for such actions. Potentially responsible parties are broadly defined under CERCLA. In addition, we or certain of our investment funds could potentially be held liable under ERISA for the pension obligations of one or more of our portfolio companies if we or the investment fund were determined to be a "trade or business" under ERISA and deemed part of the same "controlled group" as the portfolio company under such rules, and the pension obligations of any particular portfolio company could be material. In a decision of a federal appellate court (*Sun Capital Partners III LP v. New England Teamsters & Trucking Indus. Pension Fund*), a private equity firm was held to be engaged in a "trade or business" under ERISA.

Similarly, our portfolio companies may be subject to contractual obligations which may impose obligations or restrictions on their affiliates. The interpretation of such contractual provisions will depend on local laws. Given that we do not control all of our portfolio companies and that our portfolio companies generally operate independently of each other, there is a risk that we could contravene one or more of such laws, regulations and contractual arrangements due to limited access and opportunities to monitor compliance. In addition, compliance with these laws or contracts could require us to commit significant resources and capital towards information gathering and monitoring thereby increasing our operating costs.

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Complex regulations may limit our ability to raise capital, increase the costs of our capital raising activities and may subject us to penalties.

We regularly rely on exemptions in the United States from various requirements of the Securities Act, the Exchange Act, the Investment Company Act, the Commodity Exchange Act and the U.S. Employee Retirement Income Security Act of 1974, or ERISA, in conducting our investment management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to additional restrictive and costly registration requirements, regulatory action, or third party claims and our business could be materially and adversely affected. For example, in raising new funds, we typically rely on private placement exemptions from registration under the Securities Act, including Regulation D, which was recently amended to prohibit issuers (including our funds) from relying on certain of the exemptions from registration if the fund or any of its "covered persons" (including certain officers and directors, but also including certain third parties including, among others, promoters, placement agents and beneficial owners of 20% of outstanding voting securities of the fund) has been the subject of a "disqualifying event," or a "bad actor," which can include a variety of criminal, regulatory and civil matters. If any of the covered persons associated with our funds is subject to a disqualifying event, one or more of our funds could lose the ability to raise capital in a Rule 506 private offering for a significant period of time, which could significantly impair our ability to raise new funds, and, therefore, could materially adversely affect our business, financial condition and results of operations. In addition, if certain of our employees or any potential significant investor has been the subject of a disqualifying event, we could be required to reassign or terminate such an employee or we could be required to refuse the investment of such an investor, which could impair our relationships with investors, harm our reputation, or make it more difficult to raise new funds. See also "Risks Related to Our Organizational Structure" If we were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business."

We are and will become further subject to additional regulatory and compliance burdens as we expand our product offerings and investment platform to include retail investors. For example, funds in our Public Markets segment are registered under the Investment Company Act as management investment companies. These funds and KKR Credit Advisors (US) LLC, which serves as their investment adviser (or in the case of the business development company, as its sub-adviser), are subject to the Investment Company Act and the rules thereunder, which, among other things, regulate the relationship between a registered investment company (or business development company) and its investment adviser and prohibit or severely restrict principal transactions and joint transactions. As our business expands we may be required to make additional registrations, including in jurisdictions outside the U.S. Compliance with these rules will increase our compliance costs and create potential for additional liabilities and penalties the management of which would divert management's attention from our business and investments.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding "pay to play" practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. Among other restrictions, the rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser's employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance

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with the rule. There has also been similar rule-making on a state-level regarding "pay to play" practices by investment advisers, including in California and New York. Any failure on our part to comply with these rules could cause us to lose compensation for our advisory services or expose us to significant penalties and reputational damage.

Federal, state and foreign anti-corruption and sanctions laws applicable to us and our portfolio companies creates the potential for significant liabilities and penalties and reputational harm.

We are also subject to a number of laws and regulations governing payments and contributions to political persons or other third parties, including restrictions imposed by the Foreign Corrupt Practices Act, or FCPA, as well as trade sanctions and export control laws administered by the Office of Foreign Assets Control, or OFAC, the U.S. Department of Commerce and the U.S. Department of State. The FCPA is intended to prohibit bribery of foreign governments and their officials and political parties, and requires public companies in the United States to keep books and records that accurately and fairly reflect those companies' transactions. OFAC, the U.S. Department of Commerce and the U.S. Department of State administer and enforce various export control laws and regulations, including economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. These laws and regulations relate to a number of aspects of our business, including servicing existing fund investors, finding new fund investors, and sourcing new investments, as well as activities by the portfolio companies in our investment portfolio or other controlled investments.

The Iran Threat Reduction and Syrian Human Rights Act of 2012 ("ITRA") expands the scope of U.S. sanctions against Iran. Notably, ITRA prohibits foreign entities that are majority owned or controlled by U.S. persons from engaging in transactions with Iran that would be contrary to the sanctions regulations if undertaken by a U.S. person. In addition, Section 219 of the ITRA amended the Exchange Act to require public reporting companies to disclose in their annual or quarterly reports any dealings or transactions the company or its affiliates engaged in during the previous reporting period involving Iran or other individuals and entities targeted by certain OFAC sanctions. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law or were conducted outside of the United States by a foreign affiliate. We are required to separately file, concurrently with this annual report, a notice that such activities have been disclosed in this annual report. The SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

Similar laws in non-U.S. jurisdictions, such as EU sanctions or the U.K. Bribery Act, as well as other applicable anti-bribery, anti-corruption, anti-money laundering, or sanction or other export control laws in the U.S. and abroad, may also impose stricter or more onerous requirements than the FCPA, OFAC, the U.S. Department of Commerce and the U.S. Department of State, and implementing them may disrupt our business or cause us to incur significantly more costs to comply with those laws. Different laws may also contain conflicting provisions, making compliance with all laws more difficult. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, civil or criminal financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our business, operating results and financial condition. In addition, we may be subject to successor liability for FCPA violations or other acts of bribery, or violations of applicable sanctions or other export control laws committed by companies in which we or our funds invest or which we or our funds acquire.

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We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.

The activities of our businesses, including the investment decisions we make and the activities of our employees in connection with our portfolio companies, may subject us and them to the risk of litigation by third parties, including fund investors dissatisfied with the performance or management of their funds, debt or equity holders of our portfolio companies, and a variety of other potential litigants. See the section entitled "Litigation" appearing in Note 16 "Commitments and Contingencies" of our financial statements included elsewhere in this report. By way of example, we, our funds and certain of our employees are each exposed to the risks of litigation relating to investment activities of our funds and actions taken by the officers and directors (some of whom may be KKR employees) of portfolio companies, such as the risk of shareholder litigation by other shareholders of public companies or holders of debt instruments of companies in which our funds have significant investments. We are also exposed to risks of litigation, investigation or negative publicity in the event of any transactions that are alleged not to have been properly addressed.

To the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, such investors may have remedies against us, our investment funds, our employees or our affiliates. Investors in our funds do not have legal remedies against us, the general partners of our funds, our funds, our employees or our affiliates solely based on their dissatisfaction with the investment performance of those funds. While the general partners and investment advisers to our investment funds, including their directors, officers, employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity generally does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

In addition, we have formed and may continue to form funds targeting retail investors, which may subject us to additional risk of litigation and regulatory scrutiny. See "Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could adversely affect our business."

If any civil or criminal lawsuits were brought against us and resulted in a finding of substantial legal liability or culpability, the lawsuit could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously impact our business. We depend to a large extent on our business relationships and our reputation for integrity and high caliber professional services to attract and retain fund investors and qualified professionals and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

In addition, with a workforce composed of many highly paid professionals, we face the risk of litigation relating to claims for compensation or other damages, which may, individually or in the aggregate, be significant in amount. The cost of settling any such claims could negatively impact our business, financial condition and results of operations.

Misconduct of our employees or at our portfolio companies could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

There is a risk that our principals and employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our business and

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our authority over the assets we manage. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. We may also be adversely affected if there is misconduct by senior management of portfolio companies in which our funds invest, even though we may be unable to control or mitigate such misconduct. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships, as well as face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees or the employees of portfolio companies were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

Underwriting, syndicating and securities placement activities expose us to risks.

KKR Capital Markets LLC, a subsidiary of ours, may act as an underwriter, syndicator or placement agent in securities offerings, and our joint venture's subsidiary, MCS Capital Markets LLC, may also act as an underwriter, syndicator or placement agent in securities offerings. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities or indebtedness we purchased or placed as an underwriter, syndicator or placement agent at the anticipated price levels. As an underwriter, syndicator or placement agent, we also may be subject to potential liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite, syndicate or place.

We are subject to risks in using prime brokers, custodians, administrators and other agents.

Certain of our investment funds and our principal activities depend on the services of prime brokers, custodians, administrators and other agents to carry out certain securities transactions. In the event of the insolvency of a prime broker and/or custodian, our funds may not be able to recover equivalent assets in full as they will rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, our and our funds' cash held with a prime broker or custodian may not be segregated from the prime broker's or custodian's own cash, and our funds therefore may rank as unsecured creditors in relation thereto. The inability to recover assets from the prime broker or custodian could have a material impact on the performance of our funds and our business, financial condition and results of operations.

The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may materially strain our resources and materially increase our annual expenses.

The SEC may require in the future that we report our financial results under International Financial Reporting Standards, or IFRS, instead of under U.S. GAAP. IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board ("IASB") and are more focused on objectives and principles and less reliant on detailed rules than U.S. GAAP. Today, there remain significant and material differences in several key areas between U.S. GAAP and IFRS which would affect us if we were required to prepare financial statements in conformity with IFRS. Additionally, U.S. GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of KKR, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

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Risks Related to the Assets We Manage

As an investment manager, we sponsor and manage funds that make investments worldwide on behalf of third-party investors and, in connection with those activities, are required to deploy our own capital in those investments. The investments of these funds are subject to many risks and uncertainties which, to the extent they are material, are discussed below. In addition, we have balance sheet investments and manage those assets on our own behalf. These risks, as they apply to our balance sheet investments, may have a greater impact on our results and financial conditions as we directly bear the full risk of our balance sheet. As a result, the gains and losses on such assets are reflected in our net income and the risks set forth below relating to the assets that we manage will directly affect our operating performance.

The historical returns attributable to our funds, including those presented in this report, should not be considered as indicative of the future results of our funds, our balance sheet or of our future results or of any returns on our common units.

We have presented in this report certain information relating to our investment returns, such as net and gross IRRs, multiples of invested capital and realized and unrealized investment values for funds that we have sponsored and managed. The historical and potential future returns of the funds that we manage are not directly linked to returns on KKR Group Partnership Units.

Moreover, historical returns of our funds may not be indicative of the future results that you should expect from us, which could negatively impact the fees and incentive amounts received by us from such funds. In particular, the future results of our funds or balance sheet assets may differ significantly from their historical results including for the following reasons:

the rates of returns of our funds reflect unrealized gains as of the applicable valuation date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

the historical returns that we present in this report derive largely from the performance of our earlier private equity funds, whereas future fund returns will depend increasingly on the performance of our newer funds, which may have little or no investment track record, and in particular you will not benefit from any value that was created in our funds prior to the KPE Transaction to the extent such value has been realized and we may be required to repay excess amounts previously received in respect of carried interest in our funds if, upon liquidation of the fund, we have received carried interest distributions in excess of the amount to which we were entitled;

the future performance of our funds will be affected by macroeconomic factors, including negative factors arising from disruptions in the global financial markets that were not prevalent in the periods relevant to the historical return data included in this report;

in some historical periods, the rates of return of some of our funds have been positively influenced by a number of investments that experienced a substantial decrease in the average holding period of such investments and rapid and substantial increases in value following the dates on which those investments were made; the actual or expected length of holding periods related to investments is likely longer than such historical periods; those trends and rates of return may not be repeated in the future;

our newly established funds may generate lower returns during the period that they take to deploy their capital;

our funds' returns have benefited from investment opportunities and general market conditions in certain historical periods that may not repeat themselves, and there can be no assurance that

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our current or future funds will be able to avail themselves of comparable investment opportunities or market conditions; and

we may create new funds and investment products in the future that reflect a different asset mix in terms of allocations among funds, investment strategies, geographic and industry exposure, vintage year and economic terms.

In addition, our historical rates of return reflect our historical cost structure, which has varied and may vary further in the future. Certain of our newer funds, for example, have lower fee structures and also have performance hurdles. Future returns will also be affected by the risks described elsewhere in this report, including risks of the industry sectors and businesses in which a particular fund invests and changes in laws. See " Risks Related to our Business Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition."

Valuation methodologies for certain assets in our funds and on our balance sheet can be subjective and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds and us.

There are no readily ascertainable market prices for a substantial majority of illiquid investments of our investment funds, our finance vehicles or other assets on our balance sheet. When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. When an investment does not have a readily available market price, the fair value of the investment represents the value, as determined by us in good faith, at which the investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. When making fair value determinations for our private equity investments, we typically use a market multiples approach that considers a specified financial measure (such as EBITDA) and/or a discounted cash flow analysis. Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are valued by us based on ranges of valuations determined by an independent valuation firm.

Each of these methodologies requires estimates of key inputs and significant assumptions and judgments. We also consider a range of additional factors that we deem relevant, including the applicability of a control premium or illiquidity discount, the presence of significant unconsolidated assets and liabilities, any favorable or unfavorable tax attributes, the method of likely exit, financial projections, estimates of assumed growth rates, terminal values, discount rates including risk free rates, capital structure, risk premiums and other factors, and determining these factors may involve a significant degree of our management's judgment and the judgment of management of our portfolio companies.

Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available for our investments, such quotations may not reflect the value that we would actually be able to realize because of various factors, including possible illiquidity associated with a large ownership position, subsequent illiquidity in

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the market for a company's securities, future market price volatility or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance. Our partners' capital could be adversely affected if the values of investments that we record is materially higher than the values that are ultimately realized upon the disposal of the investments and changes in values attributed to investments from quarter to quarter may result in volatility in our AUM and such changes could materially affect the results of operations that we report from period to period. There can be no assurance that the investment values that we record from time to time will ultimately be realized and that we will be able to realize the investment values that are presented in this report.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of investments reflected in an investment fund's or finance vehicle's net asset value, or NAV, do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund or finance vehicle when such investments are realized. For example there may be liabilities such as unknown or uncertain tax exposures with respect to investments, especially those outside the United States, which may not be fully reflected in valuations. Realizations at values significantly lower than the values at which investments have been reflected in prior fund NAVs would result in losses for the applicable fund and the loss of potential carried interest and other fees. Also, if realizations of our investments produce values materially different than the carrying values reflected in prior fund NAVs, fund investors may lose confidence in us, which could in turn result in difficulty in raising capital for future funds.

In addition, because we value our entire portfolio only on a quarterly basis, subsequent events that may have a material impact on those valuations may not be reflected until the next quarterly valuation date.

Our investments are impacted by various economic conditions that are difficult to quantify or predict, and may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our financial condition and results of operations.

Our investments are impacted by various economic conditions that are difficult to quantify or predict and may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our financial condition and results of operations. For example,

Global equity markets, which may be volatile, significantly impact the valuation of our portfolio companies and, therefore, the investment income that we recognize. For our investments that are publicly listed and thus have readily observable market prices, global equity markets have a direct impact on valuation. For other investments, these markets have an indirect impact on valuation as we typically utilize a market multiples valuation approach as one of the methodologies to ascertain fair value of our investments that do not have readily observable market prices. In addition, the receptivity of equity markets to initial public offerings, or IPOs, as well as subsequent secondary equity offerings by companies already public, impacts our ability to realize investment gains.

Changes in credit markets can also impact valuations and may have offsetting results depending on the valuation methodology used. For example, we typically use a discounted cash flow analysis as one of the methodologies to ascertain the fair value of our investments that do not have readily observable market prices. If applicable interest rates rise, then the assumed cost of capital for those portfolio companies would be expected to increase under the discounted cash flow analysis, and this effect would negatively impact their valuations if not offset by other factors. Rising U.S. interest rates may also negatively impact certain foreign currencies that depend on foreign capital flows. Conversely, a fall in interest rates can positively impact valuations of certain portfolio companies if not offset by other factors. These impacts could be

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substantial depending upon the magnitude of the change in interest rates. In certain cases, the valuations obtained from the discounted cash flow analysis and the other primary methodology we use, the market multiples approach, may yield different and offsetting results. For example, the positive impact of falling interest rates on discounted cash flow valuations may offset the negative impact of the market multiples valuation approach and may result in less of a decline in value than for those investments that had a readily observable market price. Finally, low interest rates related to monetary stimulus and economic stagnation may also negatively impact expected returns on all investments, as the demand for relatively higher return assets increases and supply decreases.

Foreign exchange rates can materially impact the valuations of our investments that are denominated in currencies other than the U.S. dollar. U.S. dollar appreciation relative to other currencies is likely to cause a decrease in the dollar value of non-U.S. investments to the extent unhedged.

Conditions in commodity markets impact the performance of our portfolio companies and other investments in a variety of ways, including through the direct or indirect impact on the cost of the inputs used in their operations as well as the pricing and profitability of the products or services that they sell. The price of commodities has historically been subject to substantial volatility, which among other things, could be driven by economic, monetary, political or weather related factors. If certain of our portfolio companies are unable to raise prices to offset increases in the cost of raw materials or other inputs, or if consumers defer purchases of or seek substitutes for the products of such portfolio companies, such portfolio companies could experience lower operating income which may in turn reduce the valuation of those portfolio companies. The value of energy real asset investments generally increase or decrease with the increase or decrease, respectively, of commodity prices. As we make additional investments in oil and gas companies and assets, the value of our portfolio and the investment income we realize may become increasingly sensitive to oil and gas prices. Apart from our energy real asset investments, a number of our other investments may be dependent to varying degrees on the energy sector through, for example, the provision of equipment and services used in energy exploration and production. These companies may benefit from an increase or suffer from a decline in commodity prices.

Changes in these factors can have a significant effect on the results of the valuation methodologies used to value our portfolio, and our reported fair values for these assets could vary materially if these factors from prior quarters were to change significantly. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Business Environment."

Global and regional economic conditions have a substantial impact on the value of investments. See "Risks Related to Our Business Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition."

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Dependence on significant leverage in investments by our funds and our balance sheet assets could adversely affect our ability to achieve attractive rates of return on those investments.

Because many of our funds' investments and our balance sheet assets rely heavily on the use of leverage, our ability to achieve attractive rates of return will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, our credit funds use varying degrees of leverage when making investments. Similarly, in many private equity investments, indebtedness may constitute 70% or more of a portfolio company's total debt and equity capitalization, including debt that may be incurred in connection with the investment, and a portfolio company's indebtedness may also increase in recapitalization transactions subsequent to the company's acquisition. The absence of available sources of sufficient debt financing for extended periods of time could therefore materially and adversely affect our funds and our portfolio companies. Also, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness such as we experienced during 2009 would make it more expensive to finance those investments. In addition, increases in interest rates could decrease the value of fixed-rate debt investments that our balance sheet assets, finance vehicles or our funds make. Increases in interest rates could also make it more difficult to locate and consummate private equity and other investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Capital markets are volatile, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are also inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

subject the entity to a number of restrictive covenants, terms and conditions, any violation of which would be viewed by creditors as an event of default and could materially impact our ability to realize value from our investment;

allow even moderate reductions in operating cash flow to render it unable to service its indebtedness;

give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;

limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;

limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or other general corporate purposes.

A leveraged company's income and equity also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. As a result, the risk of loss associated with a leveraged company is generally greater than for comparable companies with comparatively less debt. For example, leveraged companies could default on their debt obligations due to a decrease in

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revenues and cash flow precipitated by an economic downturn or by poor relative performance at such a company.

When our existing portfolio investments reach the point when debt incurred to finance those investments matures in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If the financing for such purposes were to be unavailable or uneconomic when significant amounts of the debt incurred to finance our existing portfolio investments start to come due, these investments could be materially and adversely affected. In the event of default or potential default under applicable financing arrangements, one or more of our portfolio companies may go bankrupt, which could give rise to substantial investment losses, adverse claims or litigation against us or our employees and damage to our reputation.

Among the sectors particularly challenged by downturns in the global credit markets, including the downturn experienced from 2008 through 2010, are the CLO and leveraged finance markets. We have significant exposure to these markets through our CLO subsidiaries, which we principally acquired in the acquisitions of KFN and Avoca. As of December 31, 2014, we indirectly hold below investment grade corporate loans and securities with a \$8.6 billion estimated fair market value through our CLO subsidiaries. Each of these subsidiaries is a special purpose company that issued to us and other investors notes secured by a pool of collateral consisting primarily of corporate leveraged loans. In most cases, our CLO holdings are deeply subordinated, representing the CLO subsidiary's substantial leverage, which increases both the opportunity for higher returns as well as the magnitude of losses when compared to holders or investors that rank more senior to us in right of payment. These loans and bonds also generally involve a higher degree of risk than investment grade rated debt including the risks described in the paragraphs above. Our CLO subsidiaries have historically experienced an increase in downgrades, depreciations in market value and defaults in respect of leveraged loans in their collateral during downturns in credit markets. The CLOs' portfolio profile tests set limits on the amount of discounted obligations a CLO can hold. During any time that a CLO issuer exceeds such a limit, the ability of the CLO's manager to sell assets and reinvest available principal proceeds into substitute assets is restricted. In such circumstances, CLOs may fail certain over-collateralization tests, which would cause diversions of cash flows away from us as holders of the more junior CLO, which may impact our ability to make distributions to our unitholders. The ability of the CLOs to make interest payments to the holders of the senior notes of those structures is highly dependent upon the performance of the CLO collateral. If the collateral in those structures were to experience a significant decrease in cash flow due to an increased default level, payment of all principal and interest outstanding may be accelerated as a result of an event of default or by holders of the senior notes. There can be no assurance that market conditions giving rise to these types of consequences will not occur, re-occur, subsist or become more acute in the future. In July 2009, KFN surrendered for cancellation approximately \$298.4 million in aggregate of notes issued to it by certain of its CLOs. The surrendered notes were cancelled and the obligations due under such notes were deemed extinguished. Because our CLO structures involve complex collateral and other arrangements, the documentation for such structures is complex, is subject to differing interpretations and involves legal risk. These CLOs have served as long-term, non-recourse financing for debt investments and as a way to minimize refinancing risk, minimize maturity risk and secure a fixed cost of funds over an underlying market interest rate. An inability to continue to utilize CLOs or other similar financing vehicles successfully could limit our ability to fund future investments, grow our business or fully execute our business strategy and our results of operations may be adversely affected.

Our CLO subsidiaries regularly use significant leverage to finance their assets. An inability by such subsidiaries to continue to raise or utilize leverage, to refinance or extend the maturities of their outstanding indebtedness or to maintain adequate levels of collateral under the terms of their

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collateralized loan obligations could limit their ability to grow their business, reinvest principal cash, distribute cash to us or fully execute their business strategy, and our results of operations may be adversely affected. If these subsidiaries are unable to maintain their operating results and access to capital resources, they could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. These CLO strategies and the value of the assets of such CLO subsidiaries are also sensitive to changes in interest rates because these strategies rely on borrowed money and because the value of the underlying portfolio loans can fall when interest rates rise. If interest rates on CLO borrowings increase and the interest rates on the portfolio do not also increase, the CLO strategy is unlikely to achieve its projected returns. Also, if interest rates increase in the future, our CLO portfolio will likely experience a reduction in value because it would hold assets receiving below market rates of interest.

Our hedge fund-of-funds, long/short credit fund, other credit-oriented funds and CLOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or debt obligations or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost and the timing and magnitude of such losses may be accelerated or exacerbated in the event of a decline in the market value of such securities or debt obligations. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, to identify possible risks associated with that investment and, in the case of private equity investments, to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we typically evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Outside consultants, legal advisors, accountants and investment banks are involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence process may at times be subjective with respect to newly organized companies for which only limited information is available.

Instances of bribery, fraud, accounting irregularities and other improper, illegal or corrupt practices can be difficult to detect, and fraud and other deceptive practices can be widespread in certain jurisdictions. Several of our funds invest in emerging market countries that may not have established laws and regulations that are as stringent as in more developed nations, or where existing laws and regulations may not be consistently enforced. For example, our funds invest throughout jurisdictions that have material perceptions of corruption according to international rating standards (such as

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"Transparency International" and "Corruption Perceptions Index") such as China, India, Indonesia, Latin America, the Middle East and Africa. Due diligence on investment opportunities in these jurisdictions is frequently more complicated because consistent and uniform commercial practices in such locations may not have developed. Bribery, fraud, accounting irregularities and corrupt practices can be especially difficult to detect in such locations.

The due diligence conducted for certain of our Public Markets strategies is limited to publicly available information. Accordingly, we cannot be certain that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts (including fraud, bribery and other illegal activities and contingent liabilities) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities. We also cannot be certain that our due diligence investigations will result in investments being successful or that the actual financial performance of an investment will not fall short of the financial projections we used when evaluating that investment.

When we conduct due diligence in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds' investment in a particular hedge fund.

Our investment management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the capital invested.

Many of our funds and our balance sheet may hold investments in securities that are not publicly traded. In many cases, our funds or we may be prohibited by contract or by applicable securities laws from selling such securities at many points in time. Our funds or we will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available, and then only at such times when we do not possess material nonpublic information. The ability of many of our funds or us to dispose of investments is heavily dependent on the capital markets and in particular the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is made. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing our investment returns to risks of downward movement in market prices during the intended disposition period. In addition, as certain of our funds have a finite term, we could be forced to dispose of investments sooner than otherwise desirable. Accordingly, under certain conditions, our funds may be forced to either sell securities at lower prices than they had expected to realize or defer sales that they had planned to make, potentially for a considerable period of time. Moreover, we may determine that we may be required to sell our balance sheet assets alongside our funds' investments at such times. We have made and expect to continue to make significant capital investments in our current and future funds and other strategies. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments.

Our investments are subject to a number of inherent risks.

Our results are highly dependent on our continued ability to generate attractive returns from our investments. Investments made by our private equity, credit or other investments involve a number of significant risks inherent to private equity, credit and other investing, including the following:

companies in which investments are made may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a

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deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

companies in which investments are made are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects;

companies in which investments are made may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

instances of bribery, fraud and other deceptive practices committed by senior management of portfolio companies in which our funds or we invest may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a fund's investments as well as contribute to overall market volatility that can negatively impact a fund's or our investment program;

our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise, resulting in a lower than expected return on the investments and, potentially, on the fund itself;

our portfolio companies generally have capital structures established on the basis of financial projections based primarily on management judgments and assumptions, and general economic conditions and other factors may cause actual performance to fall short of these financial projections, which could cause a substantial decrease in the value of our equity holdings in the portfolio company and cause our funds' or our performance to fall short of our expectations;

executive officers, directors and employees of an equity sponsor may be named as defendants in litigation involving a company in which an investment is made or is being made, and we or our funds may indemnify such executive officers, directors or employees for liability relating to such litigation;

we advise funds that invest in businesses that operate in a variety of industries that are subject to extensive domestic and foreign regulation (including companies that supply services to governmental agencies), such as the telecommunications industry, the defense and government services industry, the healthcare industry and oil and gas industry, that may involve greater risk due to rapidly changing market and governmental conditions in those sectors;

our transactions involve complex tax structuring that could be challenged or disregarded, which may result in losing treaty benefits or would otherwise adversely impact our investments; and

significant failures of our portfolio companies to comply with laws and regulations applicable to them could affect the ability of our funds or us to invest in other companies in certain industries in the future and could harm our reputation;

Our investments in real assets such as real estate, infrastructure assets and energy may expose us to increased risks and liabilities and may expose our unitholders to adverse tax consequences.

Investments in real assets, which may include real estate, infrastructure assets, oil and gas properties and other energy assets, may expose us to increased risks and liabilities that are inherent in the ownership of real assets. For example,

Ownership of real assets in our funds or vehicles may increase our risk of liability under environmental laws that impose, regardless of fault, joint and several liability for the cost of

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remediating contamination and compensation for damages. In addition, changes in environmental laws or regulations or the environmental condition of an investment may create liabilities that did not exist at the time of acquisition that would not have been foreseen. Even in cases where we are indemnified by a seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or our ability to achieve enforcement of such indemnities.

Ownership of real assets may also present additional risk of liability for personal and property injury or impose significant operating challenges and costs, for example with respect to compliance with zoning, environmental or other applicable laws.

Real asset investments may face construction risks, without limitation: (i) labor disputes, shortages of material and skilled labor, or work stoppages; (ii) slower than projected construction progress and the unavailability or late delivery of necessary equipment; (iii) less than optimal coordination with public utilities in the relocation of their facilities; (iv) adverse weather conditions and unexpected construction conditions; (v) accidents or the breakdown or failure of construction equipment or processes; (vi) catastrophic events such as explosions, fires, and terrorist activities, and other similar events and (vii) risks associated with holding direct or indirect interests in undeveloped land or underdeveloped real property. These risks could result in substantial unanticipated delays or expenses (which may exceed expected or forecasted budgets) and, under certain circumstances, could prevent completion of construction activities once undertaken. Certain real asset investments may remain in construction phases for a prolonged period and, accordingly, may not be cash generative for a prolonged period. Recourse against the contractor may be subject to liability caps or may be subject to default or insolvency on the part of the contractor.

The operation of real assets is exposed to potential unplanned interruptions caused by significant catastrophic or force majeure events. These risks could, among other effects, adversely impact the cash flows available from investments in real assets, cause personal injury or loss of life, damage property, or instigate disruptions of service. In addition, the cost of repairing or replacing damaged assets could be considerable. Repeated or prolonged service interruptions may result in permanent loss of customers, litigation, or penalties for regulatory or contractual non-compliance. Force majeure events that are incapable of, or too costly to, cure may also have a permanent adverse effect on an investment.

The management of the business or operations of a real asset may be contracted to a third-party management company unaffiliated with us. Although it would be possible to replace any such operator, the failure of such an operator to adequately perform its duties or to act in ways that are in the portfolio company's best interest, or the breach by an operator of applicable agreements or laws, rules, and regulations, could have an adverse effect on the investment's financial condition or results of operations. Real asset investments may involve the subcontracting of design and construction activities in respect of projects, and as a result our investments are subject to the risk that contractual provisions passing liabilities to a subcontractor could be ineffective, the subcontractor fails to perform services which it has agreed to provide and in cases where a single subcontractor provides services to various investments, the subcontractor becomes insolvent.

Without limiting the foregoing disclosure, we note that investments that we have made and will continue to make in the oil and gas industries may present specific environmental, safety and other inherent risks, and such investments are subject to stringent and complex foreign, federal, state and local laws, ordinances and regulations specific to oil and gas industries, for example governing controls, taxes, transportation of oil and natural gas, exploration and production, permitting, and various

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conservation laws and regulations applicable to oil and natural gas production and related operations in addition to regulations governing occupational health and safety, the discharge of materials into the environment or otherwise relating to environmental protection. Failure to comply with applicable laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations and the issuance of orders enjoining some or all of our operations in affected areas. These laws and regulations may also restrict the rate of oil and natural gas production below the rate that would otherwise be possible and increase the cost of production thus reducing profitability. Our oil and gas investments are subject to other risks, such as:

The acquisition of oil and gas properties at appropriate prices.

Currently unforeseen environmental incidents may occur or past non-compliance with environmental laws or regulations may be discovered making it difficult to predict the future costs or impact of compliance.

The oil and gas industries present inherent risk of personal and property injury, for which we may not be fully insured.

The use of new technologies, including hydraulic fracturing.

Our estimated oil, natural gas, and natural gas liquids reserve quantities and future production rates are based on many assumptions that may prove to be inaccurate. Any material inaccuracies in these reserve estimates or the underlying assumptions will materially affect the quantities and value of our reserves.

The performance of our energy investments depend on the skill, ability and decisions of third party operators. The success of our investment will depend on their exploitation, development, construction and drilling activities and the timing and cost of drilling, completing and operating wells. Failure of such operators to comply with applicable laws, rules and regulations could result in liabilities to us, reduce the value of our interest in the oil and natural gas properties, adversely affect our cash flows and results of operations.

If commodity prices decline and remain depressed for a prolonged period, a significant portion of our development projects may become uneconomic and cause write downs of the value of our oil and natural gas properties, which may reduce the value of our energy investments, have a negative impact on our ability to use these investments as collateral or otherwise have a material adverse effect on our results of operations.

Investments in real estate are subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control.

The success of certain investments will depend on the ability to restructure and effect improvements in the operations of the applicable properties, and there is no assurance, we will be successful in identifying or implementing such restructuring programs and improvements.

If we acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated

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with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

The strategy of our real estate funds may be based, in part, on the availability for purchase of assets at favorable prices, and upon the continuation or improvement of market conditions, or on the availability of refinancing. No assurance can be given that the real estate businesses or assets can be acquired or disposed of at favorable prices or that refinancing will be available.

Lenders in commercial real estate financing customarily will require a "bad boy" guarantee, which typically provides that the lender can recover losses from the guarantors for certain bad acts, such as fraud or intentional misrepresentation, intentional waste, willful misconduct, criminal acts, misappropriation of funds, voluntary incurrence of prohibited debt and environmental losses sustained by lender. For our acquisitions, "bad boy" guarantees would generally be extended by our funds, our balance sheet or a combination of both depending on the ownership of the relevant asset. In addition, "bad boy" guarantees typically provide that the loan will be a full personal recourse obligation of the guarantor, for certain actions, such as prohibited transfers of the collateral or changes of control and voluntary bankruptcy of the borrower. It is expected that commercial real estate financing arrangements generally will require "bad boy" guarantees and in the event that such a guarantee is called, a fund's or our assets could be adversely affected. Moreover, "bad boy" guarantees could apply to actions of the joint venture partners associated with the investments, and in certain cases the acts of such joint venture partner could result in liability to our funds or us under such guarantees.

The acquisition, ownership and disposition of real properties carry certain specific litigation risks. Litigation may be commenced with respect to a property acquired in relation to activities that took place prior to the acquisition of such property. In addition, at the time of disposition, other potential buyers may bring claims related to the asset or for due diligence expenses or other damages. After the sale of a real estate asset, buyers may later sue our funds or us for losses associated with latent defects or other problems not uncovered in due diligence.

Our funds or we may be subject to certain risks associated with investments in particular assets. Real estate investment trusts (or REITs) be affected by changes in the value of their underlying properties and by defaults by borrowers or tenants. REITs depend on their ability to generate cash flow to make distributions and may be impacted by changes in tax laws or by a failure to qualify for tax-free pass through income. Investments in real estate debt investments may be unsecured and subordinated to a substantial amount of indebtedness. Such debt investments may not be protected by financial covenants. Non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan. Investments in commercial mortgage loans are subject to risks of delinquency and foreclosure, and risks of loss. In the event of any default under a mortgage loan held directly by our fund or us, our fund or we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal to the extent of any deficiency between the value of the collateral the principal and accrued interest of the loan. Investments in assets or businesses that are distressed may have little or no near term cash flow and involve a high degree of risk. Such investments subject to bankruptcy or insolvency could be subordinated or disallowed.

Infrastructure investments involve an ongoing commitment to a municipal, state, federal or foreign government or regulatory agencies. The nature of these obligations exposes the owners of infrastructure

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investments to a higher level of regulatory control than typically imposed on other businesses. They may also rely on complex government licenses, concessions, leases or contracts, which may be difficult to obtain or maintain. Revenues for such investments may rely on contractual agreements for the provision of services with a limited number of counterparties, and are consequently subject to counterparty default risk. The operations and cash flow of infrastructure investments are also more sensitive to inflation and, in certain cases, commodity price risk. Furthermore, services provided by infrastructure investments may be subject to rate regulations by government entities that determines or limits prices that may be charged. Similarly, users of applicable services or government entities in response to such users may react negatively to any adjustments in rates reducing the profitability of such infrastructure investments.

In addition, investments in real assets may cause adverse tax consequences for certain non-U.S. unitholders regarding income effectively connected with the conduct of a U.S. trade or business and the imposition of certain tax withholding. Please see " Risks Related to U.S. Taxation Non-U.S. persons face unique U.S. tax issues from owning our common units that may result in adverse tax consequences to them". Moreover, investments in real assets may also require all our unitholders to file tax returns and pay taxes in various state and local jurisdictions in the U.S. and abroad where these real assets are located. Please see "Risks Related to U.S. Taxation Holders of our common units may be subject to state, local and foreign taxes and return filing requirements as a result of owning such common units".

We and certain of our funds and CLOs invest in high-yield, below investment grade or unrated debt, or securities of companies that are experiencing significant financial or business difficulties, which generally entail greater risk, and if those losses are realized, it could adversely affect our results of operations, and our cash available for distribution to unitholders.

We and our funds in our Public Markets segment and our CLOs invest in below investment grade or unrated debt, including corporate loans and bonds, each of which generally involves a higher degree of risk than investment grade rated debt, and may be less liquid. Issuers of high yield or unrated debt may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. As a result, high yield or unrated debt is often less liquid than investment grade rated debt. Also, investments may be made in loans and other forms of debt that are not marketable securities and therefore are not liquid. In the absence of appropriate hedging measures, changes in interest rates generally will also cause the value of debt investments to vary inversely to such changes. The obligor of a debt security or instrument may not be able or willing to pay interest or to repay principal when due in accordance with the terms of the associated agreement and collateral may not be available or sufficient to cover such liabilities. Commercial bank lenders and other creditors may be able to contest payments to the holders of other debt obligations of the same obligor in the event of default under their commercial bank loan agreements. Sub-participation interests in syndicated debt may be subject to certain risks as a result of having no direct contractual relationship with underlying borrowers. Debt securities and instruments may be rated below investment grade by recognized rating agencies or unrated and face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments.

We and certain of our investment funds, especially in our special situations strategy, may invest in business enterprises involved in work-outs, liquidations, reorganizations, bankruptcies and similar transactions and may purchase high risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, we or the fund may be required to sell the investment at a loss. Investments in troubled companies may

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also be adversely affected by U.S. federal and state and non-U.S. laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation, which has the potential to adversely impact us or unrelated funds or portfolio companies. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss of the entire investment in such company. Such investments involve a substantial degree of risk, and a decline in value of the assets would have a material adverse effect on our financial performance.

Our investment in Nephila is exposed to natural catastrophe and weather risk.

Our investment in Nephila, an investment manager focused on investing in natural catastrophe and weather risk, is exposed to a risk of reduced revenues resulting from natural disasters. Because catastrophic loss events are by their nature unpredictable, historical results of operations of Nephila may not be indicative of its future results of operations. As a result of the occurrence of one or more major catastrophes in any given period, the expected returns from this investment may fall short of our expectations.

We often pursue investment opportunities that involve business, regulatory, legal or other complexities.

As an element of our investment style, we often pursue complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny, the application of complex tax laws or a greater risk of contingent liabilities. Our transactions involve complex tax structures that are costly to establish, monitor and maintain, and as we pursue a larger number of transactions across multiple assets classes and in multiple jurisdictions, such costs will increase and the risk that a tax matter is overlooked or inadequately or inconsistently addressed will increase. Consequently, we may fail to achieve the desired tax benefit or otherwise decrease the returns of our investments or damage the reputation of our firm. Changes in law and regulation and in the enforcement of existing law and regulation, such as antitrust laws and tax laws, also adds complexity and risk to our business. Further, we, directly or through our funds, may acquire an investment that is subject to contingent liabilities, which could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for us or our funds. In addition, in connection with the disposition of an investment in a portfolio company, we or a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. We or a fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by us or a fund, even after the disposition of an investment. Any of these risks could harm the performance of us or our funds.

Our private equity investments are typically among the largest in the industry, which involves certain complexities and risks that are not encountered in small- and medium-sized investments.

Our private equity funds make investments in companies with relatively large capitalizations, which involves certain complexities and risks that are not encountered in small-and medium-sized investments. For example, larger transactions may be more difficult to finance and exiting larger deals may present incremental challenges. In addition, larger transactions may pose greater challenges in implementing changes in the company's management, culture, finances or operations, and may entail greater scrutiny by regulators, interest groups and other third parties. These constituencies may be more active in opposing some larger investments by certain private equity firms.

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In some transactions, the amount of equity capital that is required to complete a large capitalization private equity transaction may be significant and are required to be structured as a consortium transaction. A consortium transaction involves an equity investment in which two or more other private equity firms serve together or collectively as equity sponsors. While we have sought to limit where possible the amount of consortium transactions in which we have been involved, we have participated in a significant number of those transactions. Consortium transactions generally entail a reduced level of control by our firm over the investment because governance rights must be shared with the other consortium investors. Accordingly, we may not be able to control decisions relating to a consortium investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in " Our funds have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree." Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment. Moreover, we have significant co-investments in such large investments, and as a result the poor performance of any such large investment may have a material adverse impact on our financial results. See " We and certain of our funds may make a limited number of investments, or investments that are concentrated in certain geographic regions or asset types, which could negatively affect our performance or the performance of our funds to the extent those concentrated investments perform poorly" and " Because we hold interests in some of our portfolio companies both through our management of private equity funds as well as through separate investments in those funds and direct co-investments, fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us."

We and our funds have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree.

We and our funds and accounts hold investments that include debt instruments and equity securities of companies that we do not control, and such investments may comprise an increasing part of our business. Such instruments and securities may be acquired by our funds and accounts through trading activities or through purchases of securities from the issuer or we may purchase such instruments and securities on a principal basis. In addition, our funds and accounts may acquire minority equity interests, particularly when making private equity investments in Asia or sponsoring investments as part of a large investor consortium or through many of our Public Markets funds, and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds or accounts retaining a minority investment. We and our funds, including our newer private equity funds, have made certain minority investments in publicly traded companies. We have also increasingly made minority investments in companies including hedge fund managers with our balance sheet assets. Transactions made by companies we do not control could be viewed as unwanted, damage our reputation, and consequently impair our ability to source transactions in the future. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. We are also reliant on the systems and processes of these companies including for financial information and valuations of our investments in or with them, including hedge fund managers and their funds, but we do not control the decisions and judgments made during such processes. Our investments in hedge fund managers through our stakes and seeding business may subject us to additional regulatory complexities or scrutiny if we are deemed to control the company for regulatory purposes, despite our minority interest. These asset managers may also be dependent on their founders and other key persons, and the loss of these key personnel could adversely impact our investment. If any of the foregoing were to occur, the value of the investments held by our funds or

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accounts or by us could decrease and our financial condition, results of operations and cash flow could be adversely affected.

We make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.

Many of our funds, vehicles and accounts invest or have the flexibility to invest a significant portion of their assets in the equity, debt, loans or other securities of issuers that are based outside of the United States. A substantial amount of these investments consist of private equity investments made by our private equity funds. For example, as of December 31, 2014, approximately 45% of the unrealized value of the investments of those funds and accounts was attributable to foreign investments. Investing in companies that are based or have significant operations in countries outside of the United States and, in particular, in emerging markets such as China and India, Eastern Europe, countries in south and southeast Asia, Brazil, Latin America and Africa, involves risks and considerations that are not typically associated with investments in companies established in the United States. These risks may include the following:

the possibility of exchange control regulations, restrictions on repatriation of profit on investments or of capital invested, political and social instability, nationalization or expropriation of assets;

the imposition of non-U.S. taxes and changes in tax law;

differences in the legal and regulatory environment, for example the recognition of information barriers, or enhanced legal and regulatory compliance;

greater levels of corruption and potential exposure to the FCPA and other laws that prohibit improper payments or offers of payments to foreign governments, their officials and other third parties;

violations of sanctions regimes;

limitations on borrowings to be used to fund acquisitions or dividends;

limitations on permissible counterparties in our transactions or consolidation rules that effectively restrict the types of businesses in which we may invest;

political risks generally, including political hostility to investments by foreign or private equity investors;

less liquid markets;

reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms;

adverse fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;

higher rates of inflation;

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less available current information about an issuer;

higher transaction costs;

less government supervision of exchanges, brokers and issuers;

less developed bankruptcy and other laws;

greater application of concepts like equitable subordination, which may, in bankruptcy or insolvency, result in the subordination of debt or other senior interests held by our investment

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funds, vehicles or accounts in companies in which our investment funds, vehicles or accounts also hold equity interests;

difficulty in enforcing contractual obligations;

lack of uniform accounting, auditing and financial reporting standards;

less stringent requirements relating to fiduciary duties;

fewer investor protections; and

greater price volatility.

As a result of the complexity of and lack of clear laws, precedent or authority with respect to the application of various income tax laws to our structures, the application of rules governing how transactions and structures should be reported is also subject to differing interpretations. In particular, certain jurisdictions, including Germany, Denmark, France, South Korea, Japan and Brazil, among others, have either proposed or adopted rules that seek to limit the amount of interest that may be deductible where the lender and the borrower are related parties (or where third party borrowings have been guaranteed by a related party) and in the case of Germany, without regard to whether the parties are related, or may seek to interpret existing rules in a more restrictive manner. In addition, the tax authorities of certain countries, such as Germany, Belgium, France, South Korea, and Singapore, have sought to disallow tax deductions for transaction and certain other costs at the portfolio company level either on the basis that the entity claiming the deduction does not benefit from the costs incurred or on other grounds. In Germany, tax losses and interest carry forwards in most cases would lose their value on a change of ownership due to restrictive legislation. There is also a significant risk that new German legislation regarding tax treatment of hybrid instruments as well as taxation on capital gains on minority stakes might be adopted. These measures will most likely adversely affect portfolio companies in those jurisdictions in which our investment funds have investments, and limit the benefits of additional investments in those countries. Our business is also subject to the risk that similar measures might be introduced in other countries in which our investment funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest.

In addition, certain countries such as Australia, China, India, Japan, Brazil and South Korea, where we have made investments, have sought to tax investment gains derived by nonresident investors, including private equity funds, from the disposition of the equity in companies operating in those countries. In some cases this development is the result of new legislation or changes in the interpretation of existing legislation and local authority assertions that investors have a local taxable presence or are holding companies for trading purposes rather than for capital purposes, or are not otherwise entitled to treaty benefits. With respect to India, a general anti-avoidance rule was introduced that would provide a basis for the tax authorities to subject other sales and investments through intermediate holding jurisdictions such as Mauritius to Indian tax. The proposed rule is presently scheduled to become effective for tax years beginning on or after April 1, 2015.

Further, the tax authorities in certain countries, such as Australia, Belgium, China, India, Denmark, Germany, and South Korea have sought to deny the benefits of income tax treaties or EU Directives with respect to withholding taxes on interest and dividends and in the case of South Korea, capital gains, of nonresident entities, on the basis that the entity benefiting from such treaty or Directive is not the owner of the income, is a mere conduit inserted primarily to access treaty benefits or Directives, or otherwise lacks substance.

As a result of the complexity of our structures, foreign jurisdictions may seek to tax an additional portion of the fee income associated with our management advisory activity. Foreign jurisdictions may assert that an additional amount of fee income is subject to local tax, potentially reducing our profits

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associated with such income, although this risk may be mitigated by the availability of foreign tax credits. We or our funds may also inadvertently establish a taxable presence in a jurisdiction because of activities conducted there. Compliance with tax laws and structures in these jurisdictions and the costs of adapting to changes in tax policies require significant oversight and cost.

Although we expect that most of the capital commitments of our funds, vehicles and accounts will be denominated in U.S. dollars, our investments and capital commitments that are denominated in a foreign currency, such as euro, will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the ability of countries to pay their national debt, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective or even available at all. If we engage in hedging transactions, we may be exposed to additional risks associated with such transactions. See " Risk management activities may adversely affect the return on our investments." Furthermore, we or our funds have and expect to continue to invest in European companies and companies that have operations that may be affected by the Eurozone economy. While concerns about sovereign defaults and the possibility that one or more countries might leave the European Union or the Eurozone are unresolved, such an event or austerity and other measures introduced in order to limit or contain these issues, could have a material adverse effect on investments by our funds in European companies. Legal uncertainty about the funding of euro denominated obligations following any break up of or exits from the Eurozone could also materially adversely affect a fund.

Third party investors in our funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.

Investors in certain of our funds make capital commitments to those funds that the funds are entitled to call from those investors at any time during prescribed periods. We depend on fund investors fulfilling their commitments when we call capital from them in order for such funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. Any fund investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may in the future also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If our fund investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

Our equity investments and many of our debt investments often rank junior to investments made by others, exposing us to greater risk of losing our investment.

In many cases, the companies in which we or our funds invest have, or are permitted to have, outstanding indebtedness or equity securities that rank senior to our or our fund's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of distributions, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of its

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investment. In addition, debt investments made by us or our funds in our portfolio companies may be equitably subordinated to the debt investments made by third parties in our portfolio companies. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of us or our funds to influence a company's affairs and to take actions to protect an investment may be substantially less than that of the senior creditors.

Risk management activities may adversely affect the return on our investments.

When managing exposure to market risks, we employ hedging strategies or certain forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates and currency exchange rates. The scope of risk management activities undertaken by us is selective and varies based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the types of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or prevent losses if the value of the position declines. However, such activities can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of the position. Such transactions may also limit the opportunity for gain if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price.

The success of any hedging or other derivative transactions that we enter into generally will depend on our ability to correctly predict market changes. As a result, while we may enter into such transactions in order to reduce our exposure to market risks, unanticipated market changes may result in poorer overall investment performance than if the hedging or other derivative transaction had not been executed. In addition, the degree of correlation between price movements of the instruments used in connection with hedging activities and price movements in a position being hedged may vary. Moreover, for a variety of reasons, we may not seek or be successful in establishing a perfect correlation between the instruments used in hedging or other derivative transactions and the positions being hedged. An imperfect correlation could prevent us from achieving the intended result and could give rise to a loss. In addition, it may not be possible to fully or perfectly limit our exposure against all changes in the value of its investments, because the value of investments is likely to fluctuate as a result of a number of factors, some of which will be beyond our control or ability to hedge.

The CFTC has proposed or adopted regulations governing swaps and security-based swaps, which may limit our trading activities and our ability to implement effective hedging strategies or increase the costs of compliance. See "Risks Related to Our Business Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business."

We and certain of our funds may make a limited number of investments, or investments that are concentrated in certain geographic regions or asset types, which could negatively affect our performance or the performance of our funds to the extent those concentrated investments perform poorly.

The governing agreements of our funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. Our private equity funds generally permit up to 20% of the fund to be invested in a single company. Similarly, subject to certain concentration limits, our balance sheet may hold significant exposures to

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certain issuers, industries or asset classes. As of December 31, 2014, investments in private equity, CLOs, alternative credit, energy and real estate each represent more than 5% of our investments on a consolidated segment basis. During periods of difficult market conditions or slowdowns in these sectors or geographic regions, decreased revenues, difficulty in obtaining access to financing and increased funding costs may be exacerbated by this concentration of investments, which would result in lower investment returns. Because a significant portion of a fund's capital may be invested in a single investment or portfolio company, a loss with respect to such investment or portfolio company could have a significant adverse impact on such fund's capital. Accordingly, a lack of diversification on the part of a fund could adversely affect a fund's performance and therefore, our financial condition and results of operations. Where our balance sheet has a significant exposure to an issuer, industry or asset class, as was the case with energy investments on our balance sheet beginning in late 2014, losses may have an even greater impact on our financial condition and results of operations, as we would directly bear the full extent of such losses.

Because we hold interests in some of our portfolio companies both through our management of private equity funds as well as through separate investments in those funds and direct co-investments, fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us.

We hold interests in some of our portfolio companies through our management of private equity and other funds, as well as through separate investments in those funds and co-investments in certain portfolio companies of such funds. As of December 31, 2014, we hold significant aggregate investments in each of First Data Corporation and Walgreens Boots Alliance Inc. (the company resulting from Walgreen's acquisition of Alliance Boots GmbH), which each represent more than 5% of our investments on a consolidated segment basis. As a result of our disproportionate investment in these companies, or any other portfolio companies for which similar investments are held in the future, any fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us as compared to other portfolio companies.

Our business activities may give rise to a conflict of interest with our funds.

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to investment activities among our various funds and also our own account. For example,

In pursuing the interest of our fund investors, we may take actions that could reduce our AUM or our profits that we could otherwise realize in the short term.

We may be required to allocate investment opportunities among investment vehicles that may have overlapping investment objectives, including vehicles that may have different fee structures, and among KKR co-investment vehicles (including vehicles in which KKR employees may invest) and third party co-investors.

We may, on behalf of our funds or KKR itself, buy, sell, hold or otherwise deal with securities or other investments that may be purchased, sold or held by our other funds or that are otherwise issued by a portfolio company in which our funds invest. Conflicts of interest may arise between a fund, on one hand, and KKR on the other or among our funds including but not limited to those relating to the purchase or sale of investments, the structuring of, or exercise of rights with respect to investment transactions and the advice we provide to our funds.

We may invest on behalf of our fund or for our own account in a portfolio company of one fund that is a competitor, service provider, supplier, customer, or other counterparty with respect to a portfolio company of another fund.

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We may structure an investment in a manner that may be attractive to fund investors or to KKR Holdings L.P., from a tax perspective but that may require corporate taxation to unitholders.

A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund or our own account may result in our having to restrict the ability of other funds to take any action.

Our fiduciary obligations to our fund investors may preclude us from pursuing attractive proprietary investment opportunities, in particular as we enter into strategic relationships with broad investment mandates similar to the investments we make with our balance sheet. Notwithstanding the foregoing, we also allocate certain investments, which we believe are not suitable for our funds to our balance sheet.

Conflicts may arise in allocating investments, time, services, expenses or resources among the investment activities of our funds, KKR, other KKR-affiliated entities and the employees of KKR.

Our principals have made personal investments in a variety of our investment funds, which may result in conflicts of interest among investors of our funds or unitholders regarding investment decisions for these funds.

The general partner's entitlement to receive carried interest from many of our funds may create an incentive for that general partner to make riskier and more speculative investments on behalf of a fund than would be the case in the absence of such an arrangement. In addition, for our funds that pay carried interest based on accrued rather than realized gains, the amount of carried interest to which the general partner is entitled and the timing of its receipt of carried interest will depend on the valuation by the general partner of the fund's investment.

From time to time, one of our funds may seek to effect a purchase or sale of an investment with one or more of our other funds in a so-called "cross transaction".

The investors in our investment vehicles are based in a wide variety of jurisdictions and take a wide variety of forms, and consequently have diverging interests among themselves from a regulatory, tax or legal perspective or with respect to investment policies and target risk/return profiles.

We or our affiliates, including our capital markets business, may receive fees or other compensation in connection with specific transactions or different clients that may give rise to conflicts. The decision to take on an opportunity in one of our businesses may, as a practical matter, also limit the ability of one or our other businesses to take advantage of other related opportunities.

In addition, our funds and accounts also invest in a broad range of asset classes throughout the corporate capital structure. These investments include investments in corporate loans and debt securities, preferred equity securities and common equity securities. In certain cases, we may manage separate funds or accounts that invest in different parts of the same company's capital structure. For example, our credit funds may invest in different classes of the same company's debt and may make debt investments in a company that is owned by one of our private equity funds. In those cases, the interests of our funds may not always be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts. For example, one of our private equity funds could have an interest in pursuing an acquisition, divestiture or other transaction that, in its judgment, could enhance the value of the private equity investment, even though the proposed transaction would subject one of our credit fund's debt investments to additional or increased risks. Finally, our ability to effectively implement a public securities strategy may be limited to the extent that contractual obligations entered into in the ordinary course of our private equity business impose restrictions on our engaging in transactions that we may be interested in otherwise pursuing.

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We may also cause different investment funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. Conflicts may also arise where we make balance sheet investments for our own account or permit employees to invest alongside our investment vehicles or our balance sheet for their own account. In certain cases, we may require that a transaction or investment be approved by fund investors or their advisory committees, be approved by an independent valuation expert, be subject to a fairness opinion, be based on arms-length pricing data or be calculated in accordance with a formula provided for in a fund's governing documents prior to the completion of the relevant transaction to address potential conflicts of interest. Such instances include principal transactions where we or our affiliates warehouse an investment in a portfolio company for the benefit of one or more of our funds or accounts pending the contribution of committed capital by the investors in such funds or accounts, follow-on investments by a fund other than a fund which made an initial investment in a company or transactions in which we arrange for one of our funds or accounts to buy a security from, or sell a security to, another one of our funds or accounts.

Appropriately dealing with conflicts of interest is complex and difficult and we could suffer reputational damage or potential liability if we fail, or appear to fail, to deal appropriately with conflicts as they arise. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation which could in turn materially adversely affect our business in a number of ways, including as a result of an inability to raise additional funds and a reluctance of counterparties to do business with us.

Investors in certain of our Public Markets funds may redeem their investments in these funds with minimal notice.

Investors in our funds of funds along with those in our long/short credit strategy and other investment vehicles may generally submit redemptions to redeem their investments on a quarterly basis following the expiration of a specified period of time or in certain cases capital may be withdrawn earlier subject to a fee, in each case subject to the applicable fund's specific redemption provisions. For certain KKR Prisma funds managed as part of a single investor's mandate the length of time to redeem an investment may vary and will depend on the liquidity constraints of each KKR Prisma fund's underlying portfolio. Factors which could result in investors leaving our funds include changes in interest rates that make other investments more attractive, changes in investor perception regarding our focus or alignment of interest, unhappiness with a fund's performance or investment strategy, changes in our reputation, departures or changes in responsibilities of key investment professionals, performance and liquidity needs of fund investors. In a declining market or period of economic disruption or uncertainty, the pace of redemptions and consequent reduction in our AUM could accelerate. The decrease in revenues that would result from significant redemptions from our funds of funds or other similar investment vehicles could have a material adverse effect on our business, revenues, net income and cash flows.

A portion of assets invested in our fund of hedge funds strategy are managed through separately managed accounts or entities structured for investment by one investor or related investors whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account or single entity mandates. The investment management agreements we enter into in connection with managing separately managed accounts or entities on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice, or less in certain prescribed circumstances. In addition, the boards of directors of the certain funds we manage could terminate our advisory engagement of those companies, on as little as 30 days' prior written notice. Similarly, we provide subadvisory services to other investment advisors and managers. Such investment advisors and managers could terminate our subadvisory agreements on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with

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managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

In addition, certain funds in our Public Markets business are registered under the Investment Company Act as management investment companies. These funds and KKR Credit Advisors (US) LLC, which serves as their investment adviser (or, in the case of the business development company, as its sub-adviser), are subject to the Investment Company Act and the rules thereunder. One of these funds is a New York Stock Exchange-listed closed-end fund. In addition, the management fees we are paid for managing investment companies will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 60 days' prior notice. Termination of these agreements would reduce the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

Our funds of funds may be subject to risks related to the limited rights it has to withdraw, transfer or otherwise liquidate its investments.

A fund of funds is subject to risks related to the limited rights it has to withdraw, transfer or otherwise liquidate its investments from the underlying hedge funds or other funds in which it invests. Hedge funds, including those in which our fund of funds are invested and the hedge funds we offer to our fund investors, may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise.

Moreover, these risks may be exacerbated for funds of funds such as those we manage. For example, if one of our funds of funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. In 2008 many hedge funds experienced significant declines in value. In many cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets, often at distressed prices. Moreover, certain funds of funds were invested in hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of funds from receiving their capital back on request. There can be no guarantee that such a situation would not recur, particularly in times of market distress.

Terms of the governing documents in may also limit a fund of funds' ability to withdraw, transfer or otherwise liquidate their investments in underlying portfolio funds. Under the terms of the governing documents of the relevant portfolio funds or other investments, the ability of a fund of funds or account to redeem any amount invested therein may be subject to certain restrictions and conditions, including restrictions on the redemption of capital for an initial period, restrictions on the amount of redemptions and the frequency with which redemptions can be made, and investment minimums that must be maintained. Additionally, portfolio funds typically reserve the right to reduce ("gate") or suspend redemptions, to set aside ("side pocket") capital that cannot be redeemed for so long as an event or circumstance has not occurred or ceased to exist, respectively, and to satisfy redemptions by making distributions in-kind, under certain circumstances. The ability of our funds of funds or accounts to redeem portfolio fund interests may be adversely affected to varying degrees by such restrictions depending on, among other things, the length of any restricted periods imposed by the portfolio fund, the amount and timing of a requested redemption in relation to the time remaining of any restricted periods imposed by portfolio funds, the aggregate amount of redemption requests, the next regularly

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scheduled redemption dates of such portfolio funds, the imposition of "gates" or suspensions, the use of "side pockets", the decision by a portfolio fund to satisfy redemptions in-kind, and the satisfaction of other conditions.

Investments by our fund of funds and other hedge funds and similar investment vehicles are subject to numerous additional risks.

Investments by one or more hedge funds and investment vehicles with similar characteristics that we currently advise or may organize in the future are subject to numerous additional risks including the following:

Generally, there are few limitations on the execution of investment strategies of a hedge fund or fund of funds, which are subject to the sole discretion of the management company or the general partner of such funds.

Hedge funds may engage in short selling, which is subject to theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

We may enter into credit default swaps (or CDS) as investments or hedges. CDS involve greater risks than investing in the reference obligation directly. In addition to general market risks, CDS are subject to risks related to changes in interest rates, credit spreads, credit quality and expected recovery rates of the underlying credit instrument. A CDS is a contract in which the protection "buyer" is generally obligated to pay the protection "seller" an upfront or a periodic stream of payments over the term of the contract provided that no credit event, such as a default, on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the "par value" (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the issuer (also known as the reference entity) of the underlying credit instrument referenced in the CDS, or, if the swap is cash settled, the seller may be required to deliver the related net cash amount. The protection buyer will lose its investment and recover nothing should no event of default occur. If an event of default were to occur, the value of the reference obligation received by the protection seller (if any), coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the seller. If we act as the protection seller in respect of a CDS contract, we would be exposed to many of the same risks of leverage described herein since if an event of default occurs the seller must pay the buyer the full notional value of the reference obligation.

Hedge funds and investment vehicles with similar characteristics are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds and investment vehicles with similar characteristics are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the fund's internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution

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causes a series of defaults by the other institutions. This systemic risk may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds and investment vehicles with similar characteristics interact on a daily basis.

The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.

Hedge fund investments are also subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets. Our fund of hedge fund business may also be subject to and may subject our firm to extensive regulations, including those of the Commodity Futures Trading Commission and the regulations described under " Risks Related to Our Business Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business".

Risks Related to Our Common Units

As a limited partnership, we qualify for some exemptions from the corporate governance and other requirements of the NYSE.

We are a limited partnership and, as a result, qualify for exceptions from certain corporate governance and other requirements of the rules of the NYSE. Pursuant to these exceptions, limited partnerships may elect, and we have elected, not to comply with certain corporate governance requirements of the NYSE, including the requirements: (i) that the listed company have a nominating and corporate governance committee that is composed entirely of independent directors; (ii) that the listed company have a compensation committee that is composed entirely of independent directors and (iii) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, as a limited partnership, we are not required to obtain unitholder approval for (a) the issuance of common units to certain related parties where the number of common units exceeds one percent of the outstanding common units or voting power, (b) the issuance of common units that equals or exceeds 20% of the outstanding common units or voting power, or (c) a change of control transaction, and we are not required to hold annual unitholder meetings. Accordingly, you do not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the NYSE.

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Our founders are able to determine or influence the outcome of any matter that may be submitted for a vote of our limited partners.

Very few matters are required to be submitted to a vote of our unitholders, and generally such matters require a majority or more of all the outstanding voting units. As of February 20, 2015, KKR Holdings owns 377,196,749 KKR Group Partnership Units, or 47% of the outstanding KKR Group Partnership Units. Depending upon the number of units actually voted, we believe our senior employees should generally have sufficient voting power to substantially influence matters subject to a majority or more of all outstanding voting units. Matters that require a vote of a majority of all outstanding voting units include a merger or consolidation of our business, a sale of all or substantially all of our assets and amendments to our partnership agreement that may be material to holders of our common units. In addition, our limited partnership agreement contains provisions that require a majority vote of all outstanding voting units to make certain amendments to our partnership agreement that would materially and adversely affect all holders of our common units or a particular class of holders of common units, and since approximately 47% of our voting units, as of February 20, 2015, are controlled by KKR Holdings, we believe KKR Holdings should generally have the ability to substantially influence amendments that could materially and adversely affect the holders of our common units either as a whole or as a particular class.

The voting rights of holders of our common units are further restricted by provisions in our limited partnership agreement stating that any of our common units held by a person that beneficially owns 20% or more of any class of our common units then outstanding (other than our Managing Partner or its affiliates, or a direct or subsequently approved transferee of our Managing Partner or its affiliates) cannot be voted on any matter. Our limited partnership agreement also contains provisions limiting the ability of the holders of our common units to call meetings, to acquire information about our operations, and to influence the manner or direction of our management. Our limited partnership agreement does not restrict our Managing Partner's ability to take actions that may result in our partnership being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, holders of our common units would not be entitled to dissenters' rights of appraisal under our limited partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

Our limited partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our Managing Partner and limit remedies available to unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for unitholders to successfully challenge a resolution of a conflict of interest by our Managing Partner or by its conflicts committee.

Our limited partnership agreement contains provisions that require holders of our common units to waive or consent to conduct by our Managing Partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our limited partnership agreement provides that when our Managing Partner is acting in its individual capacity, as opposed to in its capacity as our Managing Partner, it may act without any fiduciary obligations to holders of our common units, whatsoever. When our Managing Partner, in its capacity as our general partner, or our conflicts committee is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable," then our Managing Partner or the conflicts committee will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any holder of our common units and will not be subject to any different standards imposed by our limited partnership agreement, the Delaware Revised Uniform Limited Partnership Act, which is referred to as the Delaware Limited Partnership Act, or under any other law, rule or regulation or in equity. These standards reduce the obligations to which our Managing Partner would otherwise be held. See also " We are a Delaware limited partnership, and there are provisions in our limited partnership agreement regarding

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exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our common unitholders."

The above modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and holders of our common units will only have recourse and be able to seek remedies against our Managing Partner if our Managing Partner breaches its obligations pursuant to our limited partnership agreement. Unless our Managing Partner breaches its obligations pursuant to our limited partnership agreement, we and holders of our common units will not have any recourse against our Managing Partner even if our Managing Partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our limited partnership agreement, our limited partnership agreement provides that our Managing Partner and its officers and directors will not be liable to us or holders of our common units, for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that our Managing Partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the holders of our common units because they restrict the remedies available to unitholders for actions that without such limitations might constitute breaches of duty including fiduciary duties.

Whenever a potential conflict of interest exists between us and our Managing Partner, our Managing Partner may resolve such conflict of interest. If our Managing Partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our Managing Partner, then it will be presumed that in making this determination, our Managing Partner acted in good faith. A holder of our common units seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our Managing Partner obtains the approval of the conflicts committee of our Managing Partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our Managing Partner of any duties it may owe to us or holders of our common units. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you purchase, receive or otherwise hold a common unit, you will be treated as having consented to the provisions set forth in our limited partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee.

We have also agreed to indemnify our Managing Partner and any of its affiliates and any member, partner, tax matters partner, officer, director, employee agent, fiduciary or trustee of our partnership, our Managing Partner or any of our affiliates and certain other specified persons, to the fullest extent permitted by law, against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts incurred by our Managing Partner or these other persons. We have agreed to provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We have also agreed to provide this indemnification for criminal proceedings.

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Our Managing Partner may exercise its right to call and purchase common units as provided in our limited partnership agreement or assign this right to one of its affiliates or to us. Our Managing Partner may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise this right. As a result, a unitholder may have his common units purchased from him at an undesirable time or price. For additional information, see our limited partnership agreement filed as an exhibit to this annual report.

Any claims, suits, actions or proceedings concerning the matters described above or any other matter arising out of or relating in any way to the limited partnership agreement may only be brought in the Court of Chancery of the State of Delaware or, if such court does not have subject matter jurisdiction thereof, any other court in the State of Delaware with subject matter jurisdiction.

The market price and trading volume of our common units may be volatile, which could result in rapid and substantial losses for our common unitholders.

The market price of our common units may be highly volatile, could be subject to wide fluctuations and could decline significantly in the future. In addition, the trading volume in our common units may fluctuate and cause significant price variations to occur. If the market price of our common units declines significantly, you may be unable to sell your common units at an attractive price, if at all. Some of the factors that could negatively affect the price of our common units or result in fluctuations in the price or trading volume of our common units include:

variations in our quarterly operating results or distributions, which may be substantial;

our policy of taking a long-term perspective on making investment, operational and strategic decisions, which is expected to result in significant and unpredictable variations in our quarterly returns;

failure to meet analysts' earnings estimates;

publication of research reports about us or the investment management industry or the failure of securities analysts to cover our common units sufficiently;

additions or departures of our principals and other key management personnel;

adverse market reaction to any indebtedness we may incur or securities we may issue in the future;

changes in market valuations of similar companies;

speculation in the press or investment community;

changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;

a lack of liquidity in the trading of our common units;

adverse publicity about the investment management or private equity industry generally or individual scandals, specifically;
and

general market and economic conditions.

An investment in our common units is not an investment in any of our funds, and the assets and revenues of our funds are not directly available to us.

Our common units are securities of KKR & Co. L.P. only. While our historical consolidated and combined financial information includes financial information, including assets and revenues, of certain

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funds on a consolidated basis, and our future financial information will continue to consolidate certain of these funds, such assets and revenues are available to the fund and not to us except to a limited extent through management fees, carried interest or other incentive income, distributions and other proceeds arising from agreements with funds, as discussed in more detail in this report.

Our common unit price may decline due to the large number of common units eligible for future sale, for exchange, and issuable pursuant to our equity incentive plan and acquisitions.

The market price of our common units could decline as a result of sales of a large number of common units in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. As of February 20, 2015, we have 433,522,550 common units outstanding, which amount excludes common units beneficially owned by KKR Holdings in the form of KKR Group Partnership Units discussed below and common units available for future issuance under the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our Equity Incentive Plan.

As of February 20, 2015, KKR Holdings owns 377,196,749 KKR Group Partnership Units that may be exchanged, on a quarterly basis, for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Except for interests held by our founders and certain interests held by other principals that were vested upon grant, interests in KKR Holdings that are held by our principals are subject to time based vesting or performance based vesting at the time of grant and, following such vesting, additional restrictions in certain cases on exchanges for a period of one or two years. During 2014, 25,781,621 previously unvested units in KKR Holdings vested. The market price of our common units could decline as a result of the exchange or the perception that an exchange may occur of a large number of KKR Group Partnership Units for our common units. These exchanges, or the possibility that these exchanges may occur, also might make it more difficult for holders of our common units to sell our common units in the future at a time and at a price that they deem appropriate.

In addition, we will continue to issue additional common units pursuant to our Equity Incentive Plan. The total number of common units which may be issued under our Equity Incentive Plan is equivalent to 15% of the number of fully exchanged and diluted common units outstanding as of the beginning of the year. The amount may be increased each year to the extent that we issue additional equity. In addition, our limited partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our Managing Partner in its sole discretion without the approval of our unitholders, including awards representing our common units under the Equity Incentive Plan. See "Executive Compensation KKR & Co. L.P. Equity Incentive Plan". In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partner interests that have designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to our common units. Similarly, the partnership agreements of the KKR Group Partnerships authorize the general partners of the KKR Group Partnerships to issue an unlimited number of additional securities of the KKR Group Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the KKR Group Partnerships Units, and which may be exchangeable for KKR Group Partnership Units. In addition, we have and may continue to issue and sell common units of KKR & Co. L.P. to generate cash proceeds to pay withholding taxes, social benefit payments or similar payments payable by us in respect of awards granted pursuant to the Equity Incentive Plan or the amount of cash delivered in respect of awards granted pursuant to the Equity Incentive Plan that are settled in cash instead of common units.

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We have used and in the future may continue to use common units as consideration in acquisitions and strategic investments. For example, in connection with KKR's acquisition of KFN, KKR issued approximately 104.3 million common units of KKR & Co. L.P., and in connection with KKR's acquisition of Avoca, we issued securities exchangeable into 4.9 million common units. In addition, in connection with the Prisma and Nephila transactions, we may make certain contingent payments in the form of common units. If our valuations of these transactions are not accurate or if the value of these acquisitions and investments is not realized, our distributions per common unit and the value of our common units may decline. In addition, as of February 20, 2015, KKR may issue (i) up to 4.1 million common units as registered on its registration statement on Form S-3 (no. 333-196059) in respect of withholding taxes and cash settled equity awards as described therein and elsewhere in this report; (ii) a number of common units under the Equity Incentive Plan that were not registered on KKR's registration statement on Form S-8 (no. 333-171601), and (iii) up to 377.2 million common units pursuant to KKR's exchange agreement with KKR Holdings and the other parties thereto.

Risks Related to Our Organizational Structure

Potential conflicts of interest may arise among our Managing Partner, our affiliates and us. Our Managing Partner and our affiliates have limited fiduciary duties to us and the holders of KKR Group Partnership Units, which may permit them to favor their own interests to our detriment and that of the holders of KKR Group Partnership Units.

Our Managing Partner, which is our general partner, will manage the business and affairs of our business, and will be governed by a board of directors that is co-chaired by our founders, who also serve as our Co-Chief Executive Officers. Conflicts of interest may arise among our Managing Partner and its affiliates, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our Managing Partner may favor its own interests and the interests of its affiliates over us and our unitholders. These conflicts include, among others, the following:

Our Managing Partner indirectly through its holding of controlling entities determines the amount and timing of the KKR Group Partnership's investments and dispositions, cash expenditures, including those relating to compensation, indebtedness, issuances of additional partner interests, tax liabilities and amounts of reserves, each of which can affect the amount of cash that is available for distribution to holders of KKR Group Partnership Units;

Our Managing Partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties, including fiduciary duties, to us. For example, our affiliates that serve as the general partners of our funds or as broker-dealers have fiduciary and/or contractual obligations to our fund investors or other third parties. Such obligations may cause such affiliates to regularly take actions with respect to the allocation of investments among our investment funds (including funds that have different fee structures), the purchase or sale of investments in our investment funds, the structuring of investment transactions for those funds and the advice and services we provide that comply with these fiduciary and contractual obligations but that might adversely affect our near-term results of operations or cash flow. Our Managing Partner will have no obligation to intervene in, or to notify us of, such actions by such affiliates;

Because certain of our principals indirectly hold their KKR Group Partnership Units through KKR Holdings L.P. and its subsidiaries, which are not subject to corporate income taxation and we hold some of the KKR Group Partnership Units through one or more wholly-owned subsidiaries that are taxable as a corporation, conflicts may arise between our principals and us relating to the selection and structuring of investments or transactions, declaring distributions and other matters; without limiting the foregoing, certain investments made by us or through our funds may be determined to be held through KKR Management Holdings L.P., which would

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result in less taxation to our principals who are limited partners in KKR Holdings as compared to our unitholders;

Our Managing Partner, including its directors and officers, has limited its and their liability and reduced or eliminated its and their duties, including fiduciary duties, under our partnership agreement to the fullest extent permitted by law, while also restricting the remedies available to holders of common units for actions that, without these limitations, might constitute breaches of duty, including fiduciary duties. In addition, we have agreed to indemnify our Managing Partner, including its directors and officers, and our Managing Partner's affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct;

Our partnership agreement does not restrict our Managing Partner from paying us or our affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under our partnership agreement. Neither our limited partnership agreement nor any of the other agreements, contracts and arrangements between us on the one hand, and our Managing Partner and its affiliates on the other, are or will be the result of arm's-length negotiations. The conflicts committee will be responsible for, among other things, enforcing our rights and those of our unitholders under certain agreements against KKR Holdings and certain of its subsidiaries and designees, a general partner or limited partner of KKR Holdings, or a person who holds a partnership or equity interest in the foregoing entities;

Our Managing Partner and its affiliates will have no obligation to permit us to use any facilities or assets of our Managing Partner and its affiliates, except as may be provided in contracts entered into specifically dealing with such use. There will not be any obligation of our Managing Partner and its affiliates to enter into any contracts of this kind.

Our Managing Partner determines how much debt we incur and that decision may adversely affect any credit ratings we receive;

Our Managing Partner determines which costs incurred by it and its affiliates are reimbursable by us;

Other than as set forth in the confidentiality and restrictive covenant agreements, which in certain cases may only be agreements between our principals and KKR Holdings and which may not be enforceable by us or otherwise waived, modified or amended, affiliates of our Managing Partner and existing and former personnel employed by our Managing Partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us;

Our Managing Partner controls the enforcement of obligations owed to the KKR Group Partnerships by us and our affiliates; and

Our Managing Partner or our Managing Partner conflicts committee decides whether to retain separate counsel, accountants or others to perform services for us.

See "Certain Relationships and Related Transactions, and Director Independence."

Certain actions by our Managing Partner's board of directors require the approval of the Class A shares of our Managing Partner, all of which are held by our senior principals.

All of our Managing Partner's outstanding Class A shares are held by our senior principals. Although the affirmative vote of a majority of the directors of our Managing Partner is required for any action to be taken by our Managing Partner's board of directors, certain specified actions approved

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by our Managing Partner's board of directors will also require the approval of a majority of the Class A shares of our Managing Partner. These actions consist of the following:

the entry into a debt financing arrangement by us in an amount in excess of 10% of our existing long-term indebtedness (other than the entry into certain intercompany debt financing arrangements);

the issuance by our partnership or our subsidiaries of any securities that would (i) represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 5% on a fully diluted, as converted, exchanged or exercised basis, of any class of our or their equity securities or (ii) have designations, preferences, rights, priorities or powers that are more favorable than those of KKR Group Partnership Units;

the adoption by us of a shareholder rights plan;

the amendment of our limited partnership agreement or the limited partnership agreements of the KKR Group Partnerships;

the exchange or disposition of all or substantially all of our assets or the assets of any KKR Group Partnership;

the merger, sale or other combination of the partnership or any KKR Group Partnership with or into any other person;

the transfer, mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the assets of the KKR Group Partnerships;

the appointment or removal of a Chief Executive Officer or a Co-Chief Executive Officer of our Managing Partner or our partnership;

the termination of the employment of any of our officers or the officers of any of our subsidiaries or the termination of the association of a partner with any of our subsidiaries, in each case, without cause;

the liquidation or dissolution of the partnership, our Managing Partner or any KKR Group Partnership; and

the withdrawal, removal or substitution of our Managing Partner as our general partner or any person as the general partner of a KKR Group Partnership, or the transfer of beneficial ownership of all or any part of a general partner interest in our partnership or a KKR Group Partnership to any person other than one of its wholly owned subsidiaries.

In addition, holders representing a majority of the Class A shares of our Managing Partner have the authority to unilaterally appoint our Managing Partner's directors and also have the ability to appoint the officers of our Managing Partner. Messrs. Kravis and Roberts, as the designated members of our Managing Partner, represent a majority of the total voting power of the outstanding Class A shares, when they act together. However, neither of them controls the voting of the Class A shares, when acting alone.

Our common unitholders do not elect our Managing Partner or vote on our Managing Partner's directors and have limited ability to influence decisions regarding our business.

Our common unitholders do not elect our Managing Partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our Managing Partner, they have no ability to remove our Managing Partner, with or without cause.

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The control of our Managing Partner may be transferred to a third party without our consent.

Our Managing Partner may transfer its general partner interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without our consent or the consent of our common unitholders. Furthermore, the members of our Managing Partner may sell or transfer all or part of their limited liability company interests in our Managing Partner without our approval, subject to certain restrictions. A new general partner may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as our track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

We intend to pay periodic distributions to the holders of our common units, but our ability to do so may be limited by our holding company structure and contractual restrictions.

We intend to pay cash distributions on a quarterly basis. We are a holding company and have no material assets other than the KKR Group Partnership Units that we hold through wholly-owned subsidiaries and have no independent means of generating income. Accordingly, we intend to cause the KKR Group Partnerships to make distributions on the KKR Group Partnership Units, including KKR Group Partnership Units that we directly or indirectly hold, in order to provide us with sufficient amounts to fund distributions we may declare. If the KKR Group Partnerships make such distributions, other holders of KKR Group Partnership Units, including KKR Holdings, will be entitled to receive equivalent distributions pro rata based on their KKR Group Partnership Units.

The declaration and payment of any future distributions will be at the sole discretion of our Managing Partner, which may change our distribution policy at any time. Our Managing Partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, compensation expense, working capital requirements and anticipated cash needs, debt and contractual restrictions and obligations (including payment obligations pursuant to the tax receivable agreement), legal, tax and regulatory restrictions, restrictions or other implications on the payment of distributions by us to the holders of KKR Group Partnership Units or by our subsidiaries to us and such other factors as our Managing Partner may deem relevant. Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our ability to characterize such distributions as capital gains or qualified dividend income may be limited, and you should expect that some or all of such distributions may be regarded as ordinary income.

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We will be required to pay our principals for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we receive in connection with subsequent exchanges of our common units and related transactions.

We and one or more of our intermediate holding companies are required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. To the extent this occurs, the exchanges are expected to result in an increase in one of our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of income tax our intermediate holding companies would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We are party to a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation will be an obligation of our intermediate holding companies and not of either KKR Group Partnership. In the event that any of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each such entity will become subject to a tax receivable agreement with substantially similar terms. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our taxable income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of the KKR Group Partnerships, the payments that we may be required to make to our existing owners will be substantial. The payments under the tax receivable agreement are not conditioned upon our existing owners' continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreement as a result of timing discrepancies or otherwise. In particular, our intermediate holding companies' obligations under the tax receivable agreement would be effectively accelerated in the event of an early termination of the tax receivable agreement by our intermediate holding companies or in the event of certain mergers, asset sales and other forms of business combinations or other changes of control. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity.

Payments under the tax receivable agreement will be based upon the tax reporting positions that our Managing Partner will determine. We are not aware of any issue that would cause the IRS to challenge a tax basis increase. However, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the tax benefits we claim arising from such increase, is successfully challenged by the IRS. As a result, in certain circumstances, payments to KKR Holdings or its transferees under the tax receivable agreement could be in excess of the intermediate holding companies' cash tax savings. The intermediate holding companies' ability to achieve benefits from any tax basis increase, and the payments to be made under

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this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

If we were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

A person will generally be deemed to be an "investment company" for purposes of the Investment Company Act if:

it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or

absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

We believe that we are engaged primarily in the business of providing investment management services and not in the business of investing, reinvesting or trading in securities. We regard ourselves as an investment management firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that we are an "orthodox" investment company as defined in Section 3(a)(1)(A) of the Investment Company Act and described in the first bullet point above.

With regard to the provision described in the second bullet point above, we have no material assets other than our equity interests in subsidiaries, which in turn have no material assets other than equity interests, directly or indirectly, in the KKR Group Partnerships. Through these interests, we indirectly are the sole general partners of the KKR Group Partnerships and indirectly are vested with all management and control over the KKR Group Partnerships. We do not believe our equity interests in our subsidiaries are investment securities, and we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities. Accordingly, based on our determination, less than 40% of the partnership's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. However, our subsidiaries have a significant number of investment securities, and we expect to make investments in other investment securities from time to time. We monitor these holdings regularly to confirm our continued compliance with the 40% test described in the second bullet point above. The need to comply with this 40% test may cause us to restrict our business and subsidiaries with respect to the assets in which we can invest and/or the types of securities we may issue, sell investment securities, including on unfavorable terms, acquire assets or businesses that could change the nature of our business or potentially take other actions which may be viewed as adverse by the holders of our common units, in order to ensure conformity with exceptions provided by, and rules and regulations promulgated under, the Investment Company Act.

With respect to our subsidiary KFN, we believe it is not and does not propose to be primarily engaged in the business of investing, reinvesting or trading in securities, and we do not believe that KFN has held itself out as such. KFN conducts its operations primarily through its majority-owned subsidiaries, each of which is either outside of the definition of an investment company as defined in the Investment Company Act or excepted from such definition under the Investment Company Act. KFN monitors its holdings regularly to confirm its continued compliance with the 40% test described in the second bullet point above, and restricts its subsidiaries with respect to the assets in which each of them can invest and/or the types of securities each of them may issue in order to ensure conformity with exceptions provided by, and rules and regulations promulgated under, the Investment Company Act. If the SEC were to disagree with KFN's treatment of one or more of its subsidiaries as being excepted from the Investment Company Act, with its determination that one or more of its other

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holdings are not investment securities for purposes of the 40% test, or with its determinations as to the nature of its business or the manner in which it holds itself out, KFN and/or one or more of its subsidiaries could be required either (i) to change substantially the manner in which it conducts its operations to avoid being subject to the Investment Company Act or (ii) to register as an investment company. Either of these would likely have a material adverse effect on KFN, its ability to service its indebtedness and to make distributions on its shares, and on the market price of its shares and securities, and could thereby materially adversely affect our business, financial condition and results of operations.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that we will not be deemed to be an investment company under the Investment Company Act. If anything were to happen which would cause the partnership to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on our capital structure, ability to transact business with affiliates and ability to compensate key employees, would make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among the partnership, the KKR Group Partnerships and KKR Holdings, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal, potentially divest of our investments or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the Investment Company Act.

On August 31, 2011 the SEC published an advance notice of proposed rulemaking regarding Rule 3a-7 and a concept release seeking information on Section 3(c)(5)(C), two provisions with which KKR's subsidiaries, including KFN, must comply under the 40% test described above. Among the issues for which the SEC has requested comment is whether Rule 3a-7 should be modified so that parent companies of subsidiaries that rely on Rule 3a-7 should treat their interests in such subsidiaries as investment securities for purposes of the 40% test. The SEC is also seeking information about the nature of entities that invest in mortgages and mortgage-related pools and how the SEC staff's interpretive positions in connection with Section 3(c)(5)(C) affect these entities. Any guidance or action from the SEC or its staff, including changes that the SEC may ultimately propose and adopt to the way Rule 3a-7 applies to entities or new or modified interpretive positions related to Section 3(c)(5)(C), could further inhibit KKR's ability, or the ability of any of its subsidiaries, including KFN, to pursue its current or future operating strategies, which could have a material adverse effect on us.

We are a Delaware limited partnership, and there are certain provisions in our limited partnership agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our common unitholders.

Our limited partnership agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director derived an improper personal benefit. In addition, our limited partnership agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation,

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and, in criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our limited partnership agreement may be less protective of the interests of our common unitholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors. See also " Our limited partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our limited partner and limit remedies available for unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for unitholders to successfully challenge a resolution of a conflict of interest by our Managing Partner or by its conflicts committee."

Risks Related to U.S. Taxation

If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to you would be substantially reduced and the value of our common units could be adversely affected.

The value of your investment in us depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code of 1986, as amended (the "Code"), and that our partnership not be registered under the Investment Company Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities, gain from the sale or other disposition of real property, real property rents, income and gains from energy and oil and gas investments and certain other forms of investment income. We intend to structure our investments so as to satisfy these requirements, including by generally holding investments that generate non-qualifying income through one or more subsidiaries that are treated as corporations for U.S. federal income tax purposes. Nonetheless, we may not meet these requirements, may not correctly identify investments that should be owned through corporate subsidiaries, or current law may change so as to cause, in any of these events, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject us to U.S. federal income tax. We have not requested, and do not plan to request, a ruling from the IRS, on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal, state and local income tax on our taxable income at the applicable tax rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would otherwise flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to you would be substantially reduced which could cause a reduction in the value of our common units.

You will be subject to U.S. federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions, and you may recognize income in excess of cash distributions.

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Code and we are not required to register as an investment company under the Investment Company Act on a continuing basis, and assuming there is no change in law, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. As a result, a U.S. unitholder will be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on its allocable share of our items of income, gain, loss, deduction and credit (including its allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within the unitholder's taxable year, regardless of whether or when such unitholder receives cash distributions. See " Risks Related to Our Business The U.S. Congress has considered legislation that would have (i) in some cases after a ten-year period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (ii) taxed certain income and gains at increased rates. If

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any similar legislation were to be enacted and apply to us, the after-tax income and gain related to our business, as well as the market price of our units, could be reduced."

You may not receive cash distributions equal to your allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a controlled foreign corporation, or a CFC, a passive foreign investment company, or a PFIC, or entities treated as partnerships for U.S. federal income tax purposes, may produce taxable income prior to the receipt of cash relating to such income, and holders of our common units that are U.S. taxpayers may be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of the partnership status for which the IRS has granted limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require the holders of our common units to recognize additional amounts in income during the years in which they hold such units. In addition, because of our methods of allocating income and gain among holders of our common units, you may be taxed on amounts that accrued economically before you became a unitholder. For example, phantom income from the portfolio or due to operational activities may arise during a month and be allocated to you, creating taxable liability that KKR would not consider in a quarterly distribution. Moreover, KKR generally does not make annual tax distributions. Consequently, you may recognize taxable income without receiving any cash.

Although we expect that distributions we make should be sufficient to cover a holder's tax liability in any given year that is attributable to its investment in us, no assurances can be made that this will be the case either quarterly or in any particular period. In any case, we will be under no obligation to make any distribution and, in certain circumstances, may not be able to make any distributions or will only be able to make distributions in amounts less than a holder's tax liability attributable to its investment in us. In addition, we anticipate making quarterly distributions but allocate taxable income on a monthly basis. As a result, if you dispose of your common units, you may be allocated taxable income during the time you held your common units without receiving any cash distributions corresponding to that period. Moreover, when a fund investment is realized at the end of a fiscal quarter, taxable income allocable to such realization is generally made during the same taxable period, but the distribution, if any, generated by such realization may not be paid until a later period. Accordingly, each holder should ensure that it has sufficient cash flow from other sources to pay all tax liabilities.

Our interests in certain of our businesses will be held through intermediate holding companies, which will be treated as corporations for U.S. federal income tax purposes; such corporations will be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of our common units.

In light of the publicly traded partnership rules under U.S. federal income tax laws and other requirements, we will hold our interest in certain of our businesses through intermediate holding companies, which will be treated as corporations for U.S. federal income tax purposes. The intermediate holding companies organized in the United States or otherwise subject to regular U.S. federal income taxation will be liable for U.S. federal income taxes at regular rates on all of their taxable income as well as applicable state, local and other taxes. These taxes would reduce the amount of distributions available to be made on our common units. In addition, these taxes could be increased if the IRS were to successfully reallocate deductions or income of the related entities conducting our business.

Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.

Under legislation known as the U.S. Foreign Account Tax Compliance Act, or FATCA, U.S. withholding agents and all entities in a broadly defined class of foreign financial institutions, or FFIs,

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are required to comply with a complicated and expansive reporting regime or be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA and related intergovernmental require FFIs to enter into agreements with the IRS and other jurisdictions to obtain and disclose information about certain fund investors to the IRS. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be PFIC for U.S. federal income tax purposes. In addition, we may hold certain investments in foreign corporations that are treated as CFCs. Unitholders may experience adverse U.S. tax consequences as a result of holding an indirect interest in a PFIC or CFC. These investments may produce taxable income prior to the receipt of cash relating to such income, and unitholders that are U.S. taxpayers will be required to take such income into account in determining their gross income subject to tax. In addition, all or a portion of gain on the sale of a CFC may be taxable at ordinary income rates. Further, with respect to gain on the sale of and excess distributions from a PFIC for which an election for current inclusions is not made, such income would be taxable at ordinary income rates and be subject to an additional tax charge equivalent to an interest charge on the deferral of income inclusions from that PFIC.

Tax gain or loss on disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your adjusted tax basis allocated to those common units. Prior distributions to you in excess of the total net taxable income allocated to you will have decreased the tax basis in your common units. Therefore, such excess distributions will increase your taxable gain, or decrease your taxable loss, when the common units are sold and may result in a taxable gain even if the sale price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to you.

Unitholders may be allocated taxable gain on the disposition of certain assets, even if they did not share in the economic appreciation inherent in such assets.

We and our intermediate holding companies will be allocated taxable gains and losses recognized by the KKR Group Partnerships based upon our percentage ownership in each KKR Group Partnership. Our share of such taxable gains and losses generally will be allocated pro rata to our unitholders. In some circumstances, under the U.S. federal income tax rules affecting partners and partnerships, the taxable gain or loss allocated to a unitholder may not correspond to that unitholder's share of the economic appreciation or depreciation in the particular asset. This is primarily an issue of the timing of the payment of tax, rather than a net increase in tax liability, because the gain or loss allocation would generally be expected to be offset as a unitholder sells units.

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Non-U.S. persons face unique U.S. tax issues from owning our common units that may result in adverse tax consequences to them.

We expect that we will be engaged in a U.S. trade or business for U.S. federal income tax purposes, including by reason of investments in U.S. real property holding corporations, real estate assets and energy assets, in which case some portion of our income would be treated as effectively connected income with respect to non-U.S. unitholders, or ECI. To the extent our income is treated as ECI, non-U.S. unitholders generally would be subject to withholding tax on their allocable share of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable share of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. unitholders that are corporations may also be subject to a 30% branch profits tax (potentially reduced under an applicable treaty) on their actual or deemed distributions of such income. In addition, distributions to non-U.S. unitholders that are attributable to profits on the sale of a U.S. real property interest may also be subject to 30% withholding tax. Also, non-U.S. unitholders may be subject to 30% withholding on allocations of our income that are U.S. source fixed or determinable annual or periodic income under the Code, unless an exemption from or a reduced rate of such withholding applies (under an applicable treaty of the Code) and certain tax status information is provided. Finally, if we are treated as being engaged in a U.S. trade or business, a portion of any gain recognized by non-U.S. unitholders on the sale or exchange of common units may be treated for U.S. federal income tax purposes as ECI, and hence such non-U.S. unitholders could be subject to U.S. federal income tax on the sale or exchange of common units.

Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.

Generally, a tax-exempt partner of a partnership would be treated as earning unrelated business taxable income, or UBTI, if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt financed property or if the partner interest itself is debt-financed. As a result of our ownership of real estate assets and energy assets and incurrence of acquisition indebtedness we will derive income that constitutes UBTI. Consequently, a holder of common units that is a tax-exempt entity (including an individual retirement account, or IRA, or a 401(k) plan participant) will likely be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI and thus may be subject to U.S. federal income taxes and U.S. federal income tax reporting with respect to such income. In addition, a tax-exempt investor may be subject to unrelated business income tax on a sale of their common units.

We cannot match transferors and transferees of common units, and we will therefore adopt certain income tax accounting conventions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our unitholders' tax returns.

In addition, our taxable income and losses are determined and apportioned among unitholders using conventions we regard as consistent with applicable law. As a result, if you transfer your common units, you may be allocated income, gain, loss and deduction realized by us after the date of transfer.

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Similarly, a transferee may be allocated income, gain, loss and deduction realized by us prior to the date of the transferee's acquisition of our common units. A transferee may also bear the cost of withholding tax imposed with respect to income allocated to a transferor through a reduction in the cash distributed to the transferee.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes.

We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination of our partnership would, among other things, result in the closing of our taxable year for all unitholders and may make it more likely that we are unable to meet the qualifying income requirements necessary to maintain our status as a partnership for U.S. federal income tax purposes.

Holders of our common units may be subject to state, local and foreign taxes and return filing requirements as a result of owning such units.

In addition to U.S. federal income taxes, holders of our common units may be subject to other taxes, including state, local and foreign taxes, and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if the holders of our common units do not reside in any of those jurisdictions. Holders of our common units may be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions in the U.S. and abroad. Further, holders of our common units may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all U.S. federal, state, local and foreign tax returns that may be required of such unitholder. In addition our investments in real assets may expose unitholders to additional adverse tax consequences. See " Our investments in real assets such as real estate and energy may expose us to increased risks and liabilities and may expose our unitholders to adverse tax consequences."

Certain U.S. holders of common units are subject to additional tax on "net investment income."

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on "net investment income" (or undistributed "net investment income," in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person's adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. It is anticipated that net income and gain attributable to an investment in our common units will be included in a U.S. holder's "net investment income" subject to this Medicare tax.

We may not be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return.

As a publicly traded partnership, our operating results, including distributions of income, dividends, gains, losses or deductions, and adjustments to carrying basis, will be reported on Schedule K-1 and distributed to each unitholder annually. It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that Schedule K-1s may be prepared for the unitholders. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space at 9 West 57th Street, New York, New York. We also lease the space for our other offices. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

ITEM 3. LEGAL PROCEEDINGS

The section entitled "Litigation" appearing in Note 16 "Commitments and Contingencies" of our financial statements included elsewhere in this report is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

None.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common units representing limited partner interests began trading on the New York Stock Exchange, or NYSE, on July 15, 2010 and are traded under the symbol "KKR." The following table sets forth the high and low intra-day sales prices per unit of our common units, for the periods indicated, as reported by the NYSE.

	Sales price			
	2014		2013	
	High	Low	High	Low
First Quarter	\$ 26.50	\$ 22.07	\$ 20.00	\$ 15.38
Second Quarter	\$ 24.69	\$ 21.20	\$ 21.60	\$ 17.27
Third Quarter	\$ 25.58	\$ 21.51	\$ 21.78	\$ 18.74
Fourth Quarter	\$ 23.59	\$ 18.84	\$ 25.87	\$ 19.68

The number of holders of record of our common units as of February 20, 2015 was 76. This does not include the number of unitholders that hold shares in "street-name" through banks or broker-dealers.

Distribution Policy

The following table presents the distributions paid to holders of our common units at the close of business on the specified record date during fiscal 2013 and 2014:

Payment Date	Record Date	Distribution per unit
March 5, 2013	February 19, 2013	\$0.70
May 21, 2013	May 6, 2013	\$0.27
August 20, 2013	August 5, 2013	\$0.42
November 19, 2013	November 4, 2013	\$0.23
March 4, 2014	February 18, 2014	\$0.48
May 23, 2014	May 9, 2014	\$0.43
August 19, 2014	August 4, 2014	\$0.67
November 18, 2014	November 3, 2014	\$0.45

We have declared a distribution of \$0.35 per common unit payable on March 6, 2015 to unitholders of record as of the close of business on February 20, 2015.

We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business, 40% of the net realized investment income of KKR (other than KFN), and 100% of the net realized investment income of KFN, in each case in excess of amounts determined by us to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other obligations. For purposes of our distribution policy, our distributions are expected to consist of (i) FRE (as defined below), (ii) carry distributions received from our investment funds which have not been allocated as part of our carry pool, (iii) 40% of the net realized investment income from KKR (other than KFN) and (iv) 100% of the net realized investment income from KFN. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any, (ii) segment non-controlling interests, and (iii) amounts determined by us to be necessary or appropriate for the conduct of our business and other matters as discussed above.

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Our distribution policy reflects our belief that distributing substantially all of the cash earnings of our investment management business will provide transparency for holders of our common units and impose on us an investment discipline with respect to the businesses and strategies that we pursue. We believe distributing a 40% of the net realized investment income of KKR (other than KFN) and 100% of the realized investment income of KFN allows the holders of our common units to participate in the returns generated on our balance sheet assets, while still allowing us to retain significant capital to invest in our business.

Because we make our investment in our business through a holding company structure and the applicable holding companies do not own any material cash-generating assets other than their direct and indirect holdings in KKR Group Partnership Units, distributions are expected to be funded in the following manner:

First, the KKR Group Partnerships will make distributions to holders of KKR Group Partnership Units, including the holding companies through which we invest, in proportion to their percentage interests in the KKR Group Partnerships;

Second, the holding companies through which we invest will distribute to us the amount of any distributions that they receive from the KKR Group Partnerships, after deducting any applicable taxes, and

Third, we will distribute to holders of our units the amount of any distributions that we receive from our holding companies through which we invest.

The partnership agreements of the KKR Group Partnerships provide for cash distributions, which are referred to as tax distributions, to the partners of such partnerships if we determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. We expect that the KKR Group Partnerships would make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such tax liabilities, which would generally be computed based on an estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income.) However, in light of our current distribution policy, we expect that the KKR Group Partnerships will not make tax distributions, because our distributions paid under our current policy are generally expected to be sufficient to permit U.S. holders of KKR Group Partnership Units to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive shares of net income or gain, after taking into account any withholding tax imposed on us. There can be no assurance that, for any particular holder, such distributions will be sufficient to pay such holder's actual U.S. or non-U.S. tax liability.

The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR & Co. L.P., which may change the distribution policy at any time, and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all or that unitholders will receive sufficient distributions to satisfy payment of their tax liabilities as limited partners of KKR & Co. L.P. When KKR & Co. L.P. receives distributions from the KKR Group Partnerships (the holding companies of the KKR business), KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships. In particular, the amount and timing of distributions will depend upon a number of factors, including, among others, our available cash and current and anticipated cash needs, including funding of investment commitments and debt service and future debt repayment obligations; general economic and business conditions; our strategic plans and prospects; our results of operations and financial condition; our capital requirements; legal, contractual and regulatory restrictions on the payment of distributions

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by us or our subsidiaries, including restrictions contained in our debt agreements, and such other factors as the board of directors of our Managing Partner considers relevant.

The board of directors of the general partner of KKR & Co. L.P. may change the distribution policy at any time and from time to time. We are not currently restricted by any contract from making distributions to our unitholders, although certain of our subsidiaries are bound by credit agreements that contain certain restricted payment and/or other covenants, which may have the effect of limiting the amount of distributions that we receive from our subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity - Sources of Cash". In addition, under Section 17-607 of the Delaware Limited Partnership Act, we will not be permitted to make a distribution if, after giving effect to the distribution, our liabilities would exceed the fair value of our assets.

Common Unit Repurchases in the Fourth Quarter of 2014

No purchases of our common units were made by us or on our behalf in the fourth quarter of the year ended December 31, 2014. During the fourth quarter of 2014, 5,100,850 KKR Group Partnership Units were exchanged by KKR Holdings and its principals for an equal number of our common units, resulting in an increase in our ownership of the KKR Group Partnerships and a corresponding decrease in the ownership of the KKR Group Partnerships by KKR Holdings.

Unregistered Sale of Equity Securities

On October 1, 2012, KKR acquired all of the equity interests of Prisma with an initial purchase price paid in cash and obligations to make future purchase price payments in the years 2014 and 2017 based on whether the Prisma business grows to achieve certain operating performance metrics measured in such years. KKR has the right in its sole discretion to pay a portion of such purchase price payments, if any, in KKR & Co. L.P. common units rather than in cash. On August 14, 2014 a portion of the obligation recorded as of June 30, 2014 was settled for \$123.6 million. Of this amount, approximately \$84.1 million was settled with the issuance of 3,665,560 KKR & Co. L.P. common units to the previous owners of Prisma. Common units of KKR & Co. L.P. issued in satisfaction of contingent price payments were delivered in reliance on Section 4(a)(2) of the Securities Act of 1933.

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The following tables set forth our selected historical consolidated financial data (i) as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010. We derived the selected historical consolidated financial data as of December 31, 2014 and 2013 and for the years ending December 31, 2014, 2013 and 2012 from the audited consolidated financial statements included elsewhere in this report. We derived the selected historical consolidated financial data as of December 31, 2012, 2011 and 2010 and for the years ended December 31, 2011 and 2010 from our audited consolidated financial statements which are not included in this report. You should read the following data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
(all dollars are in thousands, except unit and per unit data)					
Statement of Operations Data:					
Fees and Other	\$ 1,110,008	\$ 762,546	\$ 568,442	\$ 723,620	\$ 435,386
Less: Total Expenses	2,196,067	1,767,138	1,598,788	1,214,005	1,762,663
Total Investment Income (Loss)	6,544,748	8,896,746	9,101,995	1,456,116	9,179,108
Income (Loss) Before Taxes	5,458,689	7,892,154	8,071,649	965,731	7,851,831
Income Taxes	63,669	37,926	43,405	89,245	75,360
Net Income (Loss)	5,395,020	7,854,228	8,028,244	876,486	7,776,471
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	(3,341)	62,255	34,963	4,318	
Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	4,920,750	7,100,747	7,432,445	870,247	7,443,293
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 477,611	\$ 691,226	\$ 560,836	\$ 1,921	\$ 333,178

Net Loss Attributable to KKR & Co. L.P.**Net Income (Loss) Attributable to KKR & Co. L.P.****Per Common Unit**

Basic	\$ 1.25	\$ 2.51	\$ 2.35	\$ 0.01	\$ 1.62
Diluted	\$ 1.16	\$ 2.30	\$ 2.21	\$ 0.01	\$ 1.62

Weighted Average Common Units Outstanding

Basic	381,092,394	274,910,628	238,503,257	220,235,469	206,031,682
Diluted	412,049,275	300,254,090	254,093,160	222,519,174	206,039,244

Statement of Financial Condition Data (period end):

Total Assets	\$ 65,872,745	\$ 51,427,201	\$ 44,426,353	\$ 40,377,645	\$ 38,391,157
Total Liabilities	\$ 14,168,684	\$ 4,842,383	\$ 3,020,899	\$ 2,692,995	\$ 2,391,115
Redeemable Noncontrolling Interests	\$ 300,098	\$ 627,807	\$ 462,564	\$ 275,507	\$
Noncontrolling Interests	\$ 46,004,377	\$ 43,235,001	\$ 38,938,531	\$ 36,080,445	\$ 34,673,549
Appropriated Capital	\$ 16,895	\$	\$	\$	\$
Total KKR & Co. L.P. Partners' Capital(1)	\$ 5,382,691	\$ 2,722,010	\$ 2,004,359	\$ 1,328,698	\$ 1,326,493

(1)

Total KKR & Co. L.P. partners' capital reflects only the portion of equity attributable to KKR & Co. L.P. (53.5% interest in the KKR Group Partnerships as of December 31, 2014) and differs from book value reported on a segment basis primarily as a result of the exclusion of the equity impact of KKR Management Holdings Corp. and allocations of equity to KKR Holdings. KKR Holdings'

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46.5% interest in the KKR Group Partnerships as of December 31, 2014 is reflected as noncontrolling interests and is not included in total KKR & Co. L.P. partners' capital.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements of KKR and the related notes included elsewhere in this report. The historical consolidated financial data discussed below reflects the historical results and financial position of KKR. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors." Actual results may differ materially from those contained in any forward looking statements.

Overview

We are a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. We aim to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation in the assets we manage. We invest our own capital alongside the capital we manage for fund investors and bring debt and equity investment opportunities to others through our capital markets business.

Our business offers a broad range of investment management services to our fund investors and provides capital markets services to our firm, our portfolio companies and third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 250 private equity investments in portfolio companies with a total transaction value in excess of \$505 billion. We have grown our firm by expanding our geographical presence and building businesses in new areas, such as credit, special situations, hedge funds, collateralized loan obligations ("CLOs"), capital markets, infrastructure, energy and real estate. These efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on meeting the needs of our existing fund investors and in developing relationships with new investors in our funds.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors in our funds, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

We have also used our balance sheet as a significant source of capital to further grow and expand our business, increase our participation in our existing businesses and further align our interests with those of our fund investors and other stakeholders. The majority of our balance sheet consists of general partner interests in KKR investment funds, limited partner interests in certain KKR investment funds, co-investments in certain portfolio companies of KKR private equity funds and interests in CLOs, corporate loans, debt securities and energy and real estate assets acquired in connection with our acquisition of KKR Financial Holdings on April 30, 2014. Our balance sheet also holds other assets used in the development of our business, including seed capital for new strategies.

As a global investment firm, we earn management, monitoring, transaction and incentive fees for providing investment management, monitoring and other services to our funds, vehicles, CLOs, managed accounts and portfolio companies, and we generate transaction-specific income from capital markets transactions. We earn additional investment income from investing our own capital alongside that of our fund investors and from other balance sheet investments and from the carried interest we receive from our funds and certain of our other investment vehicles. A carried interest entitles the

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sponsor of a fund to a specified percentage of investment gains that are generated on third-party capital that is invested.

Our investment teams have deep industry knowledge and are supported by a substantial and diversified capital base, an integrated global investment platform, the expertise of operating consultants and senior advisors and a worldwide network of business relationships that provide a significant source of investment opportunities, specialized knowledge during due diligence and substantial resources for creating and realizing value for stakeholders. These teams invest capital, a substantial portion of which is of a long duration and not subject to redemption. With over 75% of our fee paying assets under management not subject to redemption for at least 8 years from inception, we have significant flexibility to grow investments and select exit opportunities. We believe that these aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

Business Segments

Private Markets

Through our Private Markets segment, we manage and sponsor a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. We also manage and sponsor a group of funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy and real estate. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. As of December 31, 2014, the segment had \$61.5 billion of AUM and FPAUM of \$47.3 billion, consisting of \$38.3 billion in private equity and \$9.0 billion in real assets (including infrastructure, energy and real estate) and other strategies. Prior to 2010, FPAUM in the Private Markets segment consisted entirely of private equity funds.

Public Markets

We operate and report our combined credit and hedge funds businesses through the Public Markets segment. Our credit business advises funds, CLOs, separately managed accounts, and investment companies registered under the Investment Company Act, including a business development company or BDC, undertakings for collective investment in transferable securities or UCITS, and alternative investments funds or AIFs, which invest capital in (i) leveraged credit strategies, such as leveraged loans, high yield bonds and opportunistic credit, and (ii) alternative credit strategies such as mezzanine investments, direct lending investments, special situations investments and long/short credit investment strategies. The funds, accounts, registered investment companies and CLOs in our leveraged credit and alternative credit strategies are managed by KKR Credit Advisors (US) LLC (formerly known as KKR Asset Management LLC), which is a SEC-registered investment adviser, KKR Credit Advisors (Ireland), regulated by the Central Bank of Ireland, and KKR Credit Advisors (UK), regulated by the United Kingdom Financial Conduct Authority, or FCA. KKR Credit Advisors (Ireland) and KKR Credit Advisors (UK) (formerly known collectively as Avoca Capital) were acquired by KKR on February 19, 2014. Our Public Markets segment also includes our hedge funds business that offers a variety of investment strategies including customized hedge fund portfolios, hedge fund-of-fund solutions and acquiring stakes in or seeding hedge fund managers. The funds and accounts in our hedge fund business are managed by Prisma Capital Partners LP, an SEC-registered investment adviser.

In our hedge funds stakes and seeding business, we have a 24.9% interest in Nephila Capital Ltd., or Nephila, an investment manager focused on investing in natural catastrophe and weather risk, and a 24.9% interest in BlackGold Capital Management L.P., or BlackGold, a credit-oriented investment manager focused on investing in energy and hard asset investments.

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We intend to continue to grow the Public Markets business by leveraging our global investment platform, experienced investment professionals and the ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at various levels of the capital structure and across market cycles.

As of December 31, 2014, this segment had \$37.1 billion of AUM, comprised of \$17.5 billion of assets managed in our leveraged credit strategies, \$8.7 billion of assets managed in our alternative credit strategies \$10.2 billion of assets managed in our hedge fund solutions strategies and \$0.7 billion of assets managed in other strategies. Our alternative credit investments include \$1.8 billion of assets managed in our mezzanine strategy, \$2.4 billion of assets managed in our direct lending strategy, \$3.5 billion of assets managed in our special situations strategies and \$1.0 billion of assets managed in our long/short credit strategy. The following chart presents the growth in the AUM of our Public Markets segment from the commencement of its operations in August 2004 through December 31, 2014.

Capital Markets and Other

Our Capital Markets and Other segment is comprised primarily of our global capital markets business. Our capital markets business supports our firm, our private equity portfolio companies and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing for transactions, placing and underwriting securities offerings and providing other types of capital markets services. When we underwrite an offering of securities or a loan on a firm commitment basis, we commit to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When we act in an agency capacity, we generate revenue for arranging financing or placing securities or debt with capital markets investors. KKR Capital Markets LLC is an SEC-registered broker-dealer and a FINRA member, and we are also registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe, Asia-Pacific and the Middle East. Our third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with two other unaffiliated partners, and non-bank financial companies, or NBFCs, in India.

Business Environment

Market Conditions

As a global investment firm, we are affected by financial and economic conditions in North and South America, Europe, Asia-Pacific and elsewhere in the world. Global and regional economic conditions have a substantial impact on our financial condition and results of operations, impacting both the success of the investments we make as well as our ability to exit these investments profitably and to make new investments. In terms of economic conditions, according to the Bureau of Economic Analysis, real GDP in the U.S. increased 2.6% in the fourth quarter of 2014 and 2.4% for the full year ended December 31, 2014. As of January 2015, The International Monetary Fund, or IMF, estimates that the U.S. economy will expand by 3.6% in 2015. According to the Bureau of Labor Statistics, the U.S. unemployment rate decreased to 6.2% as of December 31, 2014. In the Euro Area, real GDP increased 0.34% in the fourth quarter of 2014 and increased 0.9% for full year ended December 31, 2014 according to Eurostat. The Euro Area unemployment rate remains elevated at 11.6% as of October 7, 2014, despite recent signs of improvement according to the IMF. As of January 2015, the IMF estimates that the Euro Area will expand by 1.2% in 2015. According to the China Bureau of National Statistics, real GDP in China increased 1.5% in the fourth quarter of 2014 and 7.4% for the full year ended December 31, 2014. As of January 2015, the IMF estimates that China's economy will expand by 6.8% in 2015. In China, the unemployment rate remains relatively low at 4.1% as of December 31, 2014 according to the China Bureau of National Statistics.

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In addition to economic conditions, global equity and debt markets also have a substantial effect on our financial condition and results of operations. Global equity markets finished positively for the year ended December 31, 2014, with the S&P 500 Index up 13.7% and the MSCI World Index up 5.5%. Equity market volatility rose during the quarter as evidenced by the Chicago Board Options Exchange Market Volatility Index, or the VIX, a measure of volatility, which began the quarter at 16.3 and ended at 19.2 on December 31, 2014, for an increase of 17.7%. The investment grade credit markets remained relatively flat, with the S&P/LSTA Leveraged Loan Index up 1.6% and the BoAML HY Master II Index up 2.5% during the year ended December 31, 2014, respectively. Within credit markets, spreads have widened while issuances reached record levels in 2014. Higher interest rates in conjunction with slower growth or weaker currencies in some emerging market economies may cause the default risk of these countries to increase, and this could impact the operations or value of our investments.

In addition, foreign exchange rates can materially impact the valuations of our investments that are denominated in currencies other than the U.S. dollar. For example, the Euro fell 12% in 2014, while the British pound fell 6% last year relative to the U.S. dollar. Currency fluctuations can also affect our businesses which deal in cross-border trade. U.S. dollar appreciation relative to other currencies is likely to cause a decrease in the U.S. dollar value of our non-U.S. investments to the extent unhedged, cause portfolio companies that export to the U.S. to suffer a decline in revenues, and make the exports of U.S. based companies less competitive. The recent unpegging of the euro-Swiss franc exchange rate also highlights potential risks of currency volatility.

Interest rates can also materially impact the valuation of our investments, particularly those valued in whole or in part using a discounted cash flow analysis. In 2014, many global central banks cut interest rates as historic low rates combined with the fall in oil prices and below-potential growth heightened deflationary fears, particularly in China, Europe and Japan. According to Bloomberg, as at December 31, 2014, 10 year government bond yields for full year 2014 had declined by 97 basis points in China, 139 basis points in Germany, 41 basis points in Japan and 86 basis points in the U.S. In the U.S., the Federal Reserve ended its tapering campaign and has signaled a future rate increase.

Our Private Markets portfolio contains several energy real asset investments whose values are influenced by the price of natural gas and oil. Such energy real asset investments had a fair value of \$0.7 billion, as of December 31, 2014. During the quarter ended December 31, 2014, the value of our energy real asset investments in working interests in oil and gas producing properties decreased meaningfully. This decrease in value was primarily attributable to a drop in long-term oil, condensate, natural gas liquids, and natural gas prices during the year ended December 31, 2014 with the greatest declines occurring in the fourth quarter. For example, the 2017 price of WTI crude oil declined from approximately \$85 per barrel to \$67 per barrel and the 2017 price of natural gas declined from approximately \$4.22 per mcf to \$3.76 per mcf as of September 30, 2014 and December 31, 2014, respectively. For additional information regarding our energy real asset valuation methodologies, see " Critical Accounting Policies Fair Value Measurements Level III Valuation Methodologies Real Asset Investments."

For a discussion of how financial and economic conditions impact our financial condition and results of operations see "Risk Factors Risks Related to Our Business Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition," " Risks Related to the Assets We Manage Valuation methodologies for certain assets in our funds and on our balance sheet can be subjective and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds and us," " Our investments are impacted by various economic conditions that are difficult to quantify or predict, but may have a significant adverse impact on the valuation of our investments,"

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" Dependence on significant leverage in investments by our funds and our principal assets could adversely affect our ability to achieve attractive rates of return on those investments" and " We make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States" and see "Quantitative and Qualitative Disclosures About Market Risk".

Business Conditions

Our segment revenues consist of fees, performance income and investment income. Our ability to grow our revenues depends in part on our ability to attract new capital and investors, our successful deployment of capital including from our balance sheet and our ability to realize investments.

Our ability to attract new capital and investors. Our ability to attract new capital and investors in our funds is driven, in part, by the extent to which they continue to see the alternative asset management industry generally, and our investment products specifically, as an attractive vehicle for capital appreciation or income. Since 2010, we have expanded into strategies such as energy, infrastructure, real estate, alternative credit and hedge funds. In several of these strategies, our first time funds have begun raising successor funds, and we expect the cost of raising such successor funds to be lower. We have also reached out to a new investor base of retail and high net worth clients. However, fundraising continues to be competitive and as two of our three flagship private equity funds have completed fundraising and our fourth flagship fund focused on Europe held its first close in 2014, the growth in AUM and FPAUM in the coming year may be lower. New capital raised for the fiscal years ended December 31, 2012, 2013 and 2014 was \$10.6 billion, \$21.2 billion and \$13.3 billion.

Our successful deployment of capital including from our balance sheet. Our ability to maintain and grow our revenue base is dependent upon our ability to successfully deploy the capital from our funds and our balance sheet. Greater competition, high valuations, increased overall cost of credit and other general market conditions may impact our ability to identify and execute attractive investments. Additionally, because we seek to make investments which have an ability to achieve our targeted returns while taking on a reasonable level of risk, we may experience periods of reduced investment activity. We have a long-term investment horizon and the capital deployed in any one quarter may vary significantly from the capital deployed in any other quarter or the quarterly average of capital deployed in any given year. Reduced levels of transaction activity also tends to result in a reduced potential future investment gains, lower transaction fees and lower fees for our capital markets business, which may earn fees in the syndication of equity or debt. Equity invested for the fiscal years ended December 31, 2012, 2013 and 2014 were \$3.8 billion, \$7.4 billion and \$10.2 billion, and syndicated capital for the fiscal years ended December 31, 2012, 2013 and 2014 were \$0.5 billion, \$1.1 billion and \$2.6 billion, such that 2014 reflects unusually high levels of activity for us on a historical basis.

Our ability to realize investments. The strength and liquidity of the U.S. and relevant global equity markets generally, and the initial public offering market specifically affects the value of, and our ability to successfully exit, our equity positions in our private equity portfolio companies in a timely manner. We may also realize investments through strategic sales. For the fiscal years ended December 31, 2012, 2013 and 2014, through exit activity in our investments, we realized carried interest of \$0.5 billion, \$0.7 billion and \$1.2 billion. Since December 31, 2014, we have closed the strategic sales of Fotolia (media sector) and have received proceeds from the sale of Walgreens Boots Alliance, Inc. that was completed on December 31, 2014. Pending transactions, the consummation of which are subject to closing conditions, include, as of February 20, 2015: Big Heart Pet Brands (consumer products sector) and Biomet, Inc. (healthcare sector). Such sales, however, are episodic and reduced levels of sale activity in future quarters would reduce transaction fees, realized carry and distributions.

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Basis of Accounting

We consolidate the financial results of the KKR Group Partnerships and their consolidated subsidiaries, which include the accounts of our investment management and capital markets companies, the general partners of certain unconsolidated funds and vehicles, general partners of consolidated funds and their respective consolidated funds and certain other entities including certain consolidated CLOs.

In accordance with accounting principles generally accepted in the United States of America, or GAAP, certain entities, including a substantial number of our funds and CLOs, are consolidated notwithstanding the fact that we may hold only a minority economic interest in those entities. In particular, in the majority of our consolidated funds and other investment vehicles, we hold a general partner interest that gives us substantive controlling rights over such funds and vehicles. With respect to our consolidated funds and vehicles, we generally have operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As of December 31, 2014, our AUM in our Private Markets segment included 20 consolidated investment vehicles and 13 unconsolidated investment vehicles. Our AUM in our Public Markets segment included 21 consolidated investment vehicles, including CLOs, and 68 unconsolidated investment vehicles.

When an entity is consolidated, we reflect the assets, liabilities, fees, expenses, investment income and cash flows of the consolidated entity on a gross basis. While the consolidation of a consolidated fund or entity does not have an effect on the amounts of net income attributable to KKR or KKR's partners' capital that KKR reports, the consolidation does significantly impact the financial statement presentation. This is due to the fact that the assets, liabilities, fees, expenses and investment income of the consolidated funds and entities are reflected on a gross basis while the allocable share of those amounts that are attributable to third parties are reflected as single line items. The single line items in which the assets, liabilities, fees, expenses and investment income attributable to third parties are recorded are presented as noncontrolling interests or appropriated capital on the consolidated statements of financial condition and net income attributable to noncontrolling interests on the consolidated statements of operations. For a further discussion of our consolidation policies, see "Critical Accounting Policies Consolidation."

Key Financial Measures Under GAAP

Fees and Other

Fees and other consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed and in the case of transaction fees, upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

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Fees and other reported in our consolidated financial statements do not include the management or incentive fees that we earn from consolidated funds and other entities, because those fees are eliminated in consolidation. However, because those management and incentive fees are earned from, and funded by, third-party investors who hold noncontrolling interests in the consolidated funds and entities, net income attributable to KKR is increased by the amount of the management fees that are eliminated in consolidation. Accordingly, while the consolidation of funds and other entities impacts the amount of fees that are recognized in our financial statements, it does not affect the ultimate amount of net income attributable to KKR or KKR's partners' capital.

For a further discussion of our fee policies, see " Critical Accounting Policies Revenue Recognition."

Expenses

Compensation and Benefits

Compensation and benefits expense includes cash compensation consisting of salaries, bonuses, and benefits, as well as equity-based compensation consisting of charges associated with the vesting of equity-based awards and carry pool allocations. All employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as compensation and benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain employees are currently borne by KKR Holdings. These bonuses are funded with distributions that KKR Holdings receives on KKR Group Partnership Units held by KKR Holdings but are not then passed on to holders of unvested units of KKR Holdings. Because employees are not entitled to receive distributions on units that are unvested, any amounts allocated to employees in excess of an employee's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges are recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings at the time of the distribution.

With respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR allocates to its employees and other personnel a portion of the carried interest earned as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation and benefits expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations.

General, Administrative and Other

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges, changes in fair value of contingent consideration, expenses incurred by oil and gas-producing entities (including impairment charges) that are consolidated and other general and operating expenses which are not borne by fund investors and are not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds. General, administrative and other expense also consists of costs incurred in connection with pursuing potential investments that do not result in completed transactions, a substantial portion of which are borne by fund investors.

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Investment Income (Loss)

Net Gains (Losses) from Investment Activities

Net gains (losses) from investment activities consist of realized and unrealized gains and losses arising from our investment activities. The majority of our net gains (losses) from investment activities are related to our private equity investments. Fluctuations in net gains (losses) from investment activities between reporting periods is driven primarily by changes in the fair value of our investment portfolio as well as the realization of investments. The fair value of, as well as the ability to recognize gains from, our private equity investments is significantly impacted by the global financial markets, which, in turn, affects the net gains (losses) from investment activities recognized in any given period. Upon the disposition of an investment, previously recognized unrealized gains and losses are reversed and an offsetting realized gain or loss is recognized in the current period. Since our investments are carried at fair value, fluctuations between periods could be significant due to changes to the inputs to our valuation process over time. For a further discussion of our fair value measurements and fair value of investments, see " Critical Accounting Policies Fair Value Measurements."

Dividend Income

Dividend income consists primarily of distributions that investment funds receive from portfolio companies in which they invest. Dividend income is recognized primarily in connection with (i) dispositions of operations by portfolio companies, (ii) distributions of excess cash generated from operations from portfolio companies and (iii) other significant refinancings undertaken by portfolio companies.

Interest Income

Interest income consists primarily of interest that is received on our cash balances and other investments including credit instruments in which our consolidated funds and other entities invest.

Interest Expense

Interest expense is incurred from debt issued by KKR, including debt issued by KFN which was consolidated upon completion of the acquisition of KFN, credit facilities entered into by KKR, debt securities issued by consolidated CLOs and financing arrangements at our consolidated funds entered into primarily with the objective of managing cash flow. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN. Debt securities issued by consolidated CLOs are supported solely by the investments held at the CLO vehicles and are not collateralized by assets of any other KKR entity. Our obligations under financing arrangements at our consolidated funds are generally limited to our pro-rata equity interest in such funds. Our management companies bear no obligations with respect to financing arrangements at our consolidated funds. We also capitalize debt financing costs incurred in connection with new debt arrangements. Such costs are amortized into interest expense using either the interest method or the straight-line method, as appropriate. See " Liquidity".

Income Taxes

The KKR Group Partnerships and certain of their subsidiaries operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities, in some cases, are subject to New York City unincorporated business taxes, or non-U.S. income taxes. Furthermore, we hold our interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., which is treated as a corporation for U.S. federal income tax purposes, and certain other subsidiaries of the KKR Group Partnerships are treated as corporations for U.S. federal income tax purposes. Accordingly, such subsidiaries of KKR, including KKR Management Holdings Corp., and of the KKR Group Partnerships are subject to U.S. federal, state

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and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements. We also generate certain interest income to our unitholders and interest deductions to KKR Management Holdings Corp.

We use the asset and liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties. We review our tax positions quarterly and adjust our tax balances as new information becomes available.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests represents the ownership interests that certain third parties hold in entities that are consolidated in the financial statements as well as the ownership interests in our KKR Group Partnerships that are held by KKR Holdings. The allocable share of income and expense attributable to these interests is accounted for as net income (loss) attributable to noncontrolling interests. Historically, the amount of net income (loss) attributable to noncontrolling interests has been substantial and has resulted in significant charges and credits in the statements of operations. Given the consolidation of certain of our investment funds and the significant ownership interests in our KKR Group Partnerships held by KKR Holdings, we expect this activity to continue.

Appropriated Capital

Appropriated capital represents the difference between the fair value of consolidated CLO assets and the fair value of consolidated CLO liabilities that is attributable to third party holders of the subordinated debt of consolidated CLOs. Changes in appropriated capital result from changes in the fair value of the underlying assets and liabilities of the consolidated CLO vehicles and the amount of net income (loss) of the consolidated CLOs that is attributed to third party interests will be reflected in net income (loss) attributable to noncontrolling interests and appropriated capital in the consolidated statements of operations to arrive at consolidated net income (loss) attributable to KKR & Co. L.P.

Segment Operating and Performance Measures

The segment key performance measures that follow are used by management in making operating and resource deployment decisions as well as assessing the overall performance of each of KKR's reportable business segments. The reportable segments for KKR's business are presented prior to giving effect to the allocation of income (loss) between KKR & Co. L.P. and KKR Holdings L.P. and as such represent the business in total. In addition, KKR's reportable segments are presented without giving effect to the consolidation of the funds or CLOs that KKR manages.

We disclose the following financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to unitholders in assessing the overall performance of KKR's businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with GAAP if available. We caution readers that these non-GAAP financial measures may differ from the calculations of other investment managers,

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and as a result, may not be comparable to similar measures presented by other investment managers. Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, where applicable, are included within "Financial Statements and Supplementary Data Note 13. Segment Reporting" and later in this report under " Economic Net Income (Loss)" and " Segment Book Value."

Economic Net Income (Loss) ("ENI")

Economic net income (loss) is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to unitholders as it provides additional insight into the overall profitability of KKR's businesses inclusive of carried interest and related carry pool allocations and investment income. ENI is comprised of total segment revenues less total segment expenses and certain economic interests in KKR's segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of non-cash equity-based charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan and other securities that are exchangeable for common units of KKR & Co. L.P.; (v) the exclusion of certain non-recurring items; (vi) the exclusion of investment income (loss) relating to noncontrolling interests; and (vii) the exclusion of income taxes.

Assets Under Management ("AUM")

Assets under management represent the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. We believe this measure is useful to unitholders as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR's investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR's co-investment vehicles; (iii) the net asset value of certain of KKR's fixed income products; (iv) the value of outstanding CLOs (excluding CLOs wholly-owned by KKR); and (v) the fair value of other assets managed by KKR. AUM excludes those assets managed by entities where KKR does not hold more than a 50% ownership interest. KKR's definition of AUM is not based on any definition of AUM that may be set forth in the agreements governing the investment funds, vehicles or accounts that it manages or calculated pursuant to any regulatory definitions.

Fee Paying AUM ("FPAUM")

Fee paying AUM represents only those assets under management from which KKR receives management fees. We believe this measure is useful to unitholders as it provides additional insight into the capital base upon which KKR earns management fees. This relates to KKR's capital raising activities and the overall activity in its investment funds or CLOs, for only those funds or CLOs where KKR receives fees (i.e., excluding vehicles that receive only carried interest or general partner capital). FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest) and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

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Equity Invested

Equity invested is the aggregate amount of equity capital that has been invested by KKR's investment funds and carry-yielding co-investment vehicles and is used as a measure of investment activity for KKR and its business segments during a given period. We believe this measure is useful to unitholders as it provides additional insight into KKR's investments among its investment funds and carry-yielding co-investment vehicles and replaces committed dollars invested. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which KKR is entitled to a carried interest and (ii) capital invested by KKR's investment funds, including investments made using investment financing arrangements.

Gross Dollars Invested

Gross dollars invested is the aggregate amount of capital that has been invested by all of KKR's Public Markets investment vehicles in our private credit non-liquid strategies and is used as a measure of investment activity for a portion of KKR's Public Markets segment in a given period. We believe this measure is useful to unitholders as it provides additional insight into KKR's investment of capital across private credit non-liquid strategies for all the investment vehicles in the Public Markets segment. Such amounts include capital invested by fund investors and co-investors with respect to which KKR's Public Markets business is entitled to a fee or carried interest.

Syndicated Capital

Syndicated capital is generally the aggregate amount of capital in transactions originated by KKR investment funds and carry-yielding co-investment vehicles, which has been distributed to third parties in exchange for a fee. It does not include (i) capital invested in such transactions by KKR investment funds and carry-yielding co-investment vehicles, which is instead reported in equity invested and (ii) debt capital that is arranged as part of the acquisition financing of transactions originated by KKR investment funds. Syndicated capital is used as a measure of investment activity for KKR and its business segments during a given period, and we believe that this measure is useful to unitholders as it provides additional insight into levels of syndication activity in KKR's Capital Markets and Other segment and across its investment platform.

Uncalled Commitments

Uncalled commitments are used as a measure of unfunded capital commitments that KKR's investment funds and carry-paying co-investment vehicles have received from partners to contribute capital to fund future investments. We believe this measure is useful to unitholders as it provides additional insight into the amount of capital that is available to KKR's investment funds to make future investments. Uncalled commitments are not reduced for investments completed using fund-level investment financing arrangements.

Adjusted Units

Adjusted units are used as a measure of the total equity ownership of KKR that is held by KKR & Co. L.P. (including equity awards issued under the Equity Incentive Plan), KKR Holdings and other holders of securities exchangeable into common units of KKR & Co. L.P. and represent the fully diluted unit count using the if-converted method. We believe this measure is useful to unitholders as it provides an indication of the total equity ownership of KKR as if all outstanding KKR Holdings units, equity awards issued under the Equity Incentive Plan and other exchangeable securities had been exchanged for common units of KKR & Co. L.P.

Table of Contents**Segment Book Value**

Book value is a measure of the net assets of KKR's reportable segments and is used by management primarily in assessing the unrealized value of KKR's investment portfolio, including carried interest, as well as KKR's overall liquidity position. We believe this measure is useful to unitholders as it provides additional insight into the assets and liabilities of KKR excluding the assets and liabilities that are allocated to noncontrolling interest holders. Book value differs from KKR & Co. L.P. partners' capital on a GAAP basis primarily as a result of the exclusion of ownership interests attributable to KKR Holdings.

Consolidated Results of Operations

The following is a discussion of our consolidated results of operations for the years ended December 31, 2014, 2013 and 2012. You should read this discussion in conjunction with the consolidated financial statements and related notes included elsewhere in this report. For a more detailed discussion of the factors that affected the results of operations of our three business segments in these periods, see " Segment Analysis."

The following tables set forth information regarding our consolidated results of operations for the years ended December 31, 2014 and 2013.

Year ended December 31, 2014 compared to year ended December 31, 2013

	Year Ended December 31,		
	2014	2013	Change
	(\$ in thousands)		
Revenues			
Fees and Other	\$ 1,110,008	\$ 762,546	\$ 347,462
Expenses			
Compensation and Benefits	1,263,852	1,266,592	(2,740)
Occupancy and Related Charges	62,564	61,720	844
General, Administrative and Other	869,651	438,826	430,825
Total Expenses	2,196,067	1,767,138	428,929
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	4,778,232	7,826,082	(3,047,850)
Dividend Income	1,174,501	695,521	478,980
Interest Income	909,207	474,759	434,448
Interest Expense	(317,192)	(99,616)	(217,576)
Total Investment Income (Loss)	6,544,748	8,896,746	(2,351,998)
Income (Loss) Before Taxes	5,458,689	7,892,154	(2,433,465)
Income Taxes	63,669	37,926	25,743
Net Income (Loss)	5,395,020	7,854,228	(2,459,208)
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	(3,341)	62,255	(65,596)
Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	4,920,750	7,100,747	(2,179,997)
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 477,611	\$ 691,226	\$ (213,615)

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Fees and Other

The net increase was primarily due to an increase in revenues earned by consolidated oil and gas producing entities of \$164.8 million, an increase in transaction fees of \$137.6 million and an increase in management fees of \$37.3 million. The increase in revenue earned by consolidated oil and gas producing entities was primarily the result of the acquisition of KFN, which owned oil and gas producing entities, completed on April 30, 2014, and to a lesser extent, growth in the activities of our other consolidated oil and gas producing entities. The increase in transaction fees was primarily driven by (i) an increase in the size of fee-generating investments completed during the year ended December 31, 2014 in our Private Markets segment and (ii) an increase in transaction fees in our capital markets business reflecting larger transaction sizes when compared to the prior period, including a capital markets fee received from the syndication of equity in First Data Corporation (financial services sector) of approximately \$43 million. During the year ended December 31, 2014, our Private Markets segment had 33 transaction fee-generating investments with a total combined transaction value of approximately \$15.4 billion compared to 33 transaction fee-generating investments with a total combined transaction value of approximately \$15.0 billion during the year ended December 31, 2013. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in management fees was primarily the result of the acquisition of Avoca on February 19, 2014 and to a lesser extent new capital raised primarily in our Public Markets segment, partially offset by a decrease in management fees received from KFN as a result of our acquisition of KFN on April 30, 2014, as management fees from KFN after that date are now eliminated in consolidation.

Expenses

The increase was primarily due to an increase in general, administrative and other expenses of \$430.8 million, partially offset by a decrease in compensation and benefits of \$2.7 million. The increase in general, administrative and other expenses is primarily due to an increase of approximately \$330 million relating to the activities of our consolidated oil and gas producing entities which were not consolidated prior to the third quarter of 2013 as well as the activities of oil and gas producing entities acquired in the acquisition of KFN completed on April 30, 2014. This increase included an impairment charge of approximately \$220 million relating to long-lived assets at our consolidated oil and gas producing entities. In addition, general, administrative, and other expenses increased as a result of (i) increased expenses attributable to Avoca which we acquired on February 19, 2014, (ii) expenses incurred by consolidated CLOs that were consolidated subsequent to the acquisition of Avoca and the acquisition of KFN, which was completed on April 30, 2014, and (iii) an increase in amounts accrued for litigation. The decrease in compensation and benefits is due primarily to (i) lower equity-based compensation reflecting fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition, (ii) lower carry pool allocations as a result of the recognition of a lower level of carried interest during the year ended December 31, 2014 as compared to the year ended December 31, 2013, partially offset by (i) an increase in cash compensation reflecting a higher level of fees as well as increased headcount and (ii) higher equity-based compensation relating primarily to additional equity grants under the Equity Incentive Plan.

Table of Contents*Net Gains (Losses) from Investment Activities*

The following is a summary of net gains (losses) from investment activities:

	Year Ended December 31,	
	2014	2013
	(\$ in thousands)	
Private Equity Investments	\$ 4,586,193	\$ 7,716,772
Other Net Gains (Losses) from Investment Activities	192,039	109,310
Net Gains (Losses) from Investment Activities	\$ 4,778,232	\$ 7,826,082

The majority of our net gains (losses) from investment activities relate to our private equity portfolio. The following is a summary of the components of net gains (losses) from investment activities for private equity investments which illustrates the variances from the prior period. See " Segment Analysis Private Markets Segment" for further information regarding gains and losses in our private equity portfolio.

	Year Ended December 31,	
	2014	2013
	(\$ in thousands)	
Realized Gains	\$ 6,224,683	\$ 4,712,997
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(6,278,529)	(4,155,261)
Realized Losses	(1,238,897)	(1,048,778)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	1,233,070	1,058,710
Unrealized Gains from Changes in Fair Value	9,218,981	9,361,938
Unrealized Losses from Changes in Fair Value	(4,573,115)	(2,212,834)
Net Gains (Losses) from Investment Activities Private Equity Investments	\$ 4,586,193	\$ 7,716,772

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

The appreciation in the market value of our private equity portfolio was driven primarily by net unrealized gains of \$2.2 billion, \$1.2 billion and \$1.1 billion in our 2006 Fund, European Fund III and North America Fund XI, respectively. Approximately 23% of the net change in value for the year ended December 31, 2014 was attributable to changes in share prices of various publicly-listed investments, the most significant of which were gains on PRA Health Sciences, Inc. (NASDAQ: PRAH), HCA, Inc. (NYSE: HCA), NXP Semiconductors N.V. (NASDAQ: NXPI) and Yageo Corporation (TW: 2327). These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Tarkett S.A. (FP:TKTT), ProSiebenSat.1 Media AG (XETRA: PSM) and Rundong Automobile Group (HK: 1365). Our privately-held investments contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH (healthcare sector), Biomet, Inc. (healthcare sector) and WILD Flavors GmbH (consumer products sector). The unrealized gains on our privately-held investments were partially offset by unrealized losses relating primarily to Northgate Information Solutions (technology sector), Samson Resources (energy sector) and Toys R Us (retail sector). The unrealized gains were also offset by unrealized losses in our energy assets from our Natural Resources Fund and

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Energy Income and Growth Fund of approximately \$352 million. The increased valuations of individual companies in our privately-held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance, (ii) in the case of WILD Flavors GmbH and Biomet, Inc., an increase that primarily reflected agreements to sell these investments, with the sale of WILD Flavors GmbH completed in October 2014, and (iii) in the case of Alliance Boots GmbH, primarily due to an agreement to exit the investment and to a lesser extent an increase in the value of a publicly traded stock that is expected to be delivered pursuant to this agreement, which was completed on December 31, 2014. The decreased valuations of individual companies in our privately-held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook. The decreased valuation of energy assets are generally related to decreases in commodity prices.

Dividend Income

During the year ended December 31, 2014, we received dividends of \$178.6 million from Visma (technology sector), \$171.6 million from Capsugel (healthcare sector), \$162.1 million from Capital Safety Group (industrial sector), \$87.7 million from WMF (consumer products sector) and an aggregate of \$574.5 million of dividends from other investments. During the year ended December 31, 2013, we received dividends of \$191.6 million from Capsugel, \$139.7 million from Pets at Home (consumer products sector), \$113.9 million from Visma, \$85.6 million from Tarkett S.A. (manufacturing sector), \$52.0 million from Santander Consumer USA (financial services sector) and an aggregate of \$112.7 million of dividends from other investments. Significant dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable.

Interest Income

The increase was primarily due to the consolidation of debt instruments held by KFN including CLOs, subsequent to the acquisition of KFN on April 30, 2014, as well as a net increase in the amount of credit instruments in our consolidated Public Markets investment vehicles, including CLOs acquired in the Avoca acquisition on February 19, 2014.

Interest Expense

The increase was primarily due to (i) interest expense associated with consolidated CLOs acquired in the Avoca and KFN acquisitions which were completed on February 19, 2014 and April 30, 2014, respectively, (ii) interest expense associated with senior and subordinated debt at KFN and (iii) interest expense on our 2044 Senior Notes issued on May 29, 2014.

Income (Loss) Before Taxes

The decrease was primarily due to a decrease in investment income and increase in expenses, partially offset by an increase in fees.

Income Taxes

The increase was primarily due to an increase in the amount of income in the KKR Group Partnerships that is subject to either corporate or local taxes, or both, as well as an increase in KKR & Co. L.P.'s ownership percentage in the KKR Group Partnerships from approximately 39.9% for the year ended December 31, 2013 to approximately 49.5% for the year ended December 31, 2014. This increase in ownership subjects a greater level of income to corporate taxes.

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Net Income (Loss) Attributable to Redeemable Noncontrolling Interests

The decrease was primarily driven by the termination of our KKR Equity Strategies fund and to a lesser extent decreased investment income for funds and vehicles where noncontrolling interests are redeemable.

Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital

The decrease was primarily attributable to the overall decrease in investment income described above as well as a decrease in KKR Holdings's ownership percentage in the KKR Group Partnerships from approximately 60.1% for the year ended December 31, 2013 to approximately 50.5% for the year ended December 31, 2014.

Net Income (Loss) Attributable to KKR & Co. L.P.

The decrease was primarily attributable to the decrease in income before taxes as described above, partially offset by an increase in KKR & Co. L.P.'s ownership percentage in the KKR Group Partnerships from approximately 39.9% for the year ended December 31, 2013 to approximately 49.5% for the year ended December 31, 2014. This increase in ownership percentage was principally the result of the issuance of KKR common units in connection with the acquisition of KFN.

The following tables set forth information regarding our consolidated results of operations for the years ended December 31, 2013 and 2012.

Year ended December 31, 2013 compared to year ended December 31, 2012

	Year Ended December 31,		
	2013	2012	Change
	(\$ in thousands)		
Revenues			
Fees and Other	\$ 762,546	\$ 568,442	\$ 194,104
Expenses			
Compensation and Benefits	1,266,592	1,280,854	(14,262)
Occupancy and Related Charges	61,720	58,205	3,515
General, Administrative and Other	438,826	259,729	179,097
Total Expenses	1,767,138	1,598,788	168,350
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	7,826,082	7,871,673	(45,591)
Dividend Income	695,521	940,888	(245,367)
Interest Income	474,759	358,598	116,161
Interest Expense	(99,616)	(69,164)	(30,452)
Total Investment Income (Loss)	8,896,746	9,101,995	(205,249)
Income (Loss) Before Taxes	7,892,154	8,071,649	(179,495)
Income Taxes	37,926	43,405	(5,479)
Net Income (Loss)	7,854,228	8,028,244	(174,016)
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	62,255	34,963	27,292
Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	7,100,747	7,432,445	(331,698)
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 691,226	\$ 560,836	\$ 130,390

Table of Contents*Fees and Other*

The net increase was primarily due to an increase in management fees of \$79.8 million, an increase in transaction fees of \$50.3 million and an increase in incentive fees of \$24.8 million. The increase in management fees was primarily the result of the acquisition of Prisma as well as new capital raised primarily in our Public Markets segment. The increase in transaction fees was primarily driven by an increase in the size and number of fee-generating investments completed during the year ended December 31, 2013 in our Private Markets segment. During the year ended December 31, 2013, there were 33 transaction fee-generating investments with a total combined transaction value of approximately \$15.0 billion compared to 17 transaction fee-generating investments with a total combined transaction value of approximately \$6.5 billion during the year ended December 31, 2012. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in incentive fees is due primarily to an increase in incentive fees received from KKR Prisma, which became part of KKR during the three months ended December 31, 2012, partially offset by a decrease in incentive fees from KFN as a result of its investment performance. KFN has already realized a substantial majority of the unrealized gains that were embedded in its bank loan and high yield portfolio, which have contributed in the past to its investment performance and KKR's receipt of incentive fees from KFN. Incentive fees from KFN are determined quarterly, while other incentive fees are typically determined for the twelve-month periods ending in either the second and fourth quarters of the calendar year. However, such fees may be determined at other points during the year for certain strategies. Whether an incentive fee from KFN and other KKR vehicles is payable in any given period, and the amount of an incentive fee payment, if any, depends on the investment performance of the vehicle and as a result may vary significantly from period to period. On April 30, 2014, KFN was acquired and from that date forward, management and incentive fees earned from KFN were eliminated.

Expenses

The increase was primarily due to an increase in general, administrative and other expenses of \$179.1 million, partially offset by a decrease in compensation and benefits expenses of \$14.3 million. The increase in other general, administrative and other expenses was primarily due to an increase in professional service fees in connection with the growth of our business, the acquisition of Prisma as well as a \$9.7 million one-time expense incurred in our Public Markets business in connection with the launch of a closed-end fund during the year ended December 31, 2013. The net decrease in compensation and benefits is due primarily to (i) lower equity-based compensation reflecting fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition, partially offset by (ii) an increase in cash-based compensation as a result of the Prisma acquisition, increased headcount and an increase in fees and (iii) higher equity-based compensation relating to additional equity grants under the Equity Incentive Plan.

Net Gains (Losses) from Investment Activities

The following is a summary of net gains (losses) from investment activities:

	Year Ended December 31,	
	2013	2012
	(\$ in thousands)	
Private Equity Investments	\$ 7,716,772	\$ 7,936,155
Other Net Gains (Losses) from Investment Activities	109,310	(64,482)
Net Gains (Losses) from Investment Activities	\$ 7,826,082	\$ 7,871,673

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The majority of our net gains (losses) from investment activities relate to our private equity portfolio. The following is a summary of the components of net gains (losses) from investment activities for private equity investments which illustrates the variances from the prior period. See " Segment Analysis Private Markets Segment" for further information regarding gains and losses in our private equity portfolio.

	Year Ended December 31,	
	2013	2012
	(\$ in thousands)	
Realized Gains	\$ 4,712,997	\$ 4,954,124
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(4,155,261)	(4,688,754)
Realized Losses	(1,048,778)	(6,463)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	1,058,710	6,463
Unrealized Gains from Changes in Fair Value	9,361,938	11,168,416
Unrealized Losses from Changes in Fair Value	(2,212,834)	(3,497,631)
Net Gains (Losses) from Investment Activities Private Equity Investments	\$ 7,716,772	\$ 7,936,155

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

The most significant driver of net gains (losses) from investment activities for the year ended December 31, 2013 is related to unrealized gains and losses from changes in fair value in our private equity investments. The net unrealized investment gains in our private equity portfolio were driven primarily by net unrealized gains of \$3.0 billion, \$1.3 billion and \$1.1 billion in our 2006 Fund, European Fund II and European Fund III, respectively. Approximately 46% of the net change in value for the year ended December 31, 2013 was attributable to changes in share prices of various publicly-listed investments, most notably increases in HCA, Inc., ProSiebenSat.1 Media AG and NXP Semiconductors N.V., partially offset by decreases relating to Bharti Infratel Ltd. (IN: BHIN) and China Outfitters Holdings (HK: 1146). Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH, Academy Sports and Outdoors (retail sector) and Oriental Brewery (consumer products sector). The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Samson Resources, Toys R Us and U.N RO-RO Isletmeleri A.S. (transportation sector). The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction, which was completed on December 31, 2014. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The most significant driver of net gains (losses) from investment activities in our private equity investments for the year ended December 31, 2012 is related to unrealized gains and losses from changes in fair value. The net unrealized investment gains in our private equity portfolio were driven primarily by net unrealized gains of \$3.4 billion, \$1.9 billion and \$0.9 billion in our 2006 Fund, European Fund II and Asian Fund, respectively. Approximately 24% of the net change in value for the year ended December 31, 2012 was attributable to changes in share prices of various publicly-listed

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investments, most notably increases in HCA, Inc., Dollar General Corporation (NYSE: DG) and NXP Semiconductors N.V., which were partially offset by decreases in Seven West Media Ltd. (AX: SWM), Far East Horizon Ltd. (HK: 3360) and Tianrui Cement Co., Ltd. (HK: 1252). Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH, Oriental Brewery and KION Group GmbH (manufacturing sector), which were partially offset by unrealized losses on Samson Resources, China International Capital Corporation (financial services sector) and Toys R Us. The increased valuations are generally related to an increase in the value of market comparables and individual company performance, and in the case of Alliance Boots GmbH, an increase that primarily reflected the valuation of an agreement to sell a portion of the investment executed in June 2012, which was completed on December 31, 2014. The decreased valuations are generally related to an unfavorable business outlook for the respective companies.

Dividend Income

During the year ended December 31, 2013, we received dividends of \$191.6 million from Capsugel, \$139.7 million from Pets at Home, \$113.9 million from Visma, \$85.6 million from Tarkett S.A., \$52.0 million from Santander Consumer USA and an aggregate of \$112.7 million of dividends from other investments. During the year ended December 31, 2012, we received \$520.0 million of dividends from HCA, Inc., \$188.1 million from Academy Sports and Outdoors, \$95.0 million from SunGard (technology sector), \$78.5 million from TDC A/S (OMX: TDC), and an aggregate of \$59.3 million of dividends from other investments. Significant dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable. Significant dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable.

Interest Income

The increase primarily reflects a net increase in the level of credit instruments in our Public Markets investment vehicles.

Interest Expense

The increase was primarily due to an increase in debt obligations in connection with our 2043 Senior Notes issued on February 1, 2013.

Income (Loss) Before Taxes

The decrease was primarily due to the factors described above, principally a decrease in dividends in investment income, an increase in expenses, partially offset by an increase in fees.

Net Income (Loss) Attributable to Redeemable Noncontrolling Interests

The increase primarily reflects a higher level of investment income in vehicles that allow for redemptions by their limited partners.

Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital

The decrease was primarily driven by the overall changes in the components of net gains (losses) from investment activities described above as well as a decrease in KKR Holdings's ownership percentage in the KKR Group Partnerships from approximately 65.2% for the year ended December 31, 2012 to approximately 60.1% for the year ended December 31, 2013.

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Net Income (Loss) Attributable to KKR & Co. L.P.

The increase was primarily attributable to an increase in KKR & Co. L.P.'s ownership percentage in the KKR Group Partnerships from 36.9% on December 31, 2012 to 41.6% on December 31, 2013.

Segment Analysis

The following is a discussion of the results of our three reportable business segments for years ended December 31, 2014, 2013 and 2012. You should read this discussion in conjunction with the information included under "Basis of Financial Presentation Segment Operating and Performance Measures" and the consolidated financial statements and related notes included elsewhere in this report.

In connection with KKR's acquisition of KFN on April 30, 2014, and the related increase in the amount of assets held by KKR, KKR's management reevaluated the manner in which it makes operational and resource deployment decisions and assesses the overall performance of each of KKR's operating segments. As a result, since June 30, 2014, KKR has modified the presentation of its segment financial information.

Certain of the more significant changes between KKR's current segment presentation and its previously reported segment presentation reported prior to June 30, 2014, are as follows:

All income on investments is now attributed to either the Private Markets segment or Public Markets segment based on the character of the income generated. For example, gains from private equity investments are included in the Private Markets segment. Previously, income on investments held directly by KKR was reported in the Capital Markets and Principal Activities Segment.

Carried interest and other investment income (both realized and unrealized) is now included in total segment revenues as opposed to investment income.

Total segment expenses now include allocation to carry pool within compensation and benefits (both realized and unrealized), as opposed to such amounts being included in investment income.

The Capital Markets and Principal Activities segment has been renamed Capital Markets and Other.

In connection with these modifications, segment information for the years ended December 31, 2013 and 2012 has been presented in this Annual Report on Form 10-K to conform to KKR's current segment presentation. Consequently, this information will not be consistent with historical segment financial results previously reported. While the modified segment presentation impacted the amount of economic net income reported by each operating segment, it had no impact on KKR's economic net income on a total reportable segment basis.

Private Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the years ended December 31, 2014 and 2013.

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Year ended December 31, 2014 compared to year ended December 31, 2013

	Year Ended December 31,		
	2014	2013	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$ 453,210	\$ 459,496	\$ (6,286)
Monitoring Fees	135,160	120,267	14,893
Transaction Fees	214,612	150,118	64,494
Fee Credits	(198,680)	(136,662)	(62,018)
Total Management, Monitoring and Transaction Fees, Net	604,302	593,219	11,083
Performance Income			
Realized Carried Interest	1,159,011	690,027	468,984
Incentive Fees			
Unrealized Carried Interest	70,058	661,803	(591,745)
Total Performance Income	1,229,069	1,351,830	(122,761)
Investment Income (Loss)			
Net Realized Gains (Losses)	609,905	632,282	(22,377)
Net Unrealized Gains (Losses)	(245,260)	252,466	(497,726)
Total Realized and Unrealized	364,645	884,748	(520,103)
Net Interest and Dividends	90,499	(8,665)	99,164
Total Investment Income (Loss)	455,144	876,083	(420,939)
Total Segment Revenues	2,288,515	2,821,132	(532,617)
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	239,161	231,911	7,250
Realized Allocation to Carry Pool	463,605	276,011	187,594
Unrealized Allocation to Carry Pool	33,430	282,003	(248,573)
Total Compensation and Benefits	736,196	789,925	(53,729)
Occupancy and related charges	45,471	48,045	(2,574)
Other operating expenses	168,021	154,982	13,039
Total Segment Expenses	949,688	992,952	(43,264)
Income (Loss) attributable to noncontrolling interests	1,424	1,498	(74)
Economic Net Income (Loss)	\$ 1,337,403	\$ 1,826,682	\$ (489,279)
Assets Under Management	\$ 61,505,800	\$ 61,242,900	\$ 262,900
Fee Paying Assets Under Management	\$ 47,262,500	\$ 50,156,300	\$ (2,893,800)
Equity Invested	\$ 7,223,400	\$ 5,840,900	\$ 1,382,500
Uncalled Commitments	\$ 18,272,400	\$ 20,101,600	\$ (1,829,200)
Segment Revenues			

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in transaction fees of \$64.5 million, partially offset by an increase in fee credits of \$62.0 million. The increase in transaction fees was attributable to an increase in the size of fee-generating investments completed. During the year ended December 31,

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2014, there were 33 transaction fee-generating investments with a total combined transaction value of approximately \$15.4 billion compared to 33 transaction fee-generating investments with a total combined transaction value of approximately \$15.0 billion during the year ended December 31, 2013. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in fee credits is primarily attributable to the increase in transaction fees, as described above. See also discussion under " Assets Under Management" and " Fee-Paying Assets Under Management".

Performance Income

The net decrease primarily reflects a lower level of unrealized appreciation in our private equity portfolio in the 2014 period than in the 2013 period. While the value of our private equity portfolio increased in the 2014 period, the amount of appreciation was less than that in the prior period.

Realized carried interest for the year ended December 31, 2014 increased compared to the year ended December 31, 2013 and consisted primarily of realized gains from the sales of Oriental Brewery, WILD Flavors GmbH and Versatel GmbH (telecom sector).

Realized carried interest for the year ended December 31, 2013 consisted primarily of realized gains from the partial sale and final sale of Dollar General Corporation, the partial sale of HCA, Inc. and sale of Intelligence, Ltd. (services sector).

The following table presents net unrealized carried interest by investment vehicle for the year ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
	(\$ in thousands)	
North America Fund XI	189,063	34,389
2006 Fund	128,970	\$ 294,883
Co-Investment Vehicles and Other	99,026	22,009
Asian Fund II	58,967	
Real Estate Partners Americas	(662)	12,516
European Fund	(826)	19
China Growth Fund	(6,346)	6,937
E2 Investors	(20,253)	14,774
European Fund III	(34,914)	124,463
Millennium Fund	(40,489)	12,128
European Fund II	(112,091)	169,819
Asian Fund	(176,456)	148
Management Fee Refunds	(13,931)	(30,282)
Total(a)	\$ 70,058	\$ 661,803

(a)

The above table excludes any funds for which there was no unrealized carried interest during either of the periods presented.

For the year ended December 31, 2014, the net unrealized carried interest income of \$70.1 million included \$1,098.2 million representing net increases in the value of various portfolio companies, which were partially offset by unrealized losses of \$1,028.1 million primarily representing reversals of previously recognized net unrealized gains in connection with the occurrence of realization events such as partial or full sales and management fee refunds.

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For the year ended December 31, 2014, the value of our private equity investment portfolio increased 12.8%. Increased share prices of various publicly held investments comprised approximately 23% of the net increase in value for the year ended December 31, 2014, the most significant of which were gains on PRA Health Sciences, Inc., HCA, Inc., NXP Semiconductors N.V. and Yageo Corporation. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Tarkett S.A., ProSiebenSat.1 Media AG and Rundong Automobile Group. Our privately-held investments contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Biomet, Inc. and WILD Flavors GmbH. The unrealized gains on our privately-held investments were partially offset by unrealized losses relating primarily to Northgate Information Solutions, Samson Resources and Toys R Us. The increased valuations of individual companies in our privately-held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance, (ii) in the case of WILD Flavors GmbH and Biomet, Inc., an increase that primarily reflected agreements to sell these investments, with the sale of WILD Flavors GmbH completed in October 2014, and (iii) in the case of Alliance Boots GmbH, primarily due to an agreement to exit the investment and to a lesser extent an increase in the value of a publicly traded stock that is expected to be delivered pursuant to this agreement, which was completed on December 31, 2014. The decreased valuations of individual companies in our privately-held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The reversals of previously recognized net unrealized gains for the year ended December 31, 2014 resulted primarily from the sale of Oriental Brewery, the sale of WILD Flavors GmbH, the partial sale of HCA, Inc. and the sale of Jazz Pharmaceuticals, Inc. (NASDAQ: JAZZ). During the year ended December 31, 2014, we wrote off A.T.U Auto-Teile-Unger (retail sector) and U.N RO-RO Isletmeleri A.S. and recognized realized losses. These 2014 write-offs did not have a significant impact on our 2014 net carried interest because these interests had already been substantially written down in prior periods.

For the year ended December 31, 2013, the unrealized carried interest gain of \$661.8 million included \$1,174.6 million reflecting net increases in the value of various portfolio companies, which were partially offset by \$512.8 million primarily representing reversals of previously recognized net unrealized gains in connection with the occurrence of realization events such as partial or full sales and management fee refunds.

For the year ended December 31, 2013, the value of our private equity investment portfolio increased 20.2%. Increased share prices of various publicly held investments comprised approximately 46% of the net increase in value for the year ended December 31, 2013, the most significant of which were gains on HCA, Inc., ProSiebenSat.1 Media AG and NXP Semiconductors N.V. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Bharti Infratel Ltd. and China Outfitters Holdings. Our private portfolio contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Academy Sports and Outdoors and Oriental Brewery. The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Toys R Us, Samson Resources, and U.N RO-RO Isletmeleri A.S. The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction, which was completed on December 31, 2014. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The reversals of previously recognized net unrealized gains for the year ended December 31, 2013 resulted primarily from the partial sales and final sale of Dollar General Corporation, the partial sales

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of HCA, Inc. and sale of Intelligence, Ltd. During the year ended December 31, 2013, we wrote off PagesJaunes Group (media sector) (currently known as Solocal Group SA (FRA: QS3)) and our remaining warrants in Eastman Kodak (technology sector) and sold our remaining investment in Seven West Media Ltd. realizing a modest loss. None of these write-offs had a material impact on our 2013 net carried interest because these interests had already been substantially written down in prior periods.

Investment Income

The net decrease is primarily due to a decrease in unrealized gains of \$497.7 million and realized gains of \$22.4 million, which were partially offset by an increase in net interest and dividends of \$99.1 million.

For the year ended December 31, 2014, net realized gains were comprised primarily of gains from the sale of private equity investments, including the sale and partial sale of HCA, Inc., NXP Semiconductors N.V. and The Nielsen Company B.V. (NYSE: NLSN). Net unrealized losses are primarily related to the reversal of gains on sales of investments noted in the realized gains commentary above as well as declines in value of various investments in working interests in oil and gas producing properties and Samson Resources. For the year ended December 31, 2014, mark-to-market unrealized losses reflected in net unrealized losses relating to our energy investments in working interests in oil and gas producing properties were approximately \$149 million, the majority of which occurred in the fourth quarter of 2014 primarily as a result of a decline in oil prices. These unrealized losses and reversals of gains upon realization events were partially offset by increases in value of various private equity investments including First Data Corporation, Alliance Boots GmbH and Biomet, Inc.

For the year ended December 31, 2013, net realized gains were comprised primarily of realized gains from the sale or partial sale of private equity investments, the most significant of which were HCA, Inc., Dollar General Corporation, NXP Semiconductors N.V. and Intelligence, Ltd. These realized gains were partially offset by realized losses primarily related to the sale and write off of private equity investments, including the write-off of PagesJaunes Group. Realized investment losses from balance sheet investments that were already written down as of October 1, 2009 that have been excluded from net realized gains (losses) above amounted to approximately \$205 million for the year ended December 31, 2013. The net unrealized gains related primarily to increases in the value of various private equity investments, most notably HCA, Inc., ProSiebenSat.1 Media AG and Alliance Boots GmbH, partially offset by unrealized losses on Samson Resources, as well as reversals of unrealized gains primarily in connection with the sales of the investments noted in the realized gains commentary above.

For the year ended December 31, 2014, net interest and dividends were comprised of (i) \$37.2 million of interest income which consists primarily of interest that is received from our cash balances and other assets, (ii) \$134.0 million of dividend income from distributions received through our investment funds and other assets, including approximately \$84 million received from our energy investments in working interests in oil and gas producing properties and (iii) \$80.7 million of interest expense primarily relating to the senior notes outstanding for KKR and KFN, a portion of which are allocable to the Private Markets segment. For the year ended December 31, 2013, net interest and dividends were comprised of (i) \$14.2 million of interest income which consists primarily of interest received on our cash balances, (ii) \$35.3 million of dividend income from distributions received through our investment funds and other assets and (iii) \$58.2 million of interest expense primarily relating to the senior notes outstanding for KKR, a portion of which is allocable to the Private Markets segment. The increase from the prior period is primarily due to an increase in dividend income in our private equity and energy investments portfolio, partially offset by higher allocations of interest expense to the Private Markets segment as a result of our 2044 Senior Notes issued on May 29, 2014 as well as interest expense relating to debt obligations at KFN subsequent to KKR's acquisition of it on April 30, 2014.

Table of Contents**Segment Expenses***Compensation and Benefits*

The net decrease was due primarily to lower allocations to carry pool driven by the lower levels of unrealized carried interest, partially offset by an increase in realized carried interest and higher cash compensation and benefits primarily reflecting increased headcount and to a lesser extent a higher level of fees, which generally results in higher compensation expenses in the year ended December 31, 2014.

Occupancy and Other Operating Expenses

The net increase was primarily driven by an increase in expenses for unconsummated transactions, also known as "broken deal" expenses, and to a lesser extent an increase in professional fee expenses reflecting the overall growth of this segment.

Economic Net Income (Loss)

This decrease was primarily due to the decrease in investment income and the decrease in performance income, partially offset by increases in management, monitoring and transaction fees, net and a decrease in segment expenses as described above.

Assets Under Management

The following table reflects the changes in our Private Markets AUM from December 31, 2013 to December 31, 2014:

	(\$ in thousands)
December 31, 2013	\$ 61,242,900
New Capital Raised	6,056,000
Distributions	(10,724,800)
Net Changes in Fee Base of Certain Funds	(933,800)
Change in Value	5,865,500
December 31, 2014	\$ 61,505,800

AUM for the Private Markets segment was \$61.5 billion at December 31, 2014, an increase of \$0.3 billion, compared to \$61.2 billion at December 31, 2013. The increase was primarily attributable to new capital raised of \$6.1 billion and appreciation in the market value of our private equity portfolio of \$5.9 billion. These increases were partially offset by distributions to private equity fund investors of \$10.7 billion comprised of \$7.3 billion of realized gains and \$3.4 billion of return of original cost.

The appreciation in the market value of our private equity portfolio was driven primarily by net unrealized gains of \$2.2 billion, \$1.2 billion and \$1.1 billion in our 2006 Fund, European Fund III and North America Fund XI, respectively. Approximately 23% of the net change in value for the year ended December 31, 2014 was attributable to changes in share prices of various publicly-listed investments, the most significant of which were gains on PRA Health Sciences, Inc., HCA, Inc., NXP Semiconductors N.V. and Yageo Corporation. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Tarkett S.A., ProSiebenSat.1 Media AG and Rundong Automobile Group. Our privately-held investments contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Biomet, Inc. and WILD Flavors GmbH. The unrealized gains on our privately-held investments were partially offset by unrealized losses relating primarily to Northgate Information Solutions, Samson Resources and Toys R Us. The unrealized gains were also offset by unrealized losses in our energy assets from our Natural Resources Fund and Energy Income and

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Growth Fund of approximately \$352 million. The increased valuations of individual companies in our privately-held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance, (ii) in the case of WILD Flavors GmbH and Biomet, Inc., an increase that primarily reflected agreements to sell these investments, with the sale of WILD Flavors GmbH completed in October 2014, and (iii) in the case of Alliance Boots GmbH, primarily due to an agreement to exit the investment and to a lesser extent an increase in the value of a publicly traded stock that is expected to be delivered pursuant to this agreement, which was completed on December 31, 2014. The decreased valuations of individual companies in our privately-held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook. The decreased valuation of energy assets are generally related to decreases in commodity prices.

As of December 31, 2014, our AUM excluded approximately \$0.3 billion of unallocated commitments from a strategic partnership with a state pension plan, and \$2.8 billion in commitments in connection with other infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees or carried interest. Such commitments will not contribute to AUM unless and until we are entitled to receive fees or carried interest in accordance with our definition of AUM.

Fee-Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from December 31, 2013 to December 31, 2014:

	(\$ in thousands)
December 31, 2013	\$ 50,156,300
New Capital Raised	5,298,500
Distributions	(6,833,800)
Net Changes in Fee Base of Certain Funds	(964,700)
Change in Value	(393,800)
December 31, 2014	\$ 47,262,500

FPAUM in our Private Markets segment was \$47.3 billion at December 31, 2014, a decrease of \$2.9 billion, compared to \$50.2 billion at December 31, 2013. The decrease was primarily attributable to (i) distributions to private equity fund investors, (ii) a reduction in FPAUM attributable to the invested capital of Energy Future Holdings due to its bankruptcy and (iii) a reduction reflecting the impact of our European Fund III entering its post-investment period. This decrease was partially offset by new capital raised of \$5.3 billion relating primarily to additional capital raised in our Infrastructure Investors Fund II, European Fund IV and capital deployed in our 2006 Fund which earns fees on invested capital in its post-investment period.

As of December 31, 2014, FPAUM excluded approximately \$0.3 billion of unallocated commitments from a strategic partnership with a state pension plan and \$2.8 billion in commitments in connection with infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees or carried interest. Once these committed amounts are invested, management fees will begin to be earned with respect to such amounts, which will be accretive to our fees. Such commitments will not contribute to FPAUM unless and until we are entitled to receive management fees in accordance with our definition of FPAUM.

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Equity Invested

The increase was due to an increase in the number and size of private equity investments closed during the year ended December 31, 2014 as compared with the year ended December 31, 2013. Generally, the operating companies acquired through our private equity business have higher transaction values and result in higher equity invested, relative to transactions in our real assets businesses. The number of large private equity investments made in any quarter is volatile and consequently, a significant amount of equity invested in one quarter or a few quarters may not be indicative of a similar level of capital deployment in future quarters. For the year ended December 31, 2014, there were 96 transactions with a total combined transaction value of approximately \$21.8 billion compared to 70 transactions with a total combined transaction value of approximately \$17.0 billion for the year ended December 31, 2013.

Uncalled Commitments

As of December 31, 2014, our Private Markets Segment had \$18.3 billion of remaining uncalled capital commitments that could be called for investments in new transactions.

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the years ended December 31, 2013 and 2012.

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Year ended December 31, 2013 compared to year ended December 31, 2012

	Year Ended December 31,		
	2013	2012	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$ 459,496	\$ 423,921	\$ 35,575
Monitoring Fees	120,267	116,565	3,702
Transaction Fees	150,118	96,454	53,664
Fee Credits	(136,662)	(97,362)	(39,300)
Total Management, Monitoring and Transaction Fees, Net	593,219	539,578	53,641
Performance Income			
Realized Carried Interest	690,027	475,707	214,320
Incentive Fees			
Unrealized Carried Interest	661,803	773,325	(111,522)
Total Performance Income	1,351,830	1,249,032	102,798
Investment Income (Loss)			
Net Realized Gains (Losses)	632,282	703,965	(71,683)
Net Unrealized Gains (Losses)	252,466	227,156	25,310
Total Realized and Unrealized	884,748	931,121	(46,373)
Net Interest and Dividends	(8,665)	123,965	(132,630)
Total Investment Income (Loss)	876,083	1,055,086	(179,003)
Total Segment Revenues	2,821,132	2,843,696	(22,564)
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	231,911	192,765	39,146
Realized Allocation to Carry Pool	276,011	190,283	85,728
Unrealized Allocation to Carry Pool	282,003	375,260	(93,257)
Total Compensation and Benefits	789,925	758,308	31,617
Occupancy and related charges	48,045	48,562	(517)
Other operating expenses	154,982	147,253	7,729
Total Segment Expenses	992,952	954,123	38,829
Income (Loss) attributable to noncontrolling interests	1,498	3,390	(1,892)
Economic Net Income (Loss)	\$ 1,826,682	\$ 1,886,183	\$ (59,501)
Assets Under Management	\$ 61,242,900	\$ 49,127,600	\$ 12,115,300
Fee Paying Assets Under Management	\$ 50,156,300	\$ 41,173,000	\$ 8,983,300
Equity Invested	\$ 5,840,900	\$ 3,026,300	\$ 2,814,600
Uncalled Commitments	\$ 20,101,600	\$ 14,271,100	\$ 5,830,500
<i>Segment Revenues</i>			

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in transaction fees of \$53.7 million and an increase in management fees of \$35.6 million, partially offset by an increase in fee credits of \$39.3 million. The increase in transaction fees was attributable to an increase in both the size and number of fee-generating investments completed. During the year ended December 31, 2013, there were 33 transaction fee-generating investments with a total combined transaction value of approximately \$15.0 billion compared to 17 transaction fee-generating investments with a total

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combined transaction value of approximately \$6.5 billion during the year ended December 31, 2012. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in fee credits is primarily attributable to the increase in transaction fees, as described above. The increase in management fees is primarily attributable to new capital raised in KKR North America Fund XI and KKR Asian Fund II, partially offset by the KKR 2006 Fund and KKR Asian Fund entering their post-investment periods with a lower management fee. As of December 31, 2013, FPAUM excluded approximately \$0.7 billion of unallocated commitments from a strategic partnership with a state pension plan and \$2.2 billion in commitments in connection with infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees or carried interest. The inclusion of these amounts in FPAUM in future periods would be accretive to our fees. The investment period of our European Fund III ended on March 31, 2014, which reduced the fund's fee rate and changed the fund's management fee base from committed capital to invested capital. This resulted in a decrease in fees earned for European Fund III beginning in the second quarter of 2014. This decrease was not offset by a successor European private equity fund until such time as the successor fund has its first close and commenced its investment period, which occurred in the fourth quarter of 2014.

Performance Income

This increase was primarily driven by a lower level of management fee refunds.

Management fee refunds amounted to \$30.3 million for the year ended December 31, 2013, a decrease of \$113.4 million, as compared to \$143.7 million for the year ended December 31, 2012. The decrease in management fee refunds primarily reflects an increased level of accrued carried interest in European Fund III and European Fund II in the year ended 2012 which triggered the recognition of a higher level of management fee refunds in that period.

Realized carried interest for the year ended December 31, 2013 consisted primarily of realized gains from the partial sale and final sale of Dollar General Corporation, the partial sales of HCA, Inc. and sale of Intelligence, Ltd.

Realized carried interest for the year ended December 31, 2012 consisted primarily of realized gains from the partial sale of Alliance Boots GmbH, sale of Legrand Holdings S.A. (ENXTPA: LR) and partial sale of HCA, Inc.

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The following table presents net unrealized carried interest by investment vehicle for the year ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
	(\$ in thousands)	
2006 Fund	\$ 294,883	\$ 449,429
European Fund II	169,819	181,420
European Fund III	124,463	123,746
North America Fund XI	34,389	
Co-Investment Vehicles and Other	22,009	71,981
E2 Investors	14,774	27,252
Real Estate Partners Americas	12,516	
Millennium Fund	12,128	637
China Growth Fund	6,937	(12,388)
Asian Fund	148	151,514
European Fund	19	(76,543)
Management Fee Refunds	(30,282)	(143,723)
Total(a)	\$ 661,803	\$ 773,325

(a)

The above table excludes any funds for which there was no unrealized carried interest during either of the periods presented, which for the year ended December 31, 2013, consisted of Asian Fund II.

For the year ended December 31, 2013, the net unrealized carried interest gain of \$661.8 million included \$1,174.6 million representing net increases in the value of various portfolio companies which were partially offset by \$512.8 million primarily representing reversals of previously recognized net unrealized gains in the connection with the occurrence of realization events such as partial or full sales and management fee refunds.

For the year ended December 31, 2013, the value of our private equity investment portfolio increased 20.2%. Increased share prices of various publicly held investments comprised approximately 46% of the net increase in value for the year ended December 31, 2013, the most significant of which were gains on HCA, Inc., ProSiebenSat.1 Media AG and NXP Semiconductors N.V. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Bharti Infratel Ltd. and China Outfitters Holdings. Our private portfolio contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Academy Sports and Outdoors and Oriental Brewery. The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Toys R Us, Samson Resources, and U.N RO-RO Isletmeleri A.S. The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction, which was completed on December 31, 2014. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The reversals of previously recognized net unrealized gains for the year ended December 31, 2013 resulted primarily from the partial sales and final sale of Dollar General Corporation, the partial sales of HCA, Inc. and sale of Intelligence, Ltd. During the year ended December 31, 2013, we wrote off PagesJaunes Group and our remaining warrants in Eastman Kodak and sold our remaining investment

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in Seven West Media Ltd. realizing a modest loss. None of these events had a material impact on our net carried interest.

For the year ended December 31, 2012, the net unrealized carried interest gain of \$773.3 million included \$1,141.1 million attributable to net increases in the value of various portfolio companies, partially offset by \$367.8 million of reversals of previously recognized net unrealized gains in connection with the occurrence of realization events such as partial or full sales of investments and management fee refunds.

Of the \$1,141.1 million of net increases in value, 24% was attributable to increased share prices of various publicly held investments, the most significant of which were gains on HCA, Inc., Dollar General Corporation and NXP Semiconductors N.V. These increases were partially offset by decreased share prices of other publicly held investments, the most significant of which were Seven West Media Ltd., Far East Horizon Ltd., and Tianrui Cement Co., Ltd. Our private portfolio contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Oriental Brewery and KION Group GmbH. The unrealized gains on our private portfolio were partially offset by unrealized losses relating to Samson Resources, China International Capital Corporation, and Toys R Us. The increased valuations are generally related to an increase in the value of market comparables and individual company performance, and in the case of Alliance Boots GmbH, an increase that primarily reflected the valuation of an agreement to sell a portion of the investment executed in June 2012, which was completed on December 31, 2014. The decreased valuations are generally related to an unfavorable business outlook for the respective companies.

The reversals of previously recognized net unrealized gains for the year ended December 31, 2012 resulted primarily from the partial sale of Alliance Boots GmbH, sale of Legrand Holdings S.A. and partial sale of HCA, Inc.

Investment Income

The net decrease is primarily due to a decrease in net interest and dividends of \$132.6 million and realized gains of \$71.7 million which was partially offset by an increase in unrealized gains of \$25.3 million.

For the year ended December 31, 2013, net realized gains were comprised primarily of realized gains from the sale or partial sale of private equity investments, the most significant of which were HCA, Inc., Dollar General Corporation, NXP Semiconductors N.V. and Intelligence, Ltd. These realized gains were partially offset by realized losses primarily related to the sale and write off of private equity investments, including the write-off of PagesJaunes Group. Realized investment losses from balance sheet investments that were already written down as of October 1, 2009 that have been excluded from net realized gains (losses) above amounted to approximately \$205 million for the year ended December 31, 2013. The net unrealized gains related primarily to increases in the value of various private equity investments, most notably HCA, Inc., ProSiebenSat.1 Media AG and Alliance Boots GmbH, partially offset by unrealized losses on Samson Resources, as well as reversals of unrealized gains primarily in connection with the sales of the investments noted in the realized gains commentary above.

For the year ended December 31, 2012, net realized gains were comprised primarily of gains from the sale of private equity investments, the most significant of which were the partial sales of Dollar General Corporation, Alliance Boots GmbH and HCA, Inc. These realized gains were partially offset by realized losses primarily in connection with the sale of certain of our private equity interests. The net unrealized gains related primarily to increases in the value of various private equity investments, most notably Alliance Boots GmbH, HCA, Inc., KION Group GmbH, and Dollar General Corporation. These unrealized gains were partially offset by unrealized losses on Samson Resources, as

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well as reversals of previously recognized net unrealized gains in the connection with the occurrence of realization events as described above.

For the year ended December 31, 2013, net interest and dividends were comprised of (i) \$14.2 million of interest income which consists primarily of interest received on our cash balances, (ii) \$35.3 million of dividend income from distributions received through our investment funds and other assets and (iii) \$58.2 million of interest expense primarily relating to the senior notes outstanding for KKR, a portion of which is allocable to the Private Markets segment. For the year ended December 31, 2012, net interest and dividends were comprised of (i) \$14.8 million of interest income which consists primarily of interest received on our cash balances, (ii) \$140.6 million of dividend income from distributions received through our investment funds and other assets and (iii) \$31.4 million of interest expense primarily relating to the senior notes outstanding for KKR. The decrease from the prior period is primarily due to a decrease in dividend income in our private equity portfolio as well as higher allocations of interest expense to the Private Markets segment as a result of our 2043 Senior Notes issued on February 1, 2013.

Segment Expenses*Compensation and Benefits*

This increase was due primarily to higher cash compensation and benefits reflecting a higher level of fees, which generally results in higher compensation expense, as well as increased head count.

Occupancy and Other Operating Expenses

This increase was primarily driven by an increase in professional fee expenses reflecting the overall growth of this segment.

Economic Net Income (Loss)

The decrease in investment income as described above, partially offset by the increase in performance income and management, monitoring and transaction fees, was the primary contributor to the period over period decrease in economic net income.

Assets Under Management

The following table reflects the changes in our Private Markets AUM from December 31, 2012 to December 31, 2013:

	(\$ in thousands)
December 31, 2012	\$ 49,127,600
New Capital Raised	13,613,100
Distributions	(9,197,900)
Net Changes in Fee Base of Certain Funds	(272,300)
Foreign Exchange	32,800
Change in Value	7,939,600
December 31, 2013	\$ 61,242,900

AUM for the Private Markets segment was \$61.2 billion at December 31, 2013, an increase of \$12.1 billion, compared to \$49.1 billion at December 31, 2012. The increase was primarily attributable to (i) new capital raised of \$13.6 billion relating primarily to Asian Fund II commencing its investment period at which time it began recognizing management fees as well as additional capital raised in North America Fund XI, Energy Income and Growth Fund and Real Estate Partners Americas and

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(ii) appreciation in the market value of our private equity portfolio of \$7.9 billion. The increases were partially offset by \$9.2 billion in distributions to private equity fund investors comprised of \$6.0 billion of realized gains and \$3.2 billion of return of original cost.

The appreciation in the market value of our private equity portfolio were driven primarily by net unrealized gains of \$3.0 billion, \$1.3 billion and \$1.1 billion in our 2006 Fund, European Fund II and European Fund III, respectively. Approximately 46% of the net change in value for the year ended December 31, 2013 was attributable to changes in share prices of various publicly-listed investments, most notably increases in HCA, Inc., ProSiebenSat.1 Media AG and NXP Semiconductors N.V., partially offset by decreases relating to Bharti Infratel Ltd and China Outfitters Holdings. Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH, Academy Sports and Outdoors and Oriental Brewery. The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Samson Resources, Toys R Us and U.N RO-RO Isletmeleri A.S. The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction, which was completed on December 31, 2014. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

Fee Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from December 31, 2012 to December 31, 2013:

	(\$ in thousands)
December 31, 2012	\$ 41,173,000
New Capital Raised	13,200,600
Distributions	(3,860,800)
Net Changes in Fee Base of Certain Funds	(654,700)
Foreign Exchange	172,700
Change in Value	125,500
December 31, 2013	\$ 50,156,300

FPAUM in our Private Markets segment was \$50.2 billion at December 31, 2013, an increase of \$9.0 billion, compared to \$41.2 billion at December 31, 2012. The increase was primarily attributable to new capital raised of \$13.2 billion relating primarily to Asian Fund II which commenced its investment period at which time it began recognizing management fees as well as additional capital raised in North America Fund XI, Energy Income and Growth Fund and Real Estate Partners Americas, which were partially offset by distributions of \$3.9 billion to private equity fund investors and a reduction of \$0.7 billion reflecting the impact of certain funds entering the post-investment period.

Equity Invested

The increase was due to an increase in the number and size of private equity investments closed during the year ended December 31, 2013 as compared with the year ended December 31, 2012. In the year ended December 31, 2013, there were 70 transactions with a total combined transaction value of approximately \$17.0 billion compared to 28 transactions with a total combined transaction value of approximately \$7.3 billion for the year ended December 31, 2012.

Uncalled Commitments

As of December 31, 2013, our Private Markets Segment had \$20.1 billion of remaining uncalled capital commitments that could be called for investments in new transactions.

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Public Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the years ended December 31, 2014 and 2013.

Year ended December 31, 2014 compared to year ended December 31, 2013

	Year Ended December 31,		
	2014	2013	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$ 272,833	\$ 206,134	\$ 66,699
Monitoring Fees			
Transaction Fees	27,145	40,314	(13,169)
Fee Credits	(23,357)	(29,950)	6,593
Total Management, Monitoring and Transaction Fees, Net	276,621	216,498	60,123
Performance Income			
Realized Carried Interest	34,650		34,650
Incentive Fees	47,807	72,359	(24,552)
Unrealized Carried Interest	40,075	62,338	(22,263)
Total Performance Income	122,532	134,697	(12,165)
Investment Income (Loss)			
Net Realized Gains (Losses)	20,550	8,532	12,018
Net Unrealized Gains (Losses)	(148,893)	43,108	(192,001)
Total Realized and Unrealized	(128,343)	51,640	(179,983)
Net Interest and Dividends	159,132	16,622	142,510
Total Investment Income (Loss)	30,789	68,262	(37,473)
Total Segment Revenues	429,942	419,457	10,485
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	105,610	77,378	28,232
Realized Allocation to Carry Pool	13,860		13,860
Unrealized Allocation to Carry Pool	16,029	24,935	(8,906)
Total Compensation and Benefits	135,499	102,313	33,186
Occupancy and related charges	10,260	6,863	3,397
Other operating expenses	42,412	49,210	(6,798)
Total Segment Expenses	188,171	158,386	29,785
Income (Loss) attributable to noncontrolling interests	1,636	1,560	76
Economic Net Income (Loss)	\$ 240,135	\$ 259,511	\$ (19,376)

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Assets Under Management	\$	37,106,700	\$	33,077,400	\$	4,029,300
Fee Paying Assets Under Management	\$	35,783,900	\$	27,241,200	\$	8,542,700
Equity Invested	\$	3,027,400	\$	1,553,000	\$	1,474,400
Uncalled Commitments	\$	2,841,300	\$	2,362,300	\$	479,000
Gross Dollars Invested	\$	4,425,600	\$	4,213,300	\$	212,300

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in management fees of \$66.7 million and a decrease in fee credits of \$6.6 million, partially offset by a decrease in transaction fees of \$13.2 million. The increase in management fees is due primarily to our acquisition of Avoca on February 19, 2014 and new capital raised, primarily in our special situations strategies, Corporate Capital Trust (a BDC sub-advised by KKR) and our hedge fund of funds platform. These increases were partially offset by a decrease in management fees received from KFN as a result of our acquisition of it on April 30, 2014 as management fees from KFN after that date are eliminated from segment results. The decrease in transaction fees is due primarily to a decrease in the size of fee earning transactions in the current period. The decrease in fee credits is due primarily to the decrease in transaction fees as described above.

Performance Income

This decrease was primarily driven by a decrease in incentive fees of \$24.6 million and a lower level of unrealized carried interest of \$22.3 million, partially offset by a higher level of realized carried interest of \$34.7 million. During the year ended December 31, 2014, we realized \$34.7 million of carried interest from two alternative credit accounts. The decrease in incentive fees is due to a decrease in investment income in our hedge funds business and loss of incentive fees received from KFN as a result of our acquisition of it on April 30, 2014, partially offset by an increase in incentive fees received from Avoca following our acquisition of Avoca on February 19, 2014, and Corporate Capital Trust resulting from favorable performance. Incentive fees are typically determined for the twelve-month periods ending in either the second or fourth quarters of the calendar year, however, such fees may be determined at other points during the year for certain strategies. Whether an incentive fee from KKR vehicles is payable in any given period, and the amount of an incentive fee payment, if any, depends on the investment performance of the vehicle and as a result are expected to vary significantly from period to period. The decrease in unrealized carried interest was primarily driven by the reversals of previously recognized net unrealized gains for the year ended December 31, 2014, partially offset by an increase in unrealized carried interest across our carry-earning funds, the most significant of which were in our special situations strategy.

Investment Income

The net decrease was primarily due to a decrease in total realized and unrealized gains of \$180.0 million, partially offset by an increase in net interest and dividends of \$142.5 million. The decrease in total realized and unrealized gains was due primarily to unrealized losses from reversals of previously recognized net unrealized gains and to overall reductions in value of our investments in CLOs, driven primarily by a decrease in the market value of underlying collateral, and specialty finance holdings, including those acquired in our acquisition of KFN, partially offset by realized gains from the sale of assets in our KKR Equity Strategies fund when it was terminated. The increase in interest and dividends is due primarily to more significant levels of investments in interest yielding CLOs and credit investments as a result of our acquisition of KFN on April 30, 2014 and to a lesser extent our acquisition of Avoca on February 19, 2014.

Segment Expenses

Compensation and Benefits

The increase was primarily due to (i) higher compensation expenses relating to Avoca, which was acquired on February 19, 2014, (ii) higher allocations to carry pool driven by the higher levels of net

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carried interest, as described above and (iii) an increase in compensation and benefits in connection with the increase in fees, which generally results in higher compensation expense.

Occupancy and Other Operating Expenses

This decrease was due to the net effect of a \$9.7 million one-time expense incurred in connection with the launch of a closed end fund in the 2013 period which was partially offset in the 2014 period by the operating expenses of Avoca, which we acquired on February 19, 2014.

Economic Net Income (Loss)

The decrease is primarily attributable to the decrease in investment income, increase in segment expenses and decrease in performance income, partially offset by the increase in management fees.

Assets Under Management

The following table reflects the changes in our Public Markets AUM from December 31, 2013 to December 31, 2014:

	(\$ in thousands)	
December 31, 2013	\$	33,077,400
New Capital Raised		7,253,000
Acquisitions		8,423,000
KFN Acquisition		(4,511,900)
Distributions		(3,967,300)
Redemptions		(3,303,900)
Change in Value		136,400
December 31, 2014	\$	37,106,700

AUM in our Public Markets segment totaled \$37.1 billion at December 31, 2014, an increase of \$4.0 billion compared to AUM of \$33.1 billion at December 31, 2013. The increase was primarily due to the acquisition of Avoca, which contributed \$8.4 billion of AUM, as well as \$7.3 billion of new capital raised. These increases were partially offset by the acquisition of KFN, which reduced AUM by \$4.5 billion, and \$7.3 billion of distributions and redemptions from certain investment vehicles, the most significant of which were from our hedge fund of funds platform and CLOs.

Fee-Paying Assets Under Management

The following table reflects the changes in our Public Markets FPAUM from December 31, 2013 to December 31, 2014:

	(\$ in thousands)	
December 31, 2013	\$	27,241,200
New Capital Raised		6,304,600
Acquisitions		7,971,000
KFN Acquisition		(2,684,700)
Distributions		(1,929,500)
Redemptions		(3,303,900)
Change in Value		(424,000)
Other		2,609,200
December 31, 2014	\$	35,783,900

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FPAUM in our Public Markets segment was \$35.8 billion at December 31, 2014, an increase of \$8.6 billion compared to FPAUM of \$27.2 billion at December 31, 2013. The increase was primarily due to the acquisition of Avoca, which contributed \$8.0 billion of FPAUM, \$6.3 billion of new capital raised and \$2.6 billion of CLOs partially owned by KKR that were not previously included in FPAUM and was not new capital raised during the period (included in Other above). These increases were partially offset by the acquisition of KFN, which reduced FPAUM by \$2.7 billion, and \$5.2 billion of redemptions and distributions from certain investment vehicles, the most significant of which were from our CLOs and hedge fund of funds platform.

Equity Invested

The increase is primarily due to a higher level of net capital deployed, primarily in our special situations and direct lending strategies partially offset by a lower level of capital deployed in our mezzanine strategy.

Uncalled Commitments

As of December 31, 2014, our Public Markets segment had \$2.8 billion of uncalled capital commitments that could be called for investments in new transactions.

Gross Dollars Invested

The increase is primarily due to a higher level of investment activity in our special situations and direct lending strategies, partially offset by a decrease in investment activity in our mezzanine strategies.

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The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the years ended December 31, 2013 and 2012.

Year ended December 31, 2013 compared to year ended December 31, 2012

	Year Ended December 31,		
	2013	2012	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$ 206,134	\$ 105,186	\$ 100,948
Monitoring Fees			
Transaction Fees	40,314	14,495	25,819
Fee Credits	(29,950)	(8,368)	(21,582)
Total Management, Monitoring and Transaction Fees, Net	216,498	111,313	105,185
Performance Income			
Realized Carried Interest			
Incentive Fees	72,359	43,845	28,514
Unrealized Carried Interest	62,338	39,155	23,183
Total Performance Income	134,697	83,000	51,697
Investment Income (Loss)			
Net Realized Gains (Losses)	8,532	17,880	(9,348)
Net Unrealized Gains (Losses)	43,108	22,257	20,851
Total Realized and Unrealized	51,640	40,137	11,503
Net Interest and Dividends	16,622	12,710	3,912
Total Investment Income (Loss)	68,262	52,847	15,415
Total Segment Revenues	419,457	247,160	172,297
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	77,378	50,705	26,673
Realized Allocation to Carry Pool			
Unrealized Allocation to Carry Pool	24,935	15,663	9,272
Total Compensation and Benefits	102,313	66,368	35,945
Occupancy and related charges	6,863	5,606	1,257
Other operating expenses	49,210	18,350	30,860
Total Segment Expenses	158,386	90,324	68,062
Income (Loss) attributable to noncontrolling interests	1,560	1,079	481
Economic Net Income (Loss)	\$ 259,511	\$ 155,757	\$ 103,754
Assets Under Management	\$ 33,077,400	\$ 26,399,900	\$ 6,677,500
Fee Paying Assets Under Management	\$ 27,241,200	\$ 19,673,000	\$ 7,568,200

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Equity Invested	\$	1,553,000	\$	784,800	\$	768,200
Uncalled Commitments	\$	2,362,300	\$	1,800,800	\$	561,500
Gross Dollars Invested	\$	4,213,300	\$	1,678,700	\$	2,534,600

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

The increase is primarily attributable to an increase in management fees of \$100.9 million. The increase in management fees is due primarily to a full year of results for KKR Prisma being reflected in 2013, the impact of our investment in Nephila, which was made during 2013 and new capital raised.

Performance Income

The increase in incentive fees is due primarily to (i) an increase in incentive fees received from KKR Prisma, which became part of KKR during the year ended December 31, 2012, (ii) incentive fees relating to our investment in Nephila and (iii) incentive fees from our KKR Equity Strategies platform. These increases were partially offset by a decrease in incentive fees from KFN as a result of its investment performance. KFN has already realized a substantial majority of the unrealized gains that were embedded in its bank loan and high yield portfolio, which have contributed in the past to its investment performance and KKR's receipt of incentive fees from KFN. Incentive fees from KFN are determined quarterly, while other incentive fees are typically determined for the twelve-month periods ending in either the second or fourth quarters of the calendar year, however, such fees may be determined at other points during the year for certain strategies. Whether an incentive fee from KFN and other KKR vehicles is payable in any given period, and the amount of an incentive fee payment, if any, depends on the investment performance of the vehicle and as a result may vary significantly from period to period. The increase in unrealized carried interest is primarily attributable to higher net carried interest resulting from a larger increase in the net asset values of certain carry-eligible investment vehicles in the year ended December 31, 2013 compared to the prior period. On April 30, 2014, KFN was acquired and from that date forward, management and incentive fees earned from KFN were eliminated.

Investment Income

The net increase was primarily due to an increase in total realized and unrealized gains of \$11.5 million and an increase in net interest and dividends of \$3.9 million. The increase in total realized and unrealized gains was due primarily to higher net overall appreciation in the value of our credit holdings, during 2013. The increase in interest and dividends is due primarily to a higher level of interest bearing credit investments in the 2013 period.

Segment Expenses

Compensation and Benefits

The increase was primarily due to (i) an increase in compensation and benefits from KKR Prisma, which became part of KKR during the three months ended December 31, 2012 and (ii) higher allocations to carry pool driven by the higher levels of net carried interest, as described above.

Occupancy and Other Operating Expenses

The increase was primarily due to (i) the expenses of KKR Prisma, which became part of KKR during the three months ended December 31, 2012, (ii) a \$9.7 million one-time expense incurred in our Public Markets business in connection with the launch of a closed-end fund and (iii) to a lesser extent an increase in operating expenses reflecting the continued growth of our Public Markets business.

Table of Contents***Economic Net Income (Loss)***

The increase is primarily attributable to the increase in management fees, performance income and investment income, partially offset by the increase in segment expenses.

Assets Under Management

The following table reflects the changes in our Public Markets AUM from December 31, 2012 to December 31, 2013:

	(\$ in thousands)
December 31, 2012	\$ 26,399,900
New Capital Raised	7,580,400
Distributions	(1,665,800)
Redemptions	(1,021,800)
Change in Value	1,784,700
December 31, 2013	\$ 33,077,400

AUM in our Public Markets segment totaled \$33.1 billion at December 31, 2013, an increase of \$6.7 billion compared to AUM of \$26.4 billion at December 31, 2012. The increase for the period was primarily due to \$7.6 billion of new capital raised, primarily from our sub-advised BDC and our Special Situations Fund, and a \$1.8 billion increase in the net asset value of certain investment vehicles. These increases were partially offset by \$2.7 billion of distributions and redemptions from certain investment vehicles.

Fee Paying Assets Under Management

The following table reflects the changes in our Public Markets FPAUM from December 31, 2012 to December 31, 2013:

	(\$ in thousands)
December 31, 2012	\$ 19,673,000
New Capital Raised	7,927,500
Distributions	(854,100)
Redemptions	(1,021,800)
Change in Value	1,516,600
December 31, 2013	\$ 27,241,200

FPAUM in our Public Markets segment was \$27.2 billion at December 31, 2013, an increase of \$7.5 billion compared to FPAUM of \$19.7 billion at December 31, 2012. The increase was primarily due to \$7.9 billion of new capital raised and a \$1.5 billion increase in the net asset value of certain investment vehicles, partially offset by \$1.9 billion of distributions and redemptions from certain investment vehicles.

Equity Invested

The increase is primarily due to a higher level of net capital deployed, primarily in our special situations, direct lending and mezzanine strategies.

Uncalled Commitments

As of December 31, 2013, our Public Markets segment had \$2.4 billion of uncalled capital commitments that could be called for investments in new transactions.

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Gross Dollars Invested

The increase is primarily due to a higher level of investment activity in our direct lending, mezzanine and special situations strategies.

Capital Markets and Other

The following table sets forth information regarding the results of operations and certain key operating metrics for our Capital Markets and Other segment for the years ended December 31, 2014 and 2013.

Year ended December 31, 2014 compared to year ended December 31, 2013

	Year Ended December 31,		
	2014	2013	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$	\$	\$
Monitoring Fees			
Transaction Fees	217,920	146,254	71,666
Fee Credits			
Total Management, Monitoring and Transaction Fees, Net	217,920	146,254	71,666
Performance Income			
Realized Carried Interest			
Incentive Fees			
Unrealized Carried Interest			
Total Performance Income			
Investment Income (Loss)			
Net Realized Gains (Losses)	(2,052)	(5,181)	3,129
Net Unrealized Gains (Losses)	(2,272)	5,688	(7,960)
Total Realized and Unrealized	(4,324)	507	(4,831)
Net Interest and Dividends	23,544	13,549	9,995
Total Investment Income (Loss)	19,220	14,056	5,164
Total Segment Revenues	237,140	160,310	76,830
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	54,934	34,483	20,451
Realized Allocation to Carry Pool			
Unrealized Allocation to Carry Pool			
Total Compensation and Benefits	54,934	34,483	20,451
Occupancy and related charges	2,056	1,419	637
Other operating expenses	18,636	11,691	6,945
Total Segment Expenses	75,626	47,593	28,033
Income (Loss) attributable to noncontrolling interests	11,886	3,329	8,557

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Economic Net Income (Loss)	\$	149,628	\$	109,388	\$	40,240
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Syndicated Capital	\$	2,567,300	\$	1,112,100	\$	1,455,200
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Segment Revenues

Management, Monitoring and Transaction Fees, Net

Transaction fees increased primarily due to an increase in the size of capital markets transactions in the year ended December 31, 2014 compared to the year ended December 31, 2013, including syndication fees received from First Data Corporation of approximately \$43 million in the third quarter of 2014. Our capital markets business does not generate management or monitoring fees. Overall, we completed 139 capital markets transactions for the year ended December 31, 2014 of which 15 represented equity offerings and 124 represented debt offerings, as compared to 128 transactions for the year ended December 31, 2013 of which 16 represented equity offerings and 112 represented debt offerings. We earned fees in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating equity offerings than with respect to debt offerings, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets fees are sourced from our Private Markets and Public Markets platforms as well as third party companies. For the years ended December 31, 2014 approximately 31% of our transaction fees were earned from third parties, as compared to 29% for the year ended December 31, 2013. Our transaction fees are comprised of fees from various global regions. For the year ended December 31, 2014 approximately 38% of our transaction fees were sourced internationally as compared to approximately 30% for the year ended December 31, 2013. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

Segment Expenses

Compensation and Benefits

The increase was primarily due to an increase in cash compensation and benefits related to higher fees, which generally results in higher compensation expense, and to a lesser extent increased headcount.

Occupancy and Other Operating Expenses

This increase was primarily driven by an increase in professional fees in connection with the higher overall level of capital markets transaction activity.

Economic Net Income (Loss)

The increase is primarily attributable to the increase in transaction fees, partially offset by the increase in compensation and benefits, described above.

Syndicated Capital

The increase is primarily due to an increase in the size of syndication transactions when compared to year ended December 31, 2013, which included the syndication of equity in First Data Corporation of approximately \$1.8 billion in the third quarter of 2014. Overall, we completed 8 syndication transactions for the year ended December 31, 2014 as compared to 10 syndication transactions for the year ended December 31, 2013.

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The following table sets forth information regarding the results of operations and certain key operating metrics for our Capital Markets and Other segment for the years ended December 31, 2013 and 2012.

Year ended December 31, 2013 compared to year ended December 31, 2012

	Year Ended December 31,		
	2013	2012	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$	\$	\$
Monitoring Fees			
Transaction Fees	146,254	129,159	17,095
Fee Credits			
Total Management, Monitoring and Transaction Fees, Net	146,254	129,159	17,095
Performance Income			
Realized Carried Interest			
Incentive Fees			
Unrealized Carried Interest			
Total Performance Income			
Investment Income (Loss)			
Net Realized Gains (Losses)	(5,181)	(5,914)	733
Net Unrealized Gains (Losses)	5,688	(5,067)	10,755
Total Realized and Unrealized	507	(10,981)	11,488
Net Interest and Dividends	13,549	14,170	(621)
Total Investment Income (Loss)	14,056	3,189	10,867
Total Segment Revenues	160,310	132,348	27,962
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	34,483	29,341	5,142
Realized Allocation to Carry Pool			
Unrealized Allocation to Carry Pool			
Total Compensation and Benefits	34,483	29,341	5,142
Occupancy and related charges	1,419	900	519
Other operating expenses	11,691	10,602	1,089
Total Segment Expenses	47,593	40,843	6,750
Income (Loss) attributable to noncontrolling interests	3,329	2,574	755
Economic Net Income (Loss)	\$ 109,388	\$ 88,931	\$ 20,457
Syndicated Capital	\$ 1,112,100	\$ 543,800	\$ 568,300
<i>Segment Revenues</i>			

Management, Monitoring and Transaction Fees, Net

Transaction fees increased primarily due to an increase in number of capital markets transactions in the year ended December 31, 2013 compared to the year ended December 31, 2012. Overall, we completed 128 capital markets transactions for the year ended December 31, 2013 of which

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16 represented equity offerings and 112 represented debt offerings, as compared to 102 transactions for the year ended December 31, 2012 of which 14 represented equity offerings and 88 represented debt offerings. We earned fees in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating equity offerings than with respect to debt offerings, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. For the year ended December 31, 2013 approximately 29% of our transaction fees were earned from our third parties, as compared to 22% for the year ended December 31, 2012. Our transaction fees are comprised of fees from various global regions. For the year ended December 31, 2013 approximately 30% of our transaction fees were sourced internationally, as compared to approximately 27% for the year ended December 31, 2012. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

Segment Expenses

Compensation and Benefits

The increase was primarily due to an increase in cash compensation and benefits related to higher fees as well as increased headcount in our capital markets business in connection with the growth of this segment.

Occupancy and Other Operating Expenses

This increase was primarily driven by an increase in professional fees in connection with the higher overall level of capital markets transaction activity.

Economic Net Income (Loss)

The increase is primarily attributable to the increase in transaction fees and investment income, partially offset by the increase in compensation and benefits, described above.

Syndicated Capital

The increase is primarily due to an increase in the number and size of syndication transactions when compared to the year ended December 31, 2012. Overall, we completed 10 syndication transactions for the year ended December 31, 2013, as compared to 7 syndication transactions for the year ended December 31, 2012.

Segment Balance Sheet

Our segment balance sheet serves as a significant source of capital to further grow and expand our business, increase our participation in our existing businesses and further align our interests with those of our fund investors and other stakeholders. The majority of our balance sheet consist of general partner interests in KKR investment funds, limited partner interests in certain KKR investment funds, co-investments in certain portfolio companies of KKR private equity funds and interests in CLOs, corporate loans, debt securities and energy and real estate assets acquired in connection with our acquisition of KFN on April 30, 2014. Our balance sheet also holds other assets used in the development of our business, including seed capital for new strategies.

Table of Contents*Investments*

Investments is a term used solely for purposes of financial presentation of a portion of KKR's balance sheet and includes majority investments in subsidiaries that operate KKR's asset management and other businesses, including the general partner interests of KKR's investment funds.

Cash and Short-Term Investments

Cash and short-term investments represent cash and liquid short-term investments in high-grade, short-duration cash management strategies used by KKR to generate additional yield on our excess liquidity and is used by management in evaluating KKR's liquidity position. We believe this measure is useful to unitholders as it provides additional insight into KKR's available liquidity. Cash and short-term investments differ from cash and cash equivalents on a GAAP basis as a result of the inclusion of liquid short-term investments in cash and short-term investments. The impact that these liquid short-term investments have on cash and cash equivalents on a GAAP basis is reflected in the consolidated statements of cash flows within cash flows from operating activities. Accordingly, the exclusion of these investments from cash and cash equivalents on a GAAP basis has no impact on cash provided (used) by operating activities, investing activities or financing activities. As of December 31, 2014, we had cash and short-term investments on a segment basis of approximately \$1.1 billion. Excluding approximately \$0.2 billion of liquid short-term investments, cash and short-term investments may be reconciled to cash and cash equivalents of approximately \$0.9 billion as of December 31, 2014.

The following tables present our segment balance sheet as of December 31, 2014 and December 31, 2013:

	As of December 31, 2014(a)	As of December 31, 2013
(\$ in thousands, except per unit amounts)		
Cash and short-term investments	\$ 1,121,385	\$ 2,161,097
Investments	9,807,606	4,980,265
Unrealized carry(b)	1,283,022	1,179,338
Other assets	999,654	662,357
Total assets	\$ 13,211,667	\$ 8,983,057
Debt obligations KKR (ex-KFN)	\$ 1,527,000	\$ 1,000,000
Debt obligations KFN	657,310	
Preferred shares KFN	373,750	
Other liabilities	413,808	149,196
Total liabilities	2,971,868	1,149,196
Noncontrolling interests	121,574	71,261
Book value	\$ 10,118,225	\$ 7,762,600
Book value per adjusted unit	\$ 12.07	\$ 10.83

(a)

As of December 31, 2014, our segment balance sheet includes the assets and liabilities of KFN, which was acquired on April 30, 2014.

(b)

Unrealized Carry

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Private Markets	\$	1,196,633	\$	1,116,996
Public Markets		86,389		62,342
Total	\$	1,283,022	\$	1,179,338

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The following tables provide reconciliations of KKR's GAAP Common Units Outstanding Basic to Adjusted Units and KKR & Co. L.P. Partners' Capital to Book Value:

	As of December 31, 2014
GAAP Common Units Outstanding Basic	433,330,540
Adjustments:	
Unvested Common Units(a)	22,483,855
Other Exchangeable Securities(b)	5,009,830
GAAP Common Units Outstanding Diluted	460,824,225
Adjustments:	
KKR Holdings Units(c)	377,196,749
Adjusted Units	838,020,974

	As of December 31, 2014
(\$ in thousands, except per unit amounts)	
KKR & Co. L.P. partners' capital	\$ 5,382,691
Noncontrolling interests held by KKR Holdings L.P.	4,661,679
Equity impact of KKR Management Holdings Corp. and other	73,855
Book value	10,118,225
Adjusted units	838,020,974
Book value per adjusted unit	\$ 12.07

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- (a) Represents equity awards granted under the Equity Incentive Plan. The issuance of common units of KKR & Co. L.P. pursuant to awards under the Equity Incentive Plan dilutes KKR common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR business.
- (b) Represents securities in a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. that are exchangeable into KKR & Co. L.P. common units issued in connection with the acquisition of Avoca.
- (c) Common units that may be issued by KKR & Co. L.P. upon exchange of units in KKR Holdings L.P. for KKR common units.

Liquidity

We manage our liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and CLOs and the effect of normal changes in short term assets and liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on a segment basis typically involve: (i) generating cash flow from operations; (ii) generating income from investment activities, by investing in investments that generate yield (namely interest and dividends) as well as the sale of investments and other assets; (iii) funding capital commitments that we have made to our funds and CLOs, (iv) developing and funding new investment strategies, investment products and other growth initiatives, including acquisitions; (v) underwriting and funding commitments in our capital markets business; (vi) distributing cash flow to our fund investors and unitholders and holders of certain exchangeable securities; and (vii) borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements. As of December 31, 2014, we had cash and short-term

investments on a segment basis of \$1.1 billion.

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Sources of Liquidity

Our primary sources of liquidity consist of amounts received from: (i) our operating activities, including the fees earned from our funds, managed accounts, portfolio companies, and capital markets transactions; (ii) realizations on carried interest from our investment funds; (iii) interest and dividends from investments that generate yield, including our investments in CLO entities; (iv) realizations on and sales of investments and other assets; and (v) borrowings under our credit facilities, debt offerings and other borrowing arrangements. In addition, we may generate cash proceeds from sales of our common units described below.

With respect to our private equity funds, carried interest is distributed to the general partner of a private equity fund with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund investors in an amount sufficient to reduce remaining cost to the investments' fair value. As of December 31, 2014, certain of our funds had met the first and second criteria, as described above, but did not meet the third criteria. In these cases, carried interest accrues on the consolidated statement of operations, but will not be distributed in cash to us as the general partner of an investment fund upon a realization event. For a fund that has a fair value above cost, overall, but has one or more investments where fair value is below cost, the shortfall between cost and fair value for such investments is referred to as a "netting hole." When netting holes are present, realized gains on individual investments that would otherwise allow the general partner to receive carried interest distributions are instead used to return invested capital to our funds' limited partners in an amount equal to the netting hole. Once netting holes have been filled with either (a) return of capital equal to the netting hole for those investments where fair value is below cost, or (b) increases in the fair value of those investments where fair value is below cost, then realized carried interest will be distributed to the general partner upon a realization event. A fund that is in a position to pay cash carry refers to a fund for which carried interest is expected to be paid to the general partner upon the next material realization event, which includes funds with no netting holes as well as funds with a netting hole that is sufficiently small in size such that the next material realization event would be expected to result in the payment of carried interest.

As of December 31, 2014, netting holes existed at certain of our private equity funds, the most significant of which was our European Fund II, overseas 2006 Fund and domestic Millennium Fund, which had netting holes of approximately \$373 million, \$83 million and \$77 million, respectively. In accordance with the criteria set forth above, funds may develop netting holes in the future and netting holes for those and other funds may otherwise increase or decrease in the future. As of December 31, 2014, no private equity funds, other than the European Fund II, overseas 2006 Fund and domestic Millennium Fund, had a netting hole greater than \$60 million.

We have access to funding under various credit facilities and other borrowing arrangements that we have entered into with major financial institutions or which we receive from the capital markets. The following is a summary of the principal terms of these sources of funding.

Revolving Credit Agreements

The following is a summary of KKR's revolving credit agreements, which may be used in the normal course of our operations.

On October 22, 2014, Kohlberg Kravis Roberts & Co. L.P. and the KKR Group Partnerships., as borrowers, entered into a credit agreement (the "Corporate Credit Agreement") with certain lending institutions and HSBC Bank USA, National Association, as Administrative Agent and simultaneously terminated its existing credit agreement dated February 26, 2008, as amended

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from time to time, with no amounts outstanding at the time of termination. The Corporate Credit Agreement provides the borrowers with a senior unsecured multicurrency revolving credit facility in an aggregate principal amount of \$1.0 billion, as of the closing date, with the option to request an increase in the facility amount of up to an additional \$250 million, for an aggregate principal amount of \$1.25 billion, subject to certain conditions, including obtaining new or increased commitments from new or existing lenders. The credit facility is a five-year facility, scheduled to mature on October 22, 2019, with the borrowers' option to extend the maturity date, subject to the consent of the applicable lenders, and the borrowers may prepay, terminate or reduce the commitments under the credit facility at any time without penalty. Interest on borrowings under the credit facility will be based on either London Interbank Offered Rate (LIBOR) or Alternate Base Rate, with the applicable margin per annum in excess of LIBOR or the Alternate Base Rate based on a corporate ratings-based pricing grid ranging from 69 basis points to 120 basis points (for LIBOR borrowings). Borrowings under the credit facility are guaranteed by KKR & Co. L.P. and any other entity (other than the borrowers) that guarantees the 2020 Senior Notes, 2043 Senior Notes or the 2044 Senior Notes. As of February 20, 2015, a letter of credit in the amount of \$20.0 million was outstanding under the Corporate Credit Agreement. Other than this letter of credit, no borrowings were outstanding under the Corporate Credit Agreement for the year ended December 31, 2014.

On February 27, 2008, KKR Capital Markets Holdings L.P. entered into a credit agreement with a major financial institution (the "KCM Credit Agreement") for use in KKR's capital markets business. The KCM Credit Agreement, as amended, provides for revolving borrowings of up to \$500 million with a \$500 million sublimit for letters of credit. On March 30, 2012, an agreement was made to extend the maturity of the KCM Credit Agreement from February 27, 2013 to March 30, 2017. In addition to extending the terms, certain other terms of the KCM Credit Agreement were renegotiated including a reduction of the cost of funding on amounts drawn and a reduced commitment fee. Borrowings under this facility may only be used for our capital markets business, and its only obligors are entities involved in our capital markets business, and its liabilities are non-recourse to other parts of KKR's business. For the year ended December 31, 2014, a total of \$751 million was borrowed of which \$724 million was repaid under the KCM Credit Agreement. As of February 20, 2015, \$27 million of borrowings were repaid and there were no outstanding borrowings under the KCM Credit Agreement.

Senior Notes

On September 29, 2010, KKR Group Finance Co. LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 6.375% Senior Notes (the "2020 Senior Notes"), which were issued at a price of 99.584%. The 2020 Senior Notes are unsecured and unsubordinated obligations of the issuer and will mature on September 29, 2020, unless earlier redeemed or repurchased. The 2020 Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The 2020 Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010. Interest is payable semi-annually in arrears on March 29 and September 29 of each year.

The indenture, as supplemented by a first supplemental indenture, relating to the 2020 Senior Notes includes covenants, including limitations on the issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2020 Senior Notes may declare the 2020 Senior Notes immediately due and payable upon the

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occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the 2020 Senior Notes and any accrued and unpaid interest on the 2020 Senior Notes automatically becomes due and payable. All or a portion of the 2020 Senior Notes may be redeemed at the issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the 2020 Senior Notes. If a change of control repurchase event occurs, the 2020 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2020 Senior Notes repurchased plus any accrued and unpaid interest on the 2020 Senior Notes repurchased to, but not including, the date of repurchase.

On February 1, 2013, KKR Group Finance Co. II LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 5.50% Senior Notes (the "2043 Senior Notes"), which were issued at a price of 98.856%. The 2043 Senior Notes are unsecured and unsubordinated obligations of the issuer and will mature on February 1, 2043, unless earlier redeemed or repurchased. The 2043 Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The 2043 Senior Notes bear interest at a rate of 5.50% per annum, accruing from February 1, 2013. Interest is payable semi-annually in arrears on February 1 and August 1 of each year.

The indenture, as supplemented by a first supplemental indenture, relating to the 2043 Senior Notes includes covenants, including limitations on the issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2043 Senior Notes may declare the 2043 Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the 2043 Senior Notes and any accrued and unpaid interest on the 2043 Senior Notes automatically becomes due and payable. All or a portion of the 2043 Senior Notes may be redeemed at the issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the 2043 Senior Notes. If a change of control repurchase event occurs, the 2043 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2043 Senior Notes repurchased plus any accrued and unpaid interest on the 2043 Senior Notes repurchased to, but not including, the date of repurchase.

On May 29, 2014, KKR Group Finance Co. III LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 5.125% Senior Notes due 2044 (the "2044 Senior Notes"), which were issued at a price of 98.612%. The 2044 Senior Notes are unsecured and unsubordinated obligations of the issuer and will mature on June 1, 2044, unless earlier redeemed or repurchased. The 2044 Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The 2044 Senior Notes bear interest at a rate of 5.125% per annum, accruing from May 29, 2014. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2014.

The indenture, as supplemented by a first supplemental indenture, relating to the 2044 Senior Notes includes covenants, including limitations on the issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating

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equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2044 Senior Notes may declare the 2044 Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the 2044 Senior Notes and any accrued and unpaid interest on the 2044 Senior Notes automatically becomes due and payable. All or a portion of the 2044 Senior Notes may be redeemed at the issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the 2044 Senior Notes. If a change of control repurchase event occurs, the 2044 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2044 Senior Notes repurchased plus any accrued and unpaid interest on the 2044 Senior Notes repurchased to, but not including, the date of repurchase.

On July 28, 2014, KKR formed KKR International Holdings L.P., a Cayman Islands limited partnership, the purpose of which is generally to hold assets that may generate non-qualifying income under the U.S. federal income tax laws applicable to publicly traded partnerships, including certain types of non-U.S. source income. KKR designated KKR International Holdings L.P. as a "KKR Group Partnership" and, in connection therewith, on August 5, 2014, KKR entered into supplemental indentures with respect to its 2020 Senior Notes, 2043 Senior Notes and 2044 Senior Notes to add KKR International Holdings L.P. as a guarantor of each such Senior Notes.

KFN Securities

On April 30, 2014, we acquired KFN, which has two issuances of senior notes outstanding that are non-recourse to KKR beyond the assets of KFN:

On March 20, 2012, KFN issued \$115.0 million par amount of 7.500% Senior Notes ("KFN 2042 Senior Notes"), resulting in net proceeds to KFN of \$111.4 million. The notes trade under the ticker symbol "KFI" on the NYSE. Interest on the 7.500% Senior Notes is payable quarterly in arrears on June 20, September 20, December 20 and March 20 of each year. The KFN 2042 Senior Notes will mature on March 20, 2042 unless previously redeemed or repurchased in accordance with their terms prior to such date. KFN may redeem the KFN 2042 Senior Notes, in whole or in part, at any time on or after March 20, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. Upon a change of control and reduction in the KFN 2042 Senior Notes' ratings to below investment grade by two nationally recognized statistical ratings organizations, all terms as defined in the applicable indenture, KFN will be required to make an offer to repurchase all outstanding KFN 2042 Senior Notes at a price in cash equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the repurchase date. The KFN 2042 Senior Notes contain certain restrictions on KFN's ability to create liens over its equity interests in its subsidiaries and to merge, consolidate or sell all or substantially all of its assets, subject to qualifications and limitations set forth in the applicable indenture. Otherwise, the Indenture does not contain any provisions that would limit the Company's ability to incur indebtedness. If an event of default with respect to the KFN 2042 Senior Notes occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the principal of the notes to be due and payable immediately.

On November 15, 2011, KFN issued \$258.8 million par amount of 8.375% Senior Notes ("KFN 2041 Senior Notes"), resulting in net proceeds to KFN of \$250.7 million. The notes

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trade under the ticker symbol "KFH" on the NYSE. Interest on the 8.375% Senior Notes is payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. The KFN 2041 Senior Notes will mature on November 15, 2041 unless previously redeemed or repurchased in accordance with their terms prior to such date. KFN may redeem the KFN 2041 Senior Notes, in whole or in part, at any time on or after November 15, 2016 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. Upon a change of control and reduction in the KFN 2041 Senior Notes' ratings to below investment grade by two nationally recognized statistical ratings organizations, as defined in the indenture, KFN will be required to make an offer to repurchase all outstanding KFN 2041 Senior Notes at a price in cash equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the repurchase date. The KFN 2041 Senior Notes contain certain restrictions on KFN's ability to create liens over its equity interests in its subsidiaries and to merge, consolidate or sell all or substantially all of its assets. If an event of default with respect to the KFN 2041 Senior Notes occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the principal of the notes to be due and payable immediately.

KFN has also established six 30-year trusts from 2006 through 2007 for the sole purpose of issuing trust preferred securities. These trusts issued preferred securities to unaffiliated investors and common securities to KFN. The combined proceeds were invested by the trusts in junior subordinated notes issued by KFN. The junior subordinated notes are the sole assets of trusts and mature between 2036 and 2037. Interest is payable quarterly and are fixed, floating or a combination among the six trusts. As of December 31, 2014, \$283.5 million par amount was outstanding with weighted average years to maturity of 21.8 years and a weighted average borrowing rate of 5.39%.

On January 17, 2013, KFN issued 14.95 million of Series A LLC Preferred Shares (the "KFN Preferred Shares") at a price of \$25 per share. The KFN Preferred Shares trade on the NYSE under the ticker symbol "KFN.PR" and began trading on January 28, 2013. Distributions on the KFN Preferred Shares are cumulative and are payable by KFN, when, as, and if declared by KFN's board of directors, quarterly on January 15, April 15, July 15 and October 15 of each year at a rate per annum equal to 7.375%. Unless distributions have been declared and paid or declared and set apart for payment on the KFN Preferred Shares for the then-current quarterly distribution period and all past quarterly distribution periods, subject to certain exceptions, KFN may not declare or pay or set apart payment for distributions on the KFN's common shares or other junior shares, including payments to KKR. If KFN experiences a dissolution event, then the holders of the KFN Preferred Shares outstanding at such time will be entitled to receive a payment out of the KFN's assets available for distribution to such holders equal to the sum of the \$25 liquidation preference per KFN Preferred Share and accumulated and unpaid distributions (whether or not declared), if any, to, but excluding, the date of the dissolution event (the "Series A Liquidation Value"), to the extent that KFN has sufficient gross income (excluding any gross income attributable to the sale or exchange of capital assets) in the year of the dissolution event and in the prior years in which the KFN Preferred Shares have been outstanding to ensure that each holder of KFN Preferred Shares will have a capital account balance equal to the Series A Liquidation Value. The KFN Preferred Shares are not convertible into shares of any other class or series of the KFN's shares. Except under limited circumstances relating to an event of default in the payment of distributions, holders of the KFN Preferred Shares have no voting rights. At any time or from time to time on or after January 15, 2018, KFN may, at its option, redeem the KFN Preferred Shares, in whole or in part, upon not less than 30 nor more than 60 days' notice, at a price of \$25 per KFN Preferred Share plus

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accumulated and unpaid distributions (whether or not declared), if any, to, but excluding, the redemption date, if any. Holders of the KFN Preferred Shares have no right to require the redemption of the KFN Preferred Shares.

Common Units

On May 16, 2014, KKR & Co. L.P. filed a registration statement with the Securities and Exchange Commission for the sale by us from time to time of up to 5,000,000 common units of KKR & Co. L.P. to generate cash proceeds (a) up to (1) the amount of withholding taxes, social benefit payments or similar payments payable by us in respect of awards granted pursuant to the Equity Incentive Plan, the KKR Financial Holdings LLC 2007 Share Incentive Plan (the "KFN Share Incentive Plan") and the KKR Asset Management LLC 2011 Share Incentive Plan (the "KAM Share Incentive Plan"), and together with the Equity Incentive Plan and the KFN Share Incentive Plan, the "Plans", and (2) the amount of cash delivered in respect of awards granted pursuant to the Plans that are settled in cash instead of common units; and (b) to the extent the net proceeds from the sale of common units exceeds the amounts due under clause (a), for general corporate purposes. The administrator of the Equity Incentive Plan is expected to reduce the maximum number of common units eligible to be issued under the Equity Incentive Plan by the number of common units issued and sold pursuant to this Registration Statement, as applicable, unless such reduction is already provided for with respect to such awards under the terms of the Equity Incentive Plan. No additional equity awards will be issued under the KFN Share Incentive Plan or the KAM Share Incentive Plan. The Securities and Exchange Commission declared the registration statement effective on June 4, 2014. As of December 31, 2014, 861,731 common units have been issued and sold under the registration statement and are included in our basic common units outstanding as of December 31, 2014.

Liquidity Needs

We expect that our primary liquidity needs will consist of cash required to:

continue to grow our business, including seeding new strategies and funding our capital commitments made to existing and future funds, co-investments and any net capital requirements of our capital markets companies;

warehouse an investment in a portfolio company or other investment for the benefit of one or more of our funds, accounts or CLOs pending the contribution of committed capital by the investors in such vehicles;

service debt obligations, as well as any contingent liabilities that may give rise to future cash payments;

fund cash operating expenses and amounts recorded for litigation matters;

pay amounts that may become due under our tax receivable agreement with KKR Holdings;

make cash distributions in accordance with our distribution policy;

underwrite commitments within our capital markets business;

fund our equity commitment to joint ventures such as Merchant Capital Solutions LLC;

make future purchase price payments in connection with our proprietary acquisitions, such as our acquisition of Prisma and minority interest in certain hedge fund managers, including Nephila; and

acquire additional principal assets, including other investment advisory and broker-dealer businesses.

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See " Liquidity Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis." We believe that the sources of liquidity described above will be sufficient to fund our working capital requirements for at least the next 12 months.

Capital Commitments

The agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to such funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing, but may be greater for certain funds pursuing newer strategies. In addition, we are responsible for certain limited partner interests in some of our private equity funds. The following table presents our uncalled commitments to our active investment funds as of December 31, 2014:

	Uncalled Commitments (\$ in thousands)
Private Markets	
European Fund IV	\$ 192,700
Energy Income and Growth Fund	191,100
North America Fund XI	171,000
Real Estate Partners Americas	128,600
Infrastructure II	121,600
European Fund III	53,700
Asian Fund II	52,000
2006 Fund	23,400
Other Private Markets Funds	19,000
Co-Investment Vehicles	29,500
Total Private Markets Commitments	982,600
Public Markets	
Special Situations Vehicles	218,700
Direct Lending Vehicles	16,300
Mezzanine Fund	11,700
Other Credit Vehicles	2,000
Total Public Markets Commitments	248,700
Total Uncalled Commitments	\$ 1,231,300

As of December 31, 2014, KKR had unfunded commitments consisting of (i) \$1,231.3 million, as shown above, to its active private equity and other investment vehicles, (ii) \$367.3 million in connection with commitments by KKR's capital markets business, (iii) \$128.6 million relating to Merchant Capital Solutions as described below and (iv) other investment commitments of \$170.9 million. Whether these amounts are actually funded, in whole or in part depends on the terms of such commitments, including the satisfaction or waiver of any conditions to funding.

Prisma Capital Partners

On October 1, 2012, KKR acquired all of the equity interests of Prisma subject to potential purchase price payments in 2014 and 2017. During the year ended December 31, 2014, \$123.6 million was paid with approximately \$84.1 million settled with the issuance of approximately 3.7 million KKR & Co. L.P. common units. KKR may become obligated to make future purchase price payments in 2017 based on whether the Prisma business grows to achieve certain operating performance metrics when measured in such year. KKR has the right in its sole discretion to pay a portion of such future purchase price payments, if any, in KKR & Co. L.P. common units rather than in cash. See " Liquidity Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis."

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Merchant Capital Solutions

Merchant Capital Solutions LLC (MCS, formerly known as MerchCap Solutions LLC) is a joint venture partnership with Stone Point Capital and CPPIB Credit Investments, Inc. MCS seeks to provide capital markets services to mid-market and sponsor-backed companies as well as make certain balance sheet investments to support client needs. KKR and Stone Point each committed \$150 million of equity and CPPIB committed an additional \$50 million to MCS to support its business. KKR's remaining commitment is approximately \$128.6 million as of December 31, 2014. KKR expects that certain capital markets activities for third parties (other than KKR and its portfolio companies) will be principally conducted by MCS.

Tax Receivable Agreement

We and certain intermediate holding companies that are taxable corporations for U.S. federal, state and local income tax purposes, may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. KKR Management Holdings L.P. made an election under Section 754 of the Internal Revenue Code that will remain in effect for each taxable year in which an exchange of KKR Group Partnership Units for common units occurs, which may result in an increase in our intermediate holding companies' share of the tax basis of the assets of the KKR Group Partnerships at the time of an exchange of KKR Group Partnership Units. Certain of these exchanges are expected to result in an increase in our intermediate holding companies' share of the tax basis of the tangible and intangible assets of the KKR Group Partnerships, primarily attributable to a portion of the goodwill inherent in our business that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization deductions for tax purposes and therefore reduce the amount of income tax our intermediate holding companies would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We have entered into a tax receivable agreement with KKR Holdings, which requires our intermediate holding companies to pay to KKR Holdings, or to current and former principals who have exchanged KKR Holdings units for KKR common units as transferees of KKR Group Partnership Units, 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding companies realize as a result of the increase in tax basis described above, as well as 85% of the amount of any such savings the intermediate holding companies realize as a result of increases in tax basis that arise due to future payments under the agreement. We expect our intermediate holding companies to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms.

These payment obligations are obligations of our intermediate holding companies and not the KKR Group Partnerships. As such, cash payments received by common unitholders may vary from those received by holders of KKR Group Partnership Units held by KKR Holdings and its current and former principals to the extent payments are made to those parties under the tax receivable agreement. Payments made under the tax receivable agreement are required to be made within 90 days of the filing of the tax returns of our intermediate holding companies, which may result in a timing difference between the tax savings received by KKR's intermediate holdings companies and the cash payments made to the selling holders of KKR Group Partnership Units.

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For the years ended December 31, 2014, 2013 and 2012, cash payments that have been made under the tax receivable agreement were \$5.7 million, \$4.7 million and \$2.7 million, respectively. We expect our intermediate holding companies to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. As of December 31, 2014, \$2.3 million of cumulative income tax savings have been realized.

Distributions

Our current distribution policy is to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business, 40% of the net realized investment income of KKR (other than KFN), and 100% of the net realized investment income of KFN, in each case in excess of amounts determined by us to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other obligations. For purposes of our distribution policy, our distributions are expected to consist of (i) FRE (as defined below), (ii) carry distributions received from our investment funds which have not been allocated as part of our carry pool, (iii) 40% of the net realized investment income from KKR (other than KFN) and (iv) 100% of the net realized investment income from KFN. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any, (ii) segment non-controlling interests, and (iii) amounts determined by us to be necessary or appropriate for the conduct of our business and other matters as discussed above.

The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR & Co. L.P., which may change the distribution policy at any time, and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all or that unitholders will receive sufficient distributions to satisfy payment of their tax liabilities as limited partners of KKR & Co. L.P. When KKR & Co. L.P. receives distributions from the KKR Group Partnerships (the holding companies of the KKR business), KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships.

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The following table presents our distribution for the years ended December 31, 2014, 2013 and 2012 as described above.

	Year Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	(\$ in thousands except per unit data)		
Total Distributable Earnings	2,028,924	1,455,878	1,449,396
Less: estimated current corporate income taxes	(97,088)	(98,814)	(66,733)
Distributable Earnings, net of taxes	1,931,836	1,357,064	1,382,663
Less: Undistributed net realized investment income KKR (ex-KFN)	(450,821)	(394,285)	(544,395)
Distributed Earnings	\$ 1,481,015	\$ 962,779	\$ 838,268
Distributable Earnings, net of taxes per KKR & Co. L.P. common unit	\$ 2.47	\$ 1.97	\$ 2.02
Distribution per KKR & Co. L.P. common unit	\$ 1.90	\$ 1.40	\$ 1.22
Components of Distribution per KKR & Co. L.P. Common unit			
After-tax FRE	\$ 0.41	\$ 0.42	\$ 0.32
Realized Cash Carry	\$ 0.91	\$ 0.60	\$ 0.43
Distributed Net Realized Investment Income KKR (ex-KFN)	\$ 0.39	\$ 0.38	\$ 0.47
Distributed Net Realized Investment Income KFN	\$ 0.19	\$	\$
Fee and yield earnings distribution per KKR & Co. L.P. common unit	\$ 0.67	\$ 0.43	\$ 0.50
Payout Ratio	76.7%	70.9%	60.6%
<i>Total Distributable Earnings</i>			

Total distributable earnings is the sum of (i) FRE, (ii) carry distributions received from KKR's investment funds which have not been allocated as part of its carry pool, (iii) net realized investment income KKR (ex-KFN) and (iv) net realized investment income KFN; less (i) applicable local income taxes, if any, and (ii) noncontrolling interests. We believe this measure is useful to unitholders as it provides a supplemental measure to assess performance, excluding the impact of mark-to-market gains (losses), and amounts available for distribution to KKR unitholders. However, total distributable earnings is not a measure that calculates actual distributions under KKR's current distribution policy. See our distribution table above for the actual cash distribution declared for the years ended December 31, 2014, 2013 and 2012.

Total distributable earnings were \$2,028.9 million for the year ended December 31, 2014, an increase of \$573.0 million, compared to \$1,455.9 million for the year ended December 31, 2013. The increase was primarily attributable to an increase in realized cash carry, net of allocation to carry pool of \$302.2 million, an increase in net realized investment income of KFN of \$150.2 million, which was acquired on April 30, 2014 and an increase in net realized investment income of KKR (ex-KFN) of \$94.2 million, partially offset by an increase in cash compensation and benefits of \$55.9 million.

Total distributable earnings were \$1,455.9 million for the year ended December 31, 2013, an increase of \$6.5 million, compared to \$1,449.4 million for the year ended December 31, 2012. The increase was primarily attributable to an increase in realized cash carry, net of allocation to carry pool of \$128.6 million and an increase in fees of \$204.4 million, partially offset by a decrease in net realized

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investment income of KKR (ex-KFN) of \$209.6 million and an increase in cash compensation and benefits of \$71.0 million.

Distribution per KKR & Co. L.P. common unit was \$1.90 for the year ended December 31, 2014, an increase of \$0.50 per common unit, compared to \$1.40 per common unit for the year ended December 31, 2013. The increase was primarily attributable to an increase in realized cash carry per common unit of \$0.31 and distributable net realized investment income KFN per common unit of \$0.19 as a result of our acquisition of KFN on April 30, 2014. This increase was partially offset by a decrease in after-tax FRE primarily due to an increase in adjusted units eligible for distribution primarily as a result of the KFN acquisition on April 30, 2014.

Distribution per KKR & Co. L.P. common unit was \$1.40 for the year ended December 31, 2013, an increase of \$0.18 per common unit, compared to \$1.22 per common unit for the year ended December 31, 2012. The increase was primarily attributable to an increase in realized cash carry per common unit of \$0.17 and an increase in after-tax FRE per common unit of \$0.10, partially offset by a decrease in distributed net realized investment income KKR (ex-KFN) per common unit of \$0.09.

A reconciliation of Net Income (Loss) Attributable to KKR & Co. L.P. on a GAAP basis to ENI, FRE, Fee and Yield Earnings, Fee and Yield EBITDA, Total Distributable Earnings and Total EBITDA is provided below.

Fee Related Earnings ("FRE")

Fee related earnings is comprised of (i) total management, monitoring and transaction fees, net, plus incentive fees, less (ii) cash compensation and benefits, occupancy and related charges and other operating expenses. This measure is used by management as an alternative measurement of the operating earnings of KKR and its business segments before carried interest and related carry pool allocations and investment income. We believe this measure is useful to unitholders as it provides additional insight into the operating profitability of our fee generating management companies and capital markets businesses. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity-based charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items. After tax FRE represents FRE after deductions for current corporate and local income taxes and non-controlling interests.

Net Realized Investment Income KKR (ex-KFN)

Net realized investment income KKR (ex-KFN) refers to net cash income from (i) realized investment gains and losses excluding certain realized investment losses to the extent unrealized losses on these investments were recognized prior to the combination with KPE on October 1, 2009, (ii) dividend income, and (iii) interest income net of interest expense in each case generated by KKR (excluding KFN). This term describes a portion of KKR's quarterly distribution and excludes net realized investment income of KFN. Realized investment losses from balance sheet investments that were already written down as of October 1, 2009 that have been excluded from net realized investment income as described above in (i) above amounted to approximately \$56 million and \$205 million for the years ended December 31, 2014 and 2013, respectively.

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Net Realized Investment Income KFN

Net realized investment income KFN refers to net cash income from (i) realized investment gains and losses, (ii) dividend income and (iii) interest income net of interest expense less certain general and administrative expenses incurred in the generation of net realized investment income in each case generated by KFN. This term describes a portion of KKR's quarterly distribution.

Fee and Yield Earnings

Fee and yield earnings is comprised of FRE and net interest and dividends from KKR's business segments. This measure is used by management as a measure of the cash earnings of KKR and its business segments' investment income. We believe this measure is useful to unitholders as it provides

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insight into the amount of KKR's cash earnings, significant portions of which tend to be more recurring than realized carried interest and net realized gains from quarter to quarter.

	Year Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	(\$ in thousands)		
Net income (loss) attributable to KKR & Co. L.P.	\$ 477,611	\$ 691,226	\$ 560,836
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings L.P.	585,135	1,056,126	1,116,740
Plus: Non-cash equity-based charges	310,403	307,514	400,207
Plus: Amortization of intangibles and other, net	290,348	102,789	9,683
Plus: Income taxes	63,669	37,926	43,405
Economic net income (loss)	1,727,166	2,195,581	2,130,871
Plus: Income attributable to segment noncontrolling interests	14,946	6,387	7,043
Less: Total investment income (loss)	505,153	958,401	1,111,122
Less: Net carried interest	776,870	831,219	706,981
Fee related earnings	460,089	412,348	319,811
Plus: Net interest and dividends	273,175	21,506	715,931
Fee and yield earnings	733,264	433,854	1,035,742
Plus: Depreciation and amortization	15,782	14,648	12,499
Plus: Core interest expense	88,002	65,662	38,114
Fee and yield EBITDA	837,048	514,164	1,086,355
Less: Depreciation and amortization	15,782	14,648	12,499
Less: Core interest expense	88,002	65,662	38,114
Less: Net interest and dividends	273,175	21,506	715,931
Plus: Realized cash carry, net of realized cash carry allocated to carry pool	716,196	414,016	285,424
Plus: Net realized investment income KKR (ex-KFN)	751,367	657,139	866,776
Plus: Net realized investment income KFN	150,211		
Less: Local income taxes and noncontrolling interests	48,939	27,625	22,615
Total distributable earnings	2,028,924	1,455,878	1,449,396
Plus: Depreciation and amortization	15,782	14,648	12,499
Plus: Core interest expense	88,002	65,662	38,114
Plus: Local income taxes and noncontrolling interests	48,939	27,625	22,615
Total EBITDA	\$ 2,181,647	\$ 1,563,813	\$ 1,522,624

Other Liquidity Needs

We may also be required to fund various underwriting commitments in our capital markets business in connection with the underwriting of loans, securities or other financial instruments. We generally expect that these commitments will be syndicated to third parties or otherwise fulfilled or terminated, although we may in some instances elect to retain a portion of the commitments for our own investment.

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Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis

In the ordinary course of business, we enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2014 on an unconsolidated basis before the consolidation of funds and CLOs:

Types of Contractual Obligations	Payment due by Period				Total
	<1 Year	1 - 3 Years	3 - 5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds(1)	\$ 1,231.3	\$	\$	\$	\$ 1,231.3
Debt payment obligations(2)		27.0		2,157.3	2,184.3
Interest obligations on debt(3)	131.0	249.6	245.1	2,096.7	2,722.4
Underwriting commitments(4)	299.0				299.0
Lending commitments(5)	68.3				68.3
Other commitments(6)	299.5				299.5
Lease obligations	50.3	94.7	76.7	60.9	282.6
Total	\$ 2,079.4	\$ 371.3	\$ 321.8	\$ 4,314.9	\$ 7,087.4

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- (1) These uncalled commitments represent amounts committed by us to fund a portion of the purchase price paid for each investment made by our investment funds which are actively investing. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "Liquidity Liquidity Needs."
- (2) Represents the 2020 Senior Notes, 2043 Senior Notes, 2044 Senior Notes, KFN 2041 Senior Notes, KFN 2042 Senior Notes, KFN Junior Subordinated Notes and borrowings outstanding on the KCM Credit Agreement which are presented gross of unamortized discounts and net of unamortized premiums. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN.
- (3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at December 31, 2014 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of December 31, 2014, including both variable and fixed rates, as applicable, provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.
- (4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. These commitments are shown net of amounts syndicated.
- (5) Represents obligations in our capital markets business to lend under various revolving credit facilities.
- (6) Represents our commitment to MCS and investment commitments of KFN. See "Liquidity Liquidity Needs Merchant Capital Solutions."

The commitment table above excludes contractual amounts owed under the tax receivable agreement, because the ultimate amount and timing of the amounts due are not presently known. As of December 31, 2014, a payable of \$121.8 million has been recorded in due to affiliates in the consolidated financial statements representing management's best estimate of the amounts currently expected to be owed under the tax receivable agreement. As of December 31, 2014, approximately \$13.3 million of cumulative cash payments have been made under the tax receivable agreement. See "Liquidity Needs Tax Receivable Agreement."

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The commitment table above excludes certain contingent consideration payments that may be owed in connection with acquisitions and other investments because the ultimate amounts due are not presently known. As of December 31, 2014, the recorded amount of contingent consideration obligations where the amounts are not currently known was approximately \$40.6 million.

The commitment table above excludes amounts recorded for litigation matters. See "Financial Statements Note 16 "Commitments and Contingencies."

In the normal course of business, we enter into contracts that contain a variety of representations and warranties that provide general indemnifications. In addition, certain of our consolidated funds and KFN have provided certain indemnities relating to environmental and other matters and have provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that we have made. Our maximum exposure under these arrangements is unknown as this would involve future claims that may be made against us that have not yet occurred. However, based on prior experience, we expect the risk of material loss to be low.

The partnership documents governing our carry-paying funds, including funds and vehicles relating to private equity, mezzanine, infrastructure, energy, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to us in the KPE Transaction, as of December 31, 2014, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their December 31, 2014 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$2,288.9 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of our investment balance as this is where carried interest is initially recorded.

Certain private equity funds that were contributed to us in the KPE Transaction in 2009 also include a "net loss sharing provision." Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by us to the fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Based on the fair market values as of December 31, 2014, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$277.4 million as of December 31, 2014.

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Prior to the KPE Transaction in 2009, certain principals who received carried interest distributions with respect to certain private equity funds contributed to us had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, this amount has been reduced to \$191.4 million as of December 31, 2014. Using valuations as of December 31, 2014, no amounts are due with respect to the clawback obligation required to be funded by principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to us and to principals who participate in the carry pool. Unlike the clawback obligation, we will be responsible for amounts due under a net loss sharing obligation and will indemnify principals for any personal guarantees that they have provided with respect to such amounts. In addition, guarantees of or similar arrangements relating to clawback or net loss sharing obligations in favor of third party investors in an individual investment partnership by entities we own may limit distributions of carried interest more generally.

Contractual Obligations, Commitments and Contingencies on a Consolidated Basis

In the ordinary course of business, we and our consolidated funds and CLOs enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2014. This table differs from the table presented above which sets forth contractual commitments on an unconsolidated basis principally because this table includes the obligations of our consolidated funds and CLOs.

Types of Contractual Obligations	Payment due by Period				Total
	<1 Year	1 - 3 Years	3 - 5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds(1)	\$ 19,204.3	\$	\$	\$	\$ 19,204.3
Debt payment obligations(2)	327.2	566.9	1,167.4	8,949.2	11,010.7
Interest obligations on debt(3)	311.0	558.9	518.7	2,750.6	4,139.2
Underwriting commitments(4)	299.0				299.0
Lending commitments(5)	68.3				68.3
Other commitments(6)	299.5				299.5
Lease obligations	50.3	94.7	76.7	60.9	282.6
Total	\$ 20,559.6	\$ 1,220.5	\$ 1,762.8	\$ 11,760.7	\$ 35,303.6

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- (1) These uncalled commitments represent amounts committed by our consolidated investment funds, which include amounts committed by KKR and our fund investors, to fund the purchase price paid for each investment made by our investment funds which are actively investing. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "Liquidity Liquidity Needs."
- (2) Amounts include (i) the 2020 Senior Notes, 2043 Senior Notes and 2044 Senior Notes of \$1.5 billion gross of unamortized discount, (ii) KFN 2041 Senior Notes and KFN 2042 Senior Notes of \$0.4 billion, net of unamortized premium, (iii) KFN Junior Subordinated Notes of \$0.3 billion, gross of unamortized discount, (iv) financing arrangements entered into by our consolidated funds with the objective of enhancing returns or providing liquidity to the funds of \$1.0 billion and

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(v) debt securities issued by our consolidated CLOs of \$7.8 billion. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN. Debt securities issued by consolidated CLOs are supported solely by the investments held at the CLO vehicles and are not collateralized by assets of any other KKR entity. Obligations under financing arrangements entered into by our consolidated funds are generally limited to our pro-rata equity interest in such funds. Our management companies bear no obligations to repay any financing arrangements at our consolidated funds.

- (3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at December 31, 2014 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of December 31, 2014, including both variable and fixed rates, as applicable, provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.
- (4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. These commitments are shown net of amounts syndicated.
- (5) Represents obligations in our capital markets business to lend under various revolving credit facilities.
- (6) Represents our commitment to MCS and investment commitments of KFN. See " Liquidity Liquidity Needs Merchant Capital Solutions."

The commitment table above excludes contractual amounts owed under the tax receivable agreement because the ultimate amount and timing of the amounts due are not presently known. As of December 31, 2014, a payable of \$121.8 million has been recorded in due to affiliates in the consolidated financial statements representing management's best estimate of the amounts currently expected to be owed under the tax receivable agreement. As of December 31, 2014, approximately \$13.3 million of cumulative cash payments have been made under the tax receivable agreement. See " Liquidity Needs Tax Receivable Agreement."

The commitment table above excludes certain contingent consideration payments that may be owed in connection with acquisitions and other investments because the ultimate amounts due are not presently known. As of December 31, 2014, the recorded amount of contingent consideration obligations where the amounts are not currently known was approximately \$40.6 million.

The commitment table above excludes amounts recorded for litigation matters. See "Financial Statements Note 16 "Commitments and Contingencies."

Off Balance Sheet Arrangements

Other than contractual commitments and other legal contingencies incurred in the normal course of our business, we do not have any off-balance sheet financings or liabilities.

Consolidated Statement of Cash Flows

The accompanying consolidated statements of cash flows include the cash flows of our consolidated entities which, in particular, include our consolidated funds and CLOs notwithstanding the fact that we may hold only a minority economic interest in those funds and CLOs. The assets of our consolidated funds and CLOs, on a gross basis, are substantially larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our consolidated statements of cash flows. The primary cash flow activities of our consolidated funds and CLOs involve: (i) capital contributions from fund investors; (ii) using the capital of fund investors to make investments;

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(iii) financing certain investments with indebtedness; (iv) generating cash flows through the realization of investments; and (v) distributing cash flows from the realization of investments to fund investors. Because our consolidated funds and CLOs are treated as investment companies for accounting purposes, certain of these cash flow amounts are included in our cash flows from operations.

Net Cash Provided by (Used in) Operating Activities

Our net cash provided by (used in) operating activities was \$1.5 billion, \$2.6 billion and \$6.2 billion during the years ended December 31, 2014, 2013 and 2012, respectively. These amounts primarily included: (i) proceeds from sales of investments and principal payments net of purchases of investments by our funds and CLOs of \$1.0 billion, \$1.4 billion and \$5.1 billion during the years ended December 31, 2014, 2013 and 2012, respectively; (ii) net realized gains (losses) on investments of \$5.4 billion, \$3.9 billion and \$5.2 billion during the year ended December 31, 2014, 2013 and 2012, respectively; and (iii) change in unrealized gains (losses) on investments of \$(0.7) billion, \$3.9 billion and \$2.7 billion during the years ended December 31, 2014, 2013 and 2012, respectively. Certain KKR funds and CLOs are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value.

Net Cash Provided by (Used in) Investing Activities

Our net cash provided by (used in) investing activities was \$(22.9) million, \$15.5 million and \$(220.9) million during the years ended December 31, 2014, 2013 and 2012, respectively. Our investing activities included the purchases of furniture, computer hardware and leasehold improvements of \$12.2 million, \$14.4 million and \$37.0 million, change in restricted cash and cash equivalents (that primarily funds collateral requirements) of \$(10.8) million, \$(29.9) million and \$(2.9) million during the years ended December 31, 2014, 2013 and 2012, respectively proceeds from sales of oil and natural gas properties, net of development of oil and natural gas properties of \$(151.4) million for the year ended December 31, 2014 as well as cash acquired, net of cash paid for acquisitions of \$151.5 million and \$(186.9) million for the years ended December 31, 2014 and 2012.

Net Cash Provided by (Used in) Financing Activities

Our net cash provided by (used in) financing activities was \$(1.9) billion, \$(2.5) billion and \$(5.6) billion during the years ended December 31, 2014, 2013 and 2012, respectively. Our financing activities primarily included: (i) distributions to, net of contributions by our noncontrolling and redeemable noncontrolling interests, of \$(2.7) billion, \$(2.8) billion and \$(4.9) billion during the years ended December 31, 2014, 2013 and 2012, respectively; (ii) proceeds received net of repayment of debt obligations of \$1.7 billion, \$0.8 billion and \$(0.4) billion during the years ended December 31, 2014, 2013 and 2012, respectively; and (iii) distributions to our partners of \$(0.8) billion, \$(0.4) billion and \$(0.2) billion during the years ended December 31, 2014, 2013 and 2012, respectively.

Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of fees, expenses and investment income. Our management bases these estimates and judgments on available information, historical experience and other assumptions that we believe are reasonable under the circumstances. However, these estimates, judgments and assumptions are often subjective and may be impacted negatively based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from those estimated, judged or assumed, revisions are included in the consolidated financial statements in the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying estimates,

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judgments or assumptions. Please see the notes to the consolidated financial statements included elsewhere in this report for further detail regarding our critical accounting policies.

Principles of Consolidation

The types of entities with which KKR is involved generally include (i) subsidiaries, including management companies, broker-dealers and general partners of investment funds that KKR manages, (ii) entities that have all the attributes of an investment company like investment funds, (iii) CLOs and (iv) other entities, including entities that employ non-employee operating consultants. Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, KKR first considers whether an entity is considered a variable interest entity ("VIE") and therefore whether to apply the consolidation guidance under the VIE model. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

The consolidation rules were revised effective January 1, 2010 which had the effect of changing the criteria for determining whether a reporting entity is the primary beneficiary of a VIE. However, the adoption of these new consolidation rules was indefinitely deferred (the "Deferral") for a reporting entity's interests in certain entities. In particular, entities that have all the attributes of an investment company such as investment funds generally meet the conditions necessary for the Deferral. Entities that are securitization or asset-backed financing entities such as CLOs would generally not qualify for the Deferral. Accordingly, when making the assessment of whether an entity is a VIE, KKR considers whether the entity being assessed meets the conditions for the Deferral and therefore would be subject to the rules that existed prior to January 1, 2010. Under both sets of rules, VIEs for which KKR is determined to be the primary beneficiary are consolidated and such VIEs generally include certain CLO vehicles and entities that employ non-employee operating consultants.

With respect to KKR's consolidated funds that are not CLOs, KKR meets the criteria for the Deferral and therefore applies the consolidation rules that existed prior to January 1, 2010. For these funds, KKR generally has operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As a result, a fund should be consolidated unless KKR has a nominal level of equity at risk. To the extent that KKR commits a nominal amount of equity to a given fund and has no obligation to fund any future losses, the equity at risk to KKR is not considered substantive and the fund is typically considered a VIE. In these cases, the fund investors are generally deemed to be the primary beneficiaries, and KKR does not consolidate the fund. In cases when KKR's equity at risk is deemed to be substantive, the fund is generally considered to be a VOE and KKR generally consolidates the fund under the VOE model.

With respect to CLOs, which are generally VIEs, the criteria for the Deferral are not met and therefore KKR applies the consolidation rules issued on January 1, 2010. In its role as collateral manager, KKR generally has the power to direct the activities of the CLO entities that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through both its residual interest in the CLO and the potential to earn an incentive fee, may have variable interests that represent an obligation to absorb losses of or a right to receive benefits from the CLO that could potentially be significant to KKR. In cases where KKR has both (a) the power to direct the activities of the CLO that most significantly impact the CLOs economic performance and (b) the obligation to absorb losses of the CLO or the right to receive benefits from the CLO that could potentially be significant to the CLO, KKR consolidates the CLO.

Certain of KKR's funds and CLOs are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds and vehicles. KKR's financial statements reflect

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the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR funds and vehicles on a gross basis, and the majority of the economic interests in those funds, which are held by fund investors or other stakeholders, are attributed to noncontrolling interests or appropriated capital in the accompanying financial statements. All of the management fees and certain other amounts earned by KKR from those funds and entities are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, KKR's attributable share of the net income (loss) from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR partners' capital.

KKR's funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments, including investments in portfolio companies, even if majority-owned and controlled. Rather, the consolidated funds and vehicles reflect their investments at fair value as described below in "Fair Value Measurements". All intercompany transactions and balances have been eliminated.

Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CLOs, equity method and other investments. Investments are carried at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, "Investments."

The following describes the types of securities held within each investment class.

Private Equity Consists primarily of equity investments in operating businesses.

Real Assets Consists primarily of investments in (i) energy related assets, principally oil and natural gas producing properties, (ii) infrastructure assets, and (iii) real estate, principally residential and commercial real estate assets and businesses.

Credit Consists primarily of investments in below investment grade corporate debt (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

Investments of Consolidated CLOs Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLO vehicles.

Equity Method Consists primarily of investments in which KKR has significant influence, including investments in unconsolidated investment funds.

Other Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit or equity method investments.

Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of investments and other financial instruments are held by the consolidated funds and vehicles. KKR's funds are, for GAAP purposes, investment companies and reflect their investments and other financial

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instruments at fair value. KKR has retained the specialized accounting for the consolidated funds and vehicles in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by KKR's funds are reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations.

For investments and other financial instruments that are not held in a consolidated fund or vehicle, KKR has elected the fair value option since these investments and other financial instruments are similar to those in the consolidated funds and vehicles. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. Unrealized gains and losses resulting from changes in fair value are reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. The methodology for measuring the fair value of such investments and other financial instruments is consistent with the methodologies applied to investments and other financial instruments that are held in consolidated funds and vehicles. In addition, KKR has elected the fair value option for the investments and debt obligations of the consolidated CLO vehicles.

The carrying amounts of Other Assets, Accounts Payable, Accrued Expenses and Other Liabilities recognized on the consolidated statements of financial condition (excluding Fixed Assets, Goodwill, Intangible Assets, contingent consideration and certain debt obligations) approximate fair value due to their short term maturities. Further information on Fixed Assets is presented in Note 7, "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities". Further information on Goodwill and Intangible Assets is presented in Note 15 "Goodwill and Intangible Assets." Further information on contingent consideration is presented in Note 14 "Acquisitions." KKR's debt obligations, except for KKR's 2020, 2043 and 2044 Senior Notes and KFN's 2041 and 2042 Senior Notes and certain Junior Subordinated Notes, bear interest at floating rates and therefore fair value approximates carrying value. Further information on KKR's 2020, 2043 and 2044 Senior Notes and KFN's 2041 and 2042 Senior Notes and certain Junior Subordinated Notes are presented in Note 9, "Debt Obligations". The fair values for KKR's 2020, 2043 and 2044 Senior Notes were derived using Level II inputs similar to those utilized in valuing credit investments. The fair values for KFN's 2041 and 2042 Senior Notes were derived using Level I inputs. The fair values for certain Junior Subordinated Notes were derived using Level III inputs similar to those utilized in valuing credit investments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgment, the degree of which is dependent on a variety of factors. See Note 5, "Fair Value Measurements" for further information on KKR's valuation techniques that involve unobservable inputs. Assets and liabilities recorded at fair value in the statements of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined under GAAP, are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets and liabilities. The hierarchical levels defined under GAAP are as follows:

Level I

Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The type of investments and other financial instruments included in this category are publicly-listed equities and debt and securities sold short. We classified 10.9% of total investments measured and reported at fair value as Level I at December 31, 2014.

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Level II

Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The type of investments and other financial instruments included in this category are credit investments, convertible debt securities indexed to publicly-listed securities, and certain over-the-counter derivatives. We classified 29.0% of total investments measured and reported at fair value as Level II at December 31, 2014.

Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private portfolio companies, real assets investments and credit investments for which a sufficiently liquid trading market does not exist. We classified 60.1% of total investments measured and reported at fair value as Level III at December 31, 2014. The valuation of our Level III investments at December 31, 2014 represents management's best estimate of the amounts that we would anticipate realizing on the sale of these investments at such date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset.

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by us in determining fair value is greatest for instruments categorized in Level III. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels I, II, and III, which we recognize at the beginning of the reporting period.

Investments and other financial instruments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date. We do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price.

Level II Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of securities indexed to publicly-listed securities and credit and other investments. Credit investments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an asset. Ask prices represent the lowest price that KKR and others are willing to accept for an asset. For financial assets and liabilities whose inputs are based on bid-ask

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prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. Our policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets our best estimate of fair value. For securities indexed to publicly listed securities, such as convertible debt, the securities are typically valued using standard convertible security pricing models. The key inputs into these models that require some amount of judgment are the credit spreads utilized and the volatility assumed. To the extent the company being valued has other outstanding debt securities that are publicly-traded, the implied credit spread on the company's other outstanding debt securities would be utilized in the valuation. To the extent the company being valued does not have other outstanding debt securities that are publicly-traded, the credit spread will be estimated based on the implied credit spreads observed in comparable publicly-traded debt securities. In certain cases, an additional spread will be added to reflect an illiquidity discount due to the fact that the security being valued is not publicly-traded. The volatility assumption is based upon the historically observed volatility of the underlying equity security into which the convertible debt security is convertible and/or the volatility implied by the prices of options on the underlying equity security.

Level III Valuation Methodologies

Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

Financial assets and liabilities categorized as Level III consist primarily of the following:

Private Equity Investments: We generally employ two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market comparables analysis that considers key financial inputs and recent public and private transactions and other available measures. The second methodology utilized is typically a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Other inputs are also used in both methodologies. For valuations determined for periods other than at year end, various inputs may be estimated prior to the end of the relevant period. Also, as discussed in greater detail under " Business Environment" and "Risk Factors Risks Related to the Assets We Manage Our investments are impacted by various economic conditions that are difficult to quantify or predict, but may have a significant adverse impact on the value of our investments," a change in interest rates could have a significant impact on valuations. In certain cases the results of the discounted cash flow approach can be significantly impacted by these estimates. In addition, when a definitive agreement has been executed to sell an investment, KKR generally considers a significant determinant of fair value to be the consideration to be received by KKR pursuant to the executed definitive agreement.

Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies, except that the value may be higher or lower than such range in the case of investments being sold pursuant to an executed definitive agreement.

When determining the weighting ascribed to each valuation methodology, we consider, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis, the expected hold period and manner of realization for the investment, and in the case of investments being sold pursuant to an executed definitive agreement, the probability of such sale being completed. These factors can result in different weightings among investments in the portfolio and in certain instances may result in up to a 100% weighting to a single methodology. Across the Level III private equity investment portfolio, approximately 58.3% of the fair value is derived from investments

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that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of the Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis. As of December 31, 2014, the overall weights ascribed to the market comparables methodology, the discounted cash flow methodology and a methodology based on pending sales for our Level III private equity investments were 40% and 40% and 20%, respectively. As of December 31, 2014, we believe that the approach of using the market multiples methodology, the discounted cash flow methodology and valuations based on pending sales resulted in valuations of our aggregate Level III private equity portfolio that were only 2.7% higher than if only the discounted cash flow methodology had been used and only 1.0% lower than if only the market comparables methodology had been used.

When an illiquidity discount is to be applied, we seek to take a uniform approach across our portfolio and generally apply a minimum 5% discount to all private equity investments. We then evaluate such private equity investments to determine if factors exist that could make it more challenging to monetize the investment and, therefore, justify applying a higher illiquidity discount. These factors generally include (i) whether we are unable to freely sell the portfolio company or conduct an initial public offering of the portfolio company due to the consent rights of a third party or similar factors, (ii) whether the portfolio company is undergoing significant restructuring activity or similar factors and (iii) characteristics about the portfolio company regarding its size and/or whether the portfolio company is experiencing, or expected to experience, a significant decline in earnings. These factors generally make it less likely that a portfolio company would be sold or publicly offered in the near term at a price indicated by using just a market multiples and/or discounted cash flow analysis, and these factors tend to reduce the number of opportunities to sell an investment and/or increase the time horizon over which an investment may be monetized. Depending on the applicability of these factors, we determine the amount of any incremental illiquidity discount to be applied above the 5% minimum, and during the time we hold the investment, the illiquidity discount may be increased or decreased, from time to time, based on changes to these factors. The amount of illiquidity discount applied at any time requires considerable judgment about what a market participant would consider and is based on the facts and circumstances of each individual investment. Accordingly, the illiquidity discount ultimately considered by a market participant upon the realization of any investment may be higher or lower than that estimated by us in our valuations.

Real Assets Investments: Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Infrastructure investments are generally valued using the discounted cash flow analysis. Key inputs used in this methodology include the weighted average cost of capital and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Energy investments are generally valued using a discounted cash flow analysis. Key inputs used in this methodology that require estimates include commodity price forecasts and the weighted average cost of capital. Certain energy investments do not include a minimum illiquidity discount. In addition, the valuations of energy investments generally incorporate both commodity prices as quoted on indices and long-term commodity price forecasts, which may be substantially different from, and are currently higher than, commodity prices on certain indices for equivalent future dates. Long-term commodity price forecasts are utilized to capture the value of the investments across a range of commodity prices within the energy investment portfolio associated with future development and to reflect price expectations that are estimated to be required to balance demand and production in global commodity markets over the long-term. Real estate investments are generally valued using a combination of direct income capitalization and discounted cash flow analysis. Key inputs used in such methodologies that require estimates include an unlevered discount rate and current capitalization rate, and certain real estate investments do not include a minimum illiquidity discount. The valuations of real assets investments also use other inputs.

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During the quarter ended December 31, 2014, the value of our energy real asset investments in oil and gas producing properties decreased meaningfully. This decrease in value was primarily attributable to a drop in long-term oil, condensate, natural gas liquids, and natural gas prices during the year ended December 31, 2014 with the greatest declines occurring in the fourth quarter. The 2017 price of WTI crude oil declined from approximately \$85 per barrel to \$67 per barrel and the 2017 price of natural gas declined from approximately \$4.22 per mcf to \$3.76 per mcf as of September 30, 2014 and December 31, 2014, respectively.

On a segment basis, our energy real asset investments in oil and gas producing properties as of December 31, 2014 had a fair value of approximately \$695 million. Based on this fair value, we estimate that an immediate, hypothetical 10% decline in the fair value of these energy investments from one or more adverse movements to the investments' valuation inputs would result in a decline in investment income of \$69.5 million and a decline in net income attributable to KKR & Co. L.P. of \$37.2 million, after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P. As of December 31, 2014, if we were to value our energy investments using only the commodity prices as quoted on indices and did not use long-term commodity price forecasts and also held all other inputs to their valuation constant, we estimate that investment income would have been approximately \$115 million lower for the year ended December 31, 2014, resulting in a lower amount of net income attributable to KKR & Co. L.P. of 53.5% of the overall decrease in investment income, after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P.

These hypothetical declines relate only to investment income. There would be no current impact on KKR's carried interest since all of the investment funds which hold these types of energy investments have investment values that are below their cost and as such are not currently accruing carried interest. Additionally, there would be no impact on fees since fees earned from investment funds which hold investments in oil and gas producing properties are based on either committed capital or capital invested.

For GAAP purposes, where KKR holds energy investments consisting of working interests in oil and gas producing properties directly and not through an investment fund, such working interests are consolidated based on the proportion of the working interests held by us. Accordingly, we reflect the assets, liabilities, revenues, expenses, investment income and cash flows of the consolidated working interests on a gross basis and changes in the value of these energy investments are not reflected as unrealized gains and losses in the consolidated statements of operations. Accordingly, a change in fair value for these investments does not result in a decrease in net gains (losses) from investment activities. However, management believes that a decrease in investment income associated with these energy investments of the magnitude described above would have resulted in an impairment charge reflected in general, administrative and other expenses in an amount not dissimilar to the decline in investment income associated with the energy real asset investments on a segment basis as described above. For segment purposes, these directly held working interests are treated as investments and changes in value are reflected in our segment results as unrealized gains and losses.

Credit Investments: Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are valued by us based on ranges of values determined by an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

Other Investments: We generally employ the same valuation methodologies as described above for private equity investments when valuing these other investments.

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CLO Debt Obligations: Collateralized loan obligation secured notes are initially valued at transaction price and are subsequently valued using a third party valuation service. The most significant inputs to the valuation of these instruments are default and loss expectations and discount margins.

Key unobservable inputs that have a significant impact on our Level III investment valuations as described above are included in Note 5 "Fair Value Measurements" of the financial statements included elsewhere in this report. We utilize several unobservable pricing inputs and assumptions in determining the fair value of our Level III investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of our valuation methodologies. Our reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if we only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

Level III Valuation Process

The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review. We have a Private Markets valuation committee for private equity and real assets investments and a valuation committee for credit (including investments held by consolidated CLOs) and other investments. The Private Markets valuation committee may be assisted by subcommittees for example in the valuation of real estate investments. Each of the Private Markets valuation committee and the credit valuation committee is assisted by a valuation team, which, except as noted below, is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of the investments being valued. The valuation teams for energy, infrastructure and real estate investments include investment professionals who participate in the preparation of preliminary valuations and oversight for those investments. The valuation committees and teams are responsible for coordinating and consistently implementing our quarterly valuation policies, guidelines and processes. For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed with the investment professionals by the applicable valuation team and are also reviewed by an independent valuation firm engaged by us to perform certain procedures in order to assess the reasonableness of our valuations annually for all Level III investments in Private Markets and quarterly for investments other than investments which fall below pre-set value thresholds and which in the aggregate have comprised a de minimis percentage of the total value of our Level III Private Markets investments. For most investments classified as Level III in credit, in general, an independent valuation firm is engaged by us to provide third party valuations, or ranges of valuations from which our investment professionals select a preliminary valuation, or an independent valuation firm is engaged by us to perform certain procedures in order to assess the reasonableness of our valuations. Credit investments, which in the aggregate amount to approximately 7% of the total value of our Level III credit investments, are not valued with the engagement of an independent valuation firm. All preliminary valuations in Private Markets and credit are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to the firm's management committee. When these valuations are approved by this committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of our board of directors and are then reported on to the board of directors.

As of December 31, 2014, upon completion by, where applicable, an independent valuation firm of certain limited procedures requested to be performed by them, the independent valuation firm concluded that the fair values, as determined by KKR, of Private Markets investments reviewed by

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them were reasonable. The limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under generally accepted auditing standards and were not conducted on all Level III investments. We are responsible for determining the fair value of investments in good faith, and the limited procedures performed by an independent valuation firm are supplementary to the inquiries and procedures that we are required to undertake to determine the fair value of the commensurate investments.

As described above, Level II and Level III investments were valued using internal models with significant unobservable inputs and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable inputs had existed. Additional external factors may cause those values, and the values of investments for which readily observable inputs exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Changes in the fair value of the investments of our consolidated private equity funds may impact the net gains (losses) from investment activities of our private equity funds as described under " Key Financial Measures Investment Income (Loss) Net Gains (Losses) from Investment Activities." Based on the investments of our private equity funds as of December 31, 2014, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result in a commensurate change in the amount of net gains (losses) from investment activities (except that carried interest would likely be more significantly impacted), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. The impact that the consequential decrease in investment income would have on net income attributable to KKR would generally be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests and therefore we are only impacted to the extent of our carried interest and our balance sheet investments.

As of December 31, 2014, investments which represented greater than 5% of consolidated investments consisted of Walgreens Boots Alliance Inc. (the company resulting from Walgreen's acquisition of Alliance Boots GmbH) and First Data Corporation valued at \$5.5 billion and \$3.8 billion, respectively. On a segment basis, as of December 31, 2014, investments which represented greater than 5% of total reportable segments investments consisted of First Data Corporation and Walgreens Boots Alliance Inc. valued at \$1,123.5 million and \$738.3 million, respectively.

Revenue Recognition

Fees consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs and other vehicles and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed and in the case of transaction fees, upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

Recognition of Investment Income

Investment income consists primarily of the net impact of: (i) realized and unrealized gains and losses on investments, (ii) dividends, (iii) interest income, (iv) interest expense and (v) foreign exchange gains and losses relating to mark-to-market activity on foreign exchange forward contracts, foreign currency options, foreign denominated debt and debt securities issued by consolidated CLOs.

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Unrealized gains or losses resulting from the aforementioned activities are included in net gains (losses) from investment activities. Upon disposition of an instrument that is marked-to-market, previously recognized unrealized gains or losses are reversed and a realized gain or loss is recognized. While this reversal generally does not significantly impact the net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

Due to the consolidation of the majority of our funds, the portion of our funds' investment income that is allocable to our carried interests and capital investments is not shown in the consolidated financial statements. For funds that are consolidated, all investment income (loss), including the portion of a funds' investment income (loss) that is allocable to KKR's carried interest, is included in investment income (loss) on the consolidated statements of operations. The carried interest that KKR retains in net income (loss) attributable to KKR & Co. L.P. is reflected as an adjustment to net income (loss) attributable to noncontrolling interests. Because the substantial majority of our funds are consolidated and because we hold only a minority economic interest in our funds' investments, our share of the investment income generated by our funds' investment activities is significantly less than the total amount of investment income presented in the consolidated financial statements.

Recognition of Carried Interest in the Statement of Operations

Carried interest entitles the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interest are included as investment income (loss) in net gains (losses) from investment activities and are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as investment losses in net gains (losses) from investment activities.

Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Due to the extended durations of our private equity funds, we believe that this approach results in income recognition that best reflects our periodic performance in the management of those funds. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of our investment balance as this is where carried interest is initially recorded.

Clawback Provision

The partnership documents governing our carry-paying funds, including funds relating to private equity, mezzanine, infrastructure, energy, real estate, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a carry-paying fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to

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the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled including the effects of any performance hurdle.

Prior to the KPE Transaction, certain principals who received carried interest distributions with respect to certain private equity funds contributed to KKR had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, this amount has been reduced to \$191.4 million as of December 31, 2014. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to KKR and principals who participate in the carry pool.

Net Loss Sharing Provision

Certain private equity funds that were contributed to KKR in the KPE Transaction also include a "net loss sharing provision." Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by KKR to fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Unlike the clawback obligation, KKR will be responsible for all amounts due under a net loss sharing obligation and will indemnify principals for any personal guarantees that they have provided with respect to such amounts.

Recently Issued Accounting Pronouncements

Foreign Currency Matters

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters," which indicates that the entire amount of a cumulative translation adjustment ("CTA") related to an entity's investment in a foreign entity should be released when there has been a (i) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, (ii) loss of a controlling financial interest in an investment in a foreign entity, or (iii) step acquisition for a foreign entity. This guidance was effective as of January 1, 2014. The adoption of this guidance did not have a material impact on KKR's financial statements for the year ended December 31, 2014.

Amendments to Investment Company Scope, Measurement, and Disclosures

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies Topic 946 ("ASU 2013-08") which amends the scope, measurement, and disclosure requirements for investment companies. ASU 2013-08 (i) amends the criteria for an entity to qualify as an investment company, (ii) requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and (iii) introduces new disclosures. This guidance was effective as of January 1, 2014. The adoption of this guidance did not have a material impact on KKR's financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers Topic 606 ("ASU 2014-09") which outlines a single comprehensive model for entities to use in accounting for

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revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Revenue recorded under ASU 2014-09 will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for KKR's fiscal year beginning January 1, 2017 and early adoption is not permitted. KKR is in the process of assessing the impact that the adoption of this guidance will have on its financial statements, including with respect to the timing of the recognition of carried interest.

Measurement of Financial Assets and Liabilities – Consolidated Collateralized Financing Entities

In August 2014, the FASB issued ASU 2014-13, "Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity" ("CFE"), such as CLOs. This standard provides that an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE should be measured on the basis of either the fair value of the CFE's financial assets or financial liabilities, whichever is more observable. The effective date of the consensus will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption will be permitted. KKR is currently evaluating the impact on its consolidated financial statements.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Derivatives and Hedging

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16"). The guidance in ASU 2014-16 states that implied substantive terms and features of a hybrid financial instrument issued in the form of a stock should weigh each term and feature on the basis of relevant facts and circumstances. An entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. ASU 2014-16 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

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Consolidation

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The guidance in ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and also eliminates the consolidation model specific to limited partnerships. The amendments also clarify how to treat fees paid to an asset manager or other entity that makes the decisions for the investment vehicle and whether they should be considered in determining when a variable interest entity should be reported on an asset manager's balance sheet. ASU 2015-02 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted. KKR is currently evaluating the impact on its consolidated financial statements but expects to deconsolidate certain investment funds, vehicles and entities upon adoption of this guidance.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risks primarily relates to movements in the fair value of investments, including the effect that those movements have on our management fees, carried interest and net gains from investment activities. The fair value of investments may fluctuate in response to changes in the values of investments, foreign currency exchange rates and interest rates. Additionally, interest rate movements can adversely impact the amount of interest income we receive on credit instruments bearing variable rates and could also impact the amount of interest that we pay on debt obligations bearing variable rates.

The quantitative information provided in this section was prepared using estimates and assumptions that management believes are appropriate in order to provide a reader with an indication of the directional impact that a hypothetical adverse movement in certain risks would have on net income attributable to KKR & Co. L.P. In all cases, these directional impacts are presented after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P. As of December 31, 2014, KKR & Co. L.P. and KKR Holdings L.P. held interests in our business of 53.5% and 46.5%, respectively. The actual impact of a hypothetical adverse movement in these risks could be materially different from the amounts shown below.

The firm uses various committees to help manage market risk and general business risks.

Management of Market Risk

When we commit capital of a certain amount from our balance sheet to investments or transactions, a balance sheet committee of senior employees, including our two Co-Chief Executive Officers, the Chief Financial Officer and Chief Administrative Officer, must approve the investment or transaction before it may be made. The committee may delegate authority to other employees subject to maximum commitment sizes or other limitations determined by the committee. In addition, this committee supervises activities governing KKR's capital structure, liquidity, and the composition of our balance sheet.

Certain securities transactions by our capital markets business are subject to risk tolerance limits, regulatory capital requirements and the review and approval of one or more committees in compliance with rules applicable to broker-dealers pursuant to the Securities Exchange Act of 1934. When our capital is committed to capital markets transactions, after diligence is conducted, such transactions are subject to the review and approval of a capital markets underwriting committee. These transactions are also subject to risk tolerance limits. The risk tolerance limits establish the level of investment we may make in a single company or type of transaction, for example and are designed to avoid undue concentration and risk exposure. Regulatory capital requirements also place limits on the size of securities underwritings the capital markets business can conduct based on quantitative measure of

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assets, liabilities and certain off-balance-sheet items. Aggregate balance sheet risk is monitored on an ongoing basis by the balance sheet committee referenced above.

With respect to the funds and other investment vehicles through which we make investments for our fund investors, KKR manages risk by subjecting transactions to the review and approval of an applicable investment committee, and then a portfolio management committee (or other applicable senior employees) regularly monitors these investments. Before making an investment, investment professionals identify risks in due diligence, evaluating, among other things, business, financial, legal and regulatory issues, financial data and other information. An investment team presents the investment and its identified risks to an investment committee, which must approve each investment before it may be made. If an investment is made, a portfolio management committee (or other applicable senior employees) is responsible for working with our investment professionals to monitor the investment on an ongoing basis.

Management of General Business Risk

KKR has a risk committee comprised of senior employees from across our business segments and across business operations, and includes our Chief Administrative Officer, our Chief Financial Officer, and our General Counsel. The risk committee monitors and evaluates KKR's general business risks, and is assisted by an employee dedicated to evaluating and monitoring market risk and coordinating such efforts across our businesses. The Chief Administrative Officer, who also serves as the chairman of the risk committee, regularly reports to our Co-Chief Executive Officers and quarterly to the Audit Committee, which is the chief committee that monitors risk on behalf of the Board of Directors.

KKR's global conflicts and compliance committee is responsible for analyzing and addressing new or potential conflicts of interest that may arise in KKR's business, including conflicts relating to specific transactions and circumstances as well as those implicit in the overall activities of KKR and its various businesses and monitors compliance matters. Our Chief Administrative Officer, our General Counsel and our Chief Compliance Officer are members of this committee.

KKR's management committee is responsible for evaluating certain matters affecting the business of KKR. It consists of our Co-Chief Executive Officers, our Chief Administrative Officer, our Chief Financial Officer, our General Counsel and other senior employees across our business segments and across business operations, and is chaired by our Chief Administrative Officer. The management committee is responsible for approving the valuations of our Level III investments in Private Markets and Public Markets.

Changes in Fair Value

The majority of our investments are reported at fair value. Net changes in the fair value of investments impact the net gains (losses) from investment activities in our consolidated statements of operations. Based on investments held as of December 31, 2014, we estimate that an immediate 10% decrease in the fair value of investments generally would result in a commensurate change in the amount of net gains (losses) from investment activities (except that carried interest would likely be more significantly impacted), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. The impact that the consequential decrease in investment income would have on net income attributable to KKR & Co. L.P. would generally be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests and therefore we are only impacted to the extent of our carried interest and our balance sheet investments and to a lesser extent our management fees. Because of this, the quantitative information that follows represents the impact that a reduction to each of the income streams shown below would have on net income attributable to KKR & Co. L.P. The actual impact to individual line items within the consolidated

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statements of operations would differ from the amounts shown below as a result of (i) the elimination of management fees and carried interest, (ii) the gross-up of net gains (losses) from investment activities, in each case as a result of the consolidation of the majority of our private equity and credit funds and (iii) the inclusion of amounts attributable to KKR Holdings L.P. in individual line items within the consolidated statement of operations.

Based on the fair value of investments as of December 31, 2014, we estimate that an immediate, hypothetical 10% decline in the fair value of investments would result in declines in net income attributable to KKR & Co. L.P. in 2015 from reductions in the following items, if not offset by other factors:

	Year Ended December 31, 2014		
	Management fees	Carried Interest, Net of Carry Pool Allocation	Net Gains/ (Losses) From Investment Activities Excluding Carried Interest
	(\$ in thousands)		
10% Decline in Fair Value of Investments(1)	\$ 9,353(2)	\$ 256,223(3)	\$ 524,707(3)

- (1) An immediate, hypothetical 10% decline in the fair value of investments would also impact our ability to earn incentive fees. Since the majority of our incentive fees are earned at December 31st or June 30th of each calendar year and are not subject to clawback, a 10% decline in fair value would generally result in the recognition of no incentive fees on a prospective basis and result in lower net income relative to prior years where such incentive fees may have been earned.
- (2) Represents an annualized reduction in management fees.
- (3) Decrease would impact our statement of operations in a single quarter. With respect to carried interest, for purposes of this analysis the impact of preferred returns are ignored.

Management Fees

Our management fees in our Private Markets investment funds are generally calculated based on the amount of capital committed or invested by a fund, as described under "Business Our Segments Private Markets." Accordingly, movements in the fair value of investments do not significantly affect the amount of fees we may charge in Private Markets funds. In the case of our Public Markets business, management fees are often calculated based on the average NAV of the fund or vehicle for that particular period, although certain funds in our Public Markets segment have management fees based on the amount of capital committed or invested. To the extent that management fees are calculated based on the NAV of the fund's investments, the amount of fees that we may charge will be increased or decreased in direct proportion to the effect of changes in the fair value of the fund's investments. The proportion of our management fees that are based on NAV depends on the number and type of funds in existence. For the year ended December 31, 2014, the fund management fees that were recognized based on the NAV of the applicable funds or separately managed accounts was approximately 25%.

Publicly Traded Securities

Our investment funds and KKR's balance sheet hold certain investments in portfolio companies whose securities are publicly traded. The market prices of securities may be volatile and are likely to fluctuate due to a number of factors beyond our control. These factors include actual or anticipated fluctuations in the quarterly and annual results of such companies or of other companies in the industries in which they operate, market perceptions concerning the availability of additional securities

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for sale, general economic, social or political developments, industry conditions, changes in government regulation, shortfalls in operating results from levels forecasted by securities analysts, the general state of the securities markets and other material events, such as significant management changes, re-financings, acquisitions and dispositions. In addition, although our investments are comprised primarily of investments in portfolio companies whose securities are not publicly traded, the value of these privately held investments may also fluctuate as our Level III investments are valued in part using a market comparables analysis. Consequently due to similar factors beyond our control as described above for portfolio companies whose securities are publicly traded, the value of these Level III investments may fluctuate with market prices.

Exchange Rate Risk

Our investment funds and KKR's balance sheet hold investments denominated in currencies other than the U.S. dollar. Those investments expose us and our fund investors to the risk that the value of the investments will be affected by changes in exchange rates between the currency in which the investments are denominated and the currency in which the investments are made. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. Our policy is to minimize these risks by employing hedging techniques, including using foreign currency options and foreign exchange forward contracts to reduce exposure to future changes in exchange rates when a meaningful amount of capital has been invested in currencies other than the currencies in which the investments are denominated.

Our primary exposure to exchange rate risk relates to movements in the value of exchange rates between the U.S. dollar and other currencies in which our investments are denominated (primarily euros and British pounds), net of the impact of foreign exchange hedging strategies. The quantitative information that follows represents the impact that a reduction to each of the income streams shown below would have on net income attributable to KKR & Co. L.P. The actual impact to individual line items within the statements of operations would differ from the amounts shown below as a result of (i) the elimination of management fees and carried interest, (ii) the gross-up of net gains (losses) from investment activities, in each case as a result of the consolidation of the majority of our private equity and credit funds and (iii) the inclusion of amounts attributable to KKR Holdings L.P. in individual line items within the consolidated statement of operations.

We estimate that an immediate, hypothetical 10% decline in the exchange rates between the U.S. dollar and all of the major foreign currencies in which our investments and fees were denominated as of December 31, 2014 (i.e. an increase in the value of the U.S. dollar against these foreign currencies) would result in declines in net income attributable to KKR & Co. L.P. in 2015 from reductions in the following items, net of the impact of foreign exchange hedging strategies, if not offset by other factors:

	Year Ended December 31, 2014		
	Management fees	Carried Interest, Net of Carry Pool Allocation	Net Gains/ (Losses) From Investment Activities Excluding Carried Interest
	(\$ in thousands)		
<u>10% Decline in Foreign Currencies Against the U.S. Dollar(1)</u>	\$ 4,350(2)\$	21,597(3)\$	35,652(3)

- (1) An immediate, hypothetical 10% decline in exchange rates between the U.S. dollar and all of the major foreign currencies in which our investments were denominated would only marginally impact our ability to earn incentive fees since the majority of our funds in which we are entitled to earn incentive fees are denominated in U.S. dollars.
- (2) Represents an annualized reduction in management fees.

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- (3) Decrease would impact our statement of operations in a single quarter. With respect to carried interest, for purposes of this analysis the impact of preferred returns are ignored

Interest Rate Risk

Valuation of Investments

Changes in credit markets and in particular, interest rates, can impact investment valuations, particularly our Private Markets investments and may have offsetting results depending on the valuation methodology used. For example, we typically use a discounted cash flow analysis as one of the methodologies to ascertain the fair value of our investments that do not have readily observable market prices. If applicable interest rates rise, then the assumed cost of capital for those portfolio companies would be expected to increase under the discounted cash flow analysis, and this effect would negatively impact their valuations if not offset by other factors. Conversely, a fall in interest rates can positively impact valuations of certain portfolio companies if not offset by other factors. These impacts could be substantial depending upon the magnitude of the change in interest rates. In certain cases, the valuations obtained from the discounted cash flow analysis and the other primary methodology we use, the market multiples approach, may yield different and offsetting results. For example, the positive impact of falling interest rates on discounted cash flow valuations may offset the negative impact of the market multiples valuation approach and may result in less of a decline in value than for those investments that had a readily observable market price. Finally, low interest rates related to monetary stimulus and economic stagnation may also negatively impact expected returns on all investments, as the demand for relatively higher return assets increases and supply decreases.

Interest Income

We and our consolidated funds hold credit investments, including CLOs that generate interest income based on variable interest rates. We are exposed to interest rate risk relating to investments that generate yield since a meaningful portion of credit investments held by us and our consolidated funds earn income based on variable interest rates. However, the contractual interest rate structure for a large portion of our credit investments bearing variable rates have "floors" which establish a minimum rate of interest that will be earned. In the current low interest rate environment, a large portion of the credit investments held by us and our consolidated funds are earning interest at the contractual floor and therefore, for these investments, a decrease in variable interests rates would not impact the amount of interest income earned. With respect to consolidated funds and CLOs, the impact on net income attributable to KKR & Co. L.P. resulting from a decrease of a hypothetical 100 basis points in variable interest rates used in the recognition of interest income would not be expected to be material since (i) many variable rate investments are subject to floors as described above and (ii) a substantial portion of this decrease would be attributable to noncontrolling interests. With respect to credit investments held by KKR outside of the consolidated funds, all of the interest income earned inures to KKR & Co. L.P., however a large portion of these investments are subject to floors as described above. Accordingly, the impact on net income attributable to KKR & Co. L.P. resulting from a decrease of a hypothetical 100 basis points in variable interest rates used in the recognition of interest income would not be expected to be material.

Interest Expense

Our consolidated funds have debt obligations that include revolving credit agreements, certain investment financing arrangements and debt securities issued by CLO vehicles structured through the use of term loans and revolving credit facilities that accrue interest at variable rates. Changes in these rates would affect the amount of interest payments that our consolidated funds would have to make. With respect to consolidated funds, the impact on net income attributable to KKR & Co. L.P. resulting from an increase of a hypothetical 100 basis points in variable interest rates used in the recognition of

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interest expense would not be expected to be material since a substantial portion of this increase would be attributable to noncontrolling interests. With respect to debt obligations held by KKR outside of the consolidated funds, as of December 31, 2014, KKR had \$27 million of debt obligations outstanding that accrues interest at a variable rate. The impact on net income attributable to KKR & Co. L.P. resulting from an increase of a hypothetical 100 basis points in variable interest rates used in the recognition of interest expense would be a decrease of approximately \$0.3 million on an annual basis.

Credit Risk

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In these agreements, we depend on these counterparties to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting the counterparties with which we enter into financial transactions to reputable financial institutions. In addition, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of KKR & Co. L.P.:

We have audited the accompanying consolidated statements of financial condition of KKR & Co. L.P. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KKR & Co. L.P. and subsidiaries as of December 31, 2014 and 2013, and results of their operations and their cash flows for each of the three years in the period

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ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
New York, New York
February 27, 2015

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(Amounts in Thousands, Except Unit Data)

	December 31, 2014	December 31, 2013
Assets		
Cash and Cash Equivalents	\$ 918,080	\$ 1,306,383
Cash and Cash Equivalents Held at Consolidated Entities	1,372,775	440,808
Restricted Cash and Cash Equivalents	102,991	57,775
Investments	60,167,626	47,383,697
Due from Affiliates	147,056	143,908
Other Assets	3,164,217	2,094,630
Total Assets	\$ 65,872,745	\$ 51,427,201
Liabilities and Equity		
Debt Obligations	\$ 10,837,784	\$ 1,908,606
Due to Affiliates	131,548	93,851
Accounts Payable, Accrued Expenses and Other Liabilities	3,199,352	2,839,926
Total Liabilities	14,168,684	4,842,383
Commitments and Contingencies		
Redeemable Noncontrolling Interests	300,098	627,807
Equity		
KKR & Co. L.P. Partners' Capital (433,330,540 and 288,143,327 common units issued and outstanding as of December 31, 2014 and 2013, respectively)	5,403,095	2,727,909
Accumulated Other Comprehensive Income (Loss)	(20,404)	(5,899)
Total KKR & Co. L.P. Partners' Capital	5,382,691	2,722,010
Noncontrolling Interests	46,004,377	43,235,001
Appropriated Capital	16,895	
Total Equity	51,403,963	45,957,011
Total Liabilities and Equity	\$ 65,872,745	\$ 51,427,201

See notes to consolidated financial statements.

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****(Amounts in Thousands)**

The following presents the portion of the consolidated balances presented in the consolidated statements of financial condition attributable to consolidated variable interest entities ("VIEs") as of December 31, 2014. The assets of consolidated collateralized loan obligation ("CLO") vehicles, which comprise the majority of KKR's consolidated VIEs, are held solely as collateral to satisfy the obligations of the CLO vehicles. KKR has no right to the benefits from, nor does KKR bear the risks associated with, the assets held by these CLO vehicles beyond KKR's beneficial interest therein and collateral management fees generated from the CLO vehicles. The assets in each CLO vehicle can be used only to settle the debt of the related CLO vehicle. The noteholders and other creditors of the CLO vehicles have no recourse to KKR's general assets. There are neither explicit arrangements nor does KKR hold implicit variable interests that would require KKR to provide any ongoing financial support to the CLO vehicles.

	December 31, 2014	
Assets		
Cash and Cash Equivalents Held at Consolidated Entities	\$	1,046,018
Investments		8,559,967
Other Assets		129,949
Total Assets	\$	9,735,934
 Liabilities		
Debt Obligations	\$	7,615,340
Accounts Payable, Accrued Expenses and Other Liabilities		638,953
Total Liabilities	\$	8,254,293

See notes to consolidated financial statements.

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in Thousands, Except Unit Data)

	For the Years Ended December 31,		
	2014	2013	2012
Revenues			
Fees and Other	\$ 1,110,008	\$ 762,546	\$ 568,442
Expenses			
Compensation and Benefits	1,263,852	1,266,592	1,280,854
Occupancy and Related Charges	62,564	61,720	58,205
General, Administrative and Other	869,651	438,826	259,729
Total Expenses	2,196,067	1,767,138	1,598,788
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	4,778,232	7,826,082	7,871,673
Dividend Income	1,174,501	695,521	940,888
Interest Income	909,207	474,759	358,598
Interest Expense	(317,192)	(99,616)	(69,164)
Total Investment Income (Loss)	6,544,748	8,896,746	9,101,995
Income (Loss) Before Taxes	5,458,689	7,892,154	8,071,649
Income Taxes	63,669	37,926	43,405
Net Income (Loss)	5,395,020	7,854,228	8,028,244
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	(3,341)	62,255	34,963
Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	4,920,750	7,100,747	7,432,445
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 477,611	\$ 691,226	\$ 560,836
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit			
Basic	\$ 1.25	\$ 2.51	\$ 2.35
Diluted	\$ 1.16	\$ 2.30	\$ 2.21
Weighted Average Common Units Outstanding			
Basic	381,092,394	274,910,628	238,503,257
Diluted	412,049,275	300,254,090	254,093,160

See notes to consolidated financial statements.

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Amounts in Thousands)

	For the Years Ended December 31,		
	2014	2013	2012
Net Income (Loss)	\$ 5,395,020	\$ 7,854,228	\$ 8,028,244
Other Comprehensive Income (Loss), Net of Tax:			
Foreign Currency Translation Adjustments	(37,119)	(4,642)	(5,571)
Comprehensive Income (Loss)	5,357,901	7,849,586	8,022,673
Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests	(3,341)	62,255	34,963
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	4,897,831	7,096,898	7,428,785
Comprehensive Income (Loss) Attributable to KKR & Co. L.P.	\$ 463,411	\$ 690,433	\$ 558,925

See notes to consolidated financial statements.

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.						
			Accumulated Other Comprehensive				
	Common Units	Partners' Capital	Income (Loss)	Noncontrolling Interests	Appropriated Capital	Total Equity	Redeemable Noncontrolling Interests
Balance at January 1, 2012	227,150,182	\$ 1,330,887	\$ (2,189)	\$ 36,080,445	\$	\$ 37,409,143	\$ 275,507
Net Income (Loss)		560,836		7,432,445		7,993,281	34,963
Other Comprehensive Income (Loss) Foreign Currency Translation (Net of Tax)			(1,911)	(3,660)		(5,571)	
Exchange of KKR Holdings L.P. Units and Other Exchangeable Securities to KKR & Co. L.P. Common Units	23,660,959	260,225	(337)	(259,888)			
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		3,480	(169)			3,311	
Net Delivery of Common Units Equity Incentive Plan	2,552,550	(12,316)				(12,316)	
Equity Based Compensation		62,877		337,330		400,207	
Capital Contributions				4,880,814		4,880,814	180,984
Capital Distributions		(197,024)		(9,528,955)		(9,725,979)	(28,890)
Balance at December 31, 2012	253,363,691	\$ 2,008,965	\$ (4,606)	\$ 38,938,531	\$	\$ 40,942,890	\$ 462,564
Net Income (Loss)		691,226		7,100,747		7,791,973	62,255
Other Comprehensive Income (Loss) Foreign Currency Translation (Net of Tax)			(793)	(3,849)		(4,642)	
Contributions of Net Assets of previously Unconsolidated Entities				294,767		294,767	
Exchange of KKR Holdings L.P. Units and Other Exchangeable Securities to KKR & Co. L.P. Common Units	28,184,258	333,804	(776)	(333,028)			
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		18,924	276			19,200	
Net Delivery of Common Units Equity Incentive Plan	6,595,378	(8,136)				(8,136)	
Equity Based Compensation		114,709		192,805		307,514	
Capital Contributions				7,475,577		7,475,577	176,503
Capital Distributions		(431,583)		(10,430,549)		(10,862,132)	(73,515)
Balance at December 31, 2013	288,143,327	\$ 2,727,909	\$ (5,899)	\$ 43,235,001	\$	\$ 45,957,011	\$ 627,807
Net Income (Loss)		477,611		4,929,337	(8,587)	5,398,361	(3,341)
Other Comprehensive Income (Loss) Foreign Currency Translation (Net of Tax)			(14,200)	(20,725)	(2,194)	(37,119)	
Exchange of KKR Holdings L.P. Units and Other Exchangeable Securities to KKR & Co. L.P. Common Units and other	27,228,991	332,479	(833)	(359,322)	27,676		
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		46,311	528			46,839	
Net Delivery of Common Units Equity Incentive Plan	9,952,634	(8,757)				(8,757)	

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Equity Based Compensation		158,927		151,476		310,403	
Acquisitions	108,005,588	2,453,610		435,478		2,889,088	
Capital Contributions				11,236,018		11,236,018	148,355
Capital Distributions		(784,995)		(13,602,886)		(14,387,881)	(472,723)
Balance at December 31, 2014	433,330,540	\$ 5,403,095	\$ (20,404)	\$ 46,004,377	\$ 16,895	\$ 51,403,963	\$ 300,098

See notes to consolidated financial statements.

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in Thousands)

	For the Years Ended December 31,		
	2014	2013	2012
Operating Activities			
Net Income (Loss)	\$ 5,395,020	\$ 7,854,228	\$ 8,028,244
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Equity Based Compensation	310,403	307,514	400,207
Net Realized (Gains) Losses on Investments	(5,433,586)	(3,909,432)	(5,202,664)
Change in Unrealized (Gains) Losses on Investments	655,354	(3,916,650)	(2,669,009)
Other Non-Cash Amounts	73,061	(95,961)	(36,939)
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Change in Cash and Cash Equivalents Held at Consolidated Entities	(166,275)	166,552	343,167
Change in Due from / to Affiliates	(3,368)	(25,314)	(31,789)
Change in Other Assets	(150,131)	248,330	35,185
Change in Accounts Payable, Accrued Expenses and Other Liabilities	(156,176)	578,724	254,976
Investments Purchased	(37,935,909)	(31,844,648)	(11,080,524)
Proceeds from Sale of Investments and Principal Payments	38,900,257	33,214,410	16,160,897
Net Cash Provided (Used) by Operating Activities	1,488,650	2,577,753	6,201,751
Investing Activities			
Change in Restricted Cash and Cash Equivalents	(10,849)	29,852	2,954
Purchase of Furniture, Computer Hardware and Leasehold Improvements	(12,163)	(14,396)	(36,966)
Development of Oil and Natural Gas Properties	(233,777)		
Proceeds from Sales of Oil and Natural Gas Properties	82,423		
Net Cash Acquired (Paid for Acquisitions)	151,491		(186,859)
Net Cash Provided (Used) by Investing Activities	(22,875)	15,456	(220,871)
Financing Activities			
Distributions to Partners	(784,995)	(431,583)	(197,024)
Distributions to Redeemable Noncontrolling Interests	(472,723)	(73,515)	(28,890)
Contributions from Redeemable Noncontrolling Interests	148,355	176,503	180,984
Distributions to Noncontrolling Interests	(13,602,886)	(10,430,549)	(9,490,586)
Contributions from Noncontrolling Interests	11,196,066	7,475,577	4,407,600
Net Delivery of Common Units Equity Incentive Plan	(8,757)	(8,136)	(12,316)
Proceeds from Debt Obligations	5,433,135	1,374,343	622,842
Repayment of Debt Obligations	(3,728,195)	(594,970)	(1,068,511)
Financing Costs Paid	(34,078)	(4,960)	(7,776)
Net Cash Provided (Used) by Financing Activities	(1,854,078)	(2,517,290)	(5,593,677)
Net Increase/(Decrease) in Cash and Cash Equivalents	(388,303)	75,919	387,203
Cash and Cash Equivalents, Beginning of Period	1,306,383	1,230,464	843,261
Cash and Cash Equivalents, End of Period	\$ 918,080	\$ 1,306,383	\$ 1,230,464

See notes to consolidated financial statements.

Table of Contents**KKR & CO. L.P.****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Amounts in Thousands)

	For the Years Ended December 31,		
	2014	2013	2012
Supplemental Disclosures of Cash Flow Information			
Payments for Interest	\$ 195,055	\$ 74,835	\$ 154,414
Payments for Income Taxes	\$ 47,138	\$ 81,419	\$ 95,948
Supplemental Disclosures of Non-Cash Investing and Financing Activities			
Non-Cash Contributions of Equity Based Compensation	\$ 310,403	\$ 307,514	\$ 400,207
Debt Obligations-Foreign Exchange Gains (Losses), Translation and Other	\$ 328,464	\$ (5,435)	\$ (4,159)
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units	\$ 46,839	\$ 19,200	\$ 3,311
Non-Cash Contributions from Noncontrolling Interests	\$ 39,952	\$	\$ 473,214
Non-Cash Distributions to Noncontrolling Interests	\$	\$	\$ 38,369
Equity Issued in Connection With Contingent Payment Obligation	\$ 84,051	\$	\$
Impairments of Oil and Natural Gas Properties	\$ 220,063	\$	\$
Gains on Sales of Oil and Natural Gas Properties	\$ 16,924	\$	\$
Net Assets Acquired			
Cash and Cash Equivalents Held at Consolidated Entities	\$ 765,231	\$	\$
Restricted Cash and Cash Equivalents	\$ 35,038	\$	\$ 753
Investments	\$ 9,225,660	\$	\$ 3,459
Other Assets	\$ 885,314	\$	\$ 272,440
Due to Affiliates	\$	\$	\$ 1,219
Debt Obligations	\$ 7,538,726	\$	\$
Accounts Payable, Accrued Expenses and Other Liabilities	\$ 616,979	\$	\$ 88,574
Contribution of Net Assets of Previously Unconsolidated Entities			
Investments	\$	\$ 294,767	\$

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

1. ORGANIZATION

KKR & Co. L.P. (NYSE:KKR), together with its consolidated subsidiaries ("KKR"), is a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world class people, and driving growth and value creation at the asset level. KKR invests its own capital alongside the capital it manages for fund investors and brings debt and equity investment opportunities to others through its capital markets business.

KKR & Co. L.P. was formed as a Delaware limited partnership on June 25, 2007 and its general partner is KKR Management LLC (the "Managing Partner"). KKR & Co. L.P. is the parent company of KKR Group Limited, which is the non-economic general partner of KKR Group Holdings L.P. ("Group Holdings"), and KKR & Co. L.P. is the sole limited partner of Group Holdings. Group Holdings holds a controlling economic interest in each of (i) KKR Management Holdings L.P. ("Management Holdings") through KKR Management Holdings Corp., a Delaware corporation which is a domestic corporation for U.S. federal income tax purposes, (ii) KKR Fund Holdings L.P. ("Fund Holdings") directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company which is a disregarded entity for U.S. federal income tax purposes, and (iii) KKR International Holdings L.P. ("International Holdings", and together with Management Holdings and Fund Holdings, the "KKR Group Partnerships") directly and through KKR Fund Holdings GP Limited. Group Holdings also owns certain economic interests in Management Holdings through a wholly owned Delaware corporate subsidiary of KKR Management Holdings Corp. and certain economic interests in Fund Holdings through a Delaware partnership of which Group Holdings is the general partner with a 99% economic interest and KKR Management Holdings Corp. is a limited partner with a 1% economic interest. KKR & Co. L.P., through its indirect controlling economic interests in the KKR Group Partnerships, is the holding partnership for the KKR business.

KKR & Co. L.P. both indirectly controls the KKR Group Partnerships and indirectly holds Class A partner units in each KKR Group Partnership (collectively, "KKR Group Partnership Units") representing economic interests in KKR's business. The remaining KKR Group Partnership Units are held by KKR Holdings L.P. ("KKR Holdings"), which is not a subsidiary of KKR. As of December 31, 2014, KKR & Co. L.P. held approximately 53.5% of the KKR Group Partnership Units and principals through KKR Holdings held approximately 46.5% of the KKR Group Partnership Units. The percentage ownership in the KKR Group Partnerships will continue to change as KKR Holdings and/or principals exchange units in the KKR Group Partnerships for KKR & Co. L.P. common units or when KKR & Co. L.P. otherwise issues new KKR & Co. L.P. common units.

For acquisitions KKR made during the years ended December 31, 2014, 2013 and 2012, see Note 14 "Acquisitions".

Table of Contents**Notes to Consolidated Financial Statements (Continued)****1. ORGANIZATION (Continued)**

The following table presents the effect of changes in the ownership interest in the KKR Group Partnerships on KKR:

	For the Years Ended December 31,		
	2014	2013	2012
Net income (loss) attributable to KKR & Co. L.P.	\$ 477,611	\$ 691,226	\$ 560,836
Transfers from noncontrolling interests:			
Exchange of KKR Group Partnership units held by KKR Holdings L.P.(a)	380,916	341,410	263,199
Change from net income (loss) attributable to KKR & Co. L.P. and transfers from noncontrolling interests held by KKR Holdings	\$ 858,527	\$ 1,032,636	\$ 824,035

(a) Increase in KKR's partners' capital for exchange of 27,172,269, 28,184,258 and 23,660,959 for the years ended December 31, 2014, 2013, and 2012, respectively, KKR Group Partnerships units held by KKR Holdings L.P., inclusive of deferred taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The accompanying consolidated financial statements (referred to hereafter as the "financial statements") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

KKR & Co. L.P. consolidates the financial results of the KKR Group Partnerships and their consolidated subsidiaries, which include the accounts of KKR's investment management and capital markets companies, the general partners of certain unconsolidated funds and vehicles, general partners of consolidated funds and their respective consolidated funds and certain other entities including certain CLOs. References in the accompanying financial statements to "principals" are to KKR's senior employees and non-employee operating consultants who hold interests in KKR's business through KKR Holdings, and references to "Senior Principals" are to KKR's senior employees who hold interests in the Managing Partner entitling them to vote for the election of the Managing Partner's directors.

All intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of fees, expenses and investment income (loss) during the reporting periods. Such estimates include but are not limited to the valuation of investments and financial instruments. Actual results could differ from those estimates, and such differences could be material to the financial statements.

Principles of Consolidation

The types of entities KKR assesses for consolidation include (i) subsidiaries, including management companies, broker-dealers and general partners of investment funds that KKR manages, (ii) entities

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

that have all the attributes of an investment company, like investment funds, (iii) CLOs and (iv) other entities, including entities that employ non-employee operating consultants. Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, KKR first considers whether an entity is considered a VIE and therefore whether to apply the consolidation guidance under the VIE model. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

The consolidation rules were revised effective January 1, 2010 which had the effect of changing the criteria for determining whether a reporting entity is the primary beneficiary of a VIE. However, the adoption of these new consolidation rules was indefinitely deferred (the "Deferral") for a reporting entity's interests in certain entities. In particular, entities that have all the attributes of an investment company such as investment funds generally meet the conditions necessary for the Deferral. Entities that are securitization or asset-backed financing entities such as CLOs would generally not qualify for the Deferral. Accordingly, when making the assessment of whether an entity is a VIE, KKR considers whether the entity being assessed meets the conditions for the Deferral and therefore would be subject to the rules that existed prior to January 1, 2010. Under both sets of rules, VIEs for which KKR is determined to be the primary beneficiary are consolidated and such VIEs generally include certain CLO vehicles and entities that employ non-employee operating consultants.

An entity in which KKR holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights.

With respect to VIEs such as KKR's investment funds that qualify for the Deferral and therefore apply the previous consolidation rules, KKR is determined to be the primary beneficiary if its involvement, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. In cases where two or more KKR related parties hold a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then KKR is determined to be the primary beneficiary to the extent it is the party within the related party group that is most closely associated with the VIE.

Under the voting interest model, KKR consolidates those entities it controls through a majority voting interest or through other means, including those VOEs in which the general partner is presumed to have control. KKR does not consolidate those VOEs in which the presumption of control by the general partner has been overcome through either the granting of substantive rights to the unaffiliated fund investors to either dissolve the fund or remove the general partner ("kick-out rights") or the granting of substantive participating rights.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE depends on the facts and circumstances surrounding each entity and therefore certain of KKR's investment funds may qualify as VIEs whereas others may qualify as VOEs.

With respect to KKR's consolidated funds that are not CLOs, KKR meets the criteria for the Deferral and therefore applies the consolidation rules that existed prior to January 1, 2010. For these funds, KKR generally has operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As a result, a fund should be consolidated unless KKR has a nominal level of equity at risk. To the extent that KKR commits a nominal amount of equity to a given fund and has no obligation to fund any future losses, the equity at risk to KKR is not considered substantive and the fund is typically considered a VIE. In these cases, the fund investors are generally deemed to be the primary beneficiaries, and KKR does not consolidate the fund. In cases when KKR's equity at risk is deemed to be substantive, the fund is generally considered to be a VOE and KKR generally consolidates the fund under the VOE model.

With respect to CLOs, which are generally VIEs, the criteria for the Deferral are not met and therefore KKR applies the consolidation rules issued on January 1, 2010. In its role as collateral manager, KKR generally has the power to direct the activities of the CLO entities that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through both its residual interest in the CLO and the potential to earn an incentive fee, may have variable interests that represent an obligation to absorb losses of, or a right to receive benefits from, the CLO that could potentially be significant to the CLO. In cases where KKR has both (a) the power to direct the activities of the CLO that most significantly impact the CLOs economic performance and (b) the obligation to absorb losses of the CLO or the right to receive benefits from the CLO that could potentially be significant to the CLO, KKR consolidates the CLO.

Certain of KKR's funds and CLOs are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds and CLOs. KKR's financial statements reflect the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR funds and CLOs on a gross basis, and the majority of the economic interests in those funds and CLOs, which are held by fund investors or other third parties, are attributed to noncontrolling interests or appropriated capital in the accompanying financial statements. All of the management fees and certain other amounts earned by KKR from those funds and CLOs are eliminated in consolidation. However, because the eliminated amounts are earned from and funded by noncontrolling interests, KKR's attributable share of the net income (loss) from those funds and CLOs is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR partners' capital.

KKR's funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments in portfolio companies even if majority-owned and controlled. Rather, the consolidated funds reflect their investments at fair value as described below in "Fair Value Measurements".

Variable Interest Entities Collateralized Loan Obligations

For the assets and liabilities of the consolidated CLO vehicles, KKR has elected the fair value option. KKR accounts for the difference between the fair value of the assets and the fair value of the liabilities of the consolidated CLOs in Net Gains (Losses) from Investment Activities in the

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

consolidated statements of operations. This amount is attributed to KKR and third party interest holders based on each beneficial holder's residual interest in the consolidated CLO vehicles. The amount attributed to third party interest holders is reflected in the consolidated statements of operations in Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital and in the consolidated statements of financial condition in Appropriated Capital within Equity. The amount is recorded as appropriated capital since the other holders of the CLOs' beneficial interests, not KKR, will receive the benefits or absorb the losses associated with their proportionate share of the CLOs' assets and liabilities. See section "Recently Issued Accounting Pronouncements" within this footnote.

Business Combinations

Acquisitions are accounted for using the acquisition method of accounting. The purchase price of an acquisition is allocated to the assets acquired and liabilities assumed using the estimated fair values at the acquisition date. Transaction costs are expensed as incurred.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired in connection with an acquisition. Goodwill is assessed for impairment annually or more frequently if circumstances indicate impairment may have occurred. Goodwill is recorded in Other Assets in the accompanying consolidated statements of financial condition.

Intangible Assets

Intangible assets consist primarily of contractual rights to earn future fee income, including management and incentive fees, and are recorded in Other Assets in the accompanying consolidated statements of financial condition. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives and amortization expense is included within General, Administrative and Other in the accompanying consolidated statements of operations. Intangible assets are reviewed for impairment when circumstances indicate impairment may exist. KKR does not have any indefinite-lived intangible assets.

Oil and Natural Gas Properties

KKR proportionally consolidates working and royalty interests in oil and natural gas producing properties, which as a result of the acquisition of KKR Financial Holdings LLC ("KFN") on April 30, 2014 became more significant.

Oil and natural gas producing activities are accounted for under the successful efforts method of accounting. Under this method, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. Costs that are associated with the drilling of successful exploration wells are capitalized if proved reserves are found. Lease acquisition costs are capitalized when incurred. Costs associated with the drilling of exploratory wells that do not find proved reserves, geological and geophysical costs and costs of certain nonproducing leasehold costs are charged to expense as incurred.

Expenditures for repairs and maintenance, including workovers, are charged to expense as incurred.

The capitalized costs of producing oil and natural gas properties are depleted on a field-by-field basis using the units-of production method based on the ratio of current production to estimated total

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

net proved oil, natural gas and natural gas liquid reserves. Proved developed reserves are used in computing depletion rates for drilling and development costs and total proved reserves are used for depletion rates of leasehold costs.

Estimated dismantlement and abandonment costs for oil and natural gas properties, net of salvage value, are capitalized at their estimated net present value and amortized on a unit-of-production basis over the remaining life of the related proved developed reserves.

Whenever events or changes in circumstances indicate that the carrying amounts of oil and natural gas properties may not be recoverable, KKR evaluates the proved oil and natural gas properties and related equipment and facilities for impairment on a field-by-field basis. The determination of recoverability is made based upon estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related asset. The significant Level III inputs associated with the calculation with the discounted cash flows used to determine fair value include, but are not limited to, estimates of proved and unproven reserves, future commodity pricing, future production estimates, anticipated capital expenditures, future operating costs and a discount rate commensurate with the risk on the properties and cost of capital. Unproved oil and natural gas properties are assessed periodically and, at a minimum, annually on a property-by-property basis, and any impairment in value is recognized when incurred and is recorded in General, Administrative, and Other expense in the consolidated statements of operations.

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment vehicles and funds that are subject to periodic redemption by fund investors following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee during the period when capital may not be otherwise withdrawn. Fund investors interests subject to redemption as described above are presented as Redeemable Noncontrolling Interests in the accompanying consolidated statements of financial condition and presented as Net Income (Loss) attributable to Redeemable Noncontrolling Interests in the accompanying consolidated statements of operations.

When redeemable amounts become legally payable to fund investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the accompanying consolidated statements of financial condition. For all consolidated investment vehicles and funds in which redemption rights have not been granted, noncontrolling interests are presented within Equity in the accompanying consolidated statements of financial condition as noncontrolling interests.

Noncontrolling Interests

Noncontrolling interests represent (i) noncontrolling interests in consolidated entities and (ii) noncontrolling interests held by KKR Holdings.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the non-redeemable ownership interests in KKR that are held primarily by:

- (i) third party fund investors in KKR's funds;

Table of Contents**Notes to Consolidated Financial Statements (Continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (ii) third parties holding an aggregate of 1% of the carried interest received by the general partners of KKR's funds and 1% of KKR's other profits (losses) until a future date;
- (iii) certain former principals and their designees representing a portion of the carried interest received by the general partners of KKR's private equity funds that was allocated to them with respect to private equity investments made during such former principals' previous tenure with KKR;
- (iv) certain principals and former principals representing all of the capital invested by or on behalf of the general partners of KKR's private equity funds prior to October 1, 2009 and any returns thereon;
- (v) third parties in KKR's capital markets business;
- (vi) holders of exchangeable equity securities representing ownership interests in a subsidiary of a KKR Group Partnership issued in connection with the acquisition of Avoca; and
- (vii) holders of the 7.375% Series A LLC Preferred Shares of KFN whose rights are limited to the assets of KFN.

Noncontrolling Interests held by KKR Holdings

Noncontrolling interests held by KKR Holdings include economic interests held by principals in the KKR Group Partnerships. Such principals receive financial benefits from KKR's business in the form of distributions received from KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. These financial benefits are not paid by KKR and are borne by KKR Holdings.

The following table presents the calculation of noncontrolling interests held by KKR Holdings:

	For the Years Ended December 31,		
	2014	2013	2012
Balance at the beginning of the period	\$ 5,116,761	\$ 4,981,864	\$ 4,342,157
Net income (loss) attributable to noncontrolling interests held by KKR Holdings(a)	585,135	1,056,126	1,116,740
Other comprehensive income (loss), net of tax(b)	(15,202)	(3,114)	(3,908)
Impact of the exchange of KKR Holdings units to KKR & Co. L.P. common units(c)	(357,551)	(333,028)	(259,888)
Equity based compensation	129,012	192,805	337,330
Capital contributions	30,402	31,553	31,477
Capital distributions	(826,878)	(809,445)	(582,044)
Balance at the end of the period	\$ 4,661,679	\$ 5,116,761	\$ 4,981,864

(a) Refer to the table below for calculation of Net income (loss) attributable to noncontrolling interests held by KKR Holdings.

(b)

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Calculated on a pro rata basis based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.

(c)

Calculated based on the proportion of KKR Holdings units exchanged for KKR & Co. L.P. common units pursuant to the exchange agreement during the reporting period. The exchange agreement provides for the exchange of KKR Group Partnership Units held by KKR Holdings for KKR & Co. L.P. common units.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net income (loss) attributable to KKR & Co. L.P. after allocation to noncontrolling interests held by KKR Holdings, with the exception of certain tax assets and liabilities that are directly allocable to KKR Management Holdings Corp., is attributed based on the percentage of the weighted average KKR Group Partnership Units held by KKR and KKR Holdings, each of which hold equity of the KKR Group Partnerships. However, primarily because of the (i) contribution of certain expenses borne entirely by KKR Holdings, (ii) the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement and (iii) the contribution of certain expenses borne entirely by KKR associated with the KKR & Co. L.P. 2010 Equity Plan ("Equity Incentive Plan"), equity allocations shown in the consolidated statement of changes in equity differ from their respective pro-rata ownership interests in KKR's net assets.

The following table presents net income (loss) attributable to noncontrolling interests held by KKR Holdings:

	For the Years Ended December 31,		
	2014	2013	2012
Net income (loss)	\$ 5,395,020	\$ 7,854,228	\$ 8,028,244
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	(3,341)	62,255	34,963
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities and appropriated capital	4,335,615	6,044,621	6,315,705
Plus: Income taxes attributable to KKR Management Holdings Corp.	28,806	15,387	28,599
Net income (loss) attributable to KKR & Co. L.P. and KKR Holdings	\$ 1,091,552	\$ 1,762,739	\$ 1,706,175
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	\$ 585,135	\$ 1,056,126	\$ 1,116,740

Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CLOs and other investments. Investments are carried at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, "Investments."

The following describes the types of securities held within each investment class.

Private Equity Consists primarily of equity investments in operating businesses.

Real Assets Consists primarily of investments in (i) energy related assets, principally oil and natural gas producing properties held through consolidated investment vehicles, (ii) infrastructure assets, and (iii) real estate, principally residential and commercial real estate assets and businesses.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

Investments of Consolidated CLOs Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLOs.

Other Consists primarily of i) investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit and investments of consolidated CLOs as well as ii) equity method investments.

Equity Method

Investments in which KKR is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Equity method investments include (i) certain investments in private equity funds, real assets funds and credit funds, which are not consolidated, and (ii) certain investments in operating companies in which KKR is deemed to exert significant influence. Under the equity method of accounting, KKR's share of earnings (losses) from equity method investments is reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Because the underlying investments of unconsolidated investment funds are reported at fair value, the carrying value of these equity method investments representing KKR's interests in unconsolidated funds approximates fair value. The carrying value of equity method investments in certain operating companies, which KKR is determined to exert significant influence, is determined based on the amounts invested by KKR, adjusted for the equity in earnings or losses of the investee allocated based on KKR's respective ownership percentage, less distributions. In some cases, KKR has elected the fair value option to account for certain of these equity investments.

KKR evaluates each of its equity method investments to determine if any were significant as defined by the guidance from the SEC. As of December 31, 2014 and 2013, KKR's equity method investments did not meet the significance criteria either on an individual or group basis. As such, presentation of separate financial statements for any of KKR's equity method investments or summarized financial information on an individual or group basis is not required.

Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of investments and other financial instruments are held by the consolidated funds and vehicles. KKR's funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value. KKR has retained the specialized accounting for the consolidated funds and vehicles in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by KKR's funds are reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations.

For investments and other financial instruments that are not held in a consolidated fund or vehicle, KKR has elected the fair value option since these investments and other financial instruments are similar to those in the consolidated funds and vehicles. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. Unrealized gains and losses resulting from changes in fair value are reflected as a component of Net Gains (Losses) from Investment Activities in

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the consolidated statements of operations. The methodology for measuring the fair value of such investments and other financial instruments is consistent with the methodologies applied to investments and other financial instruments that are held in consolidated funds and vehicles. In addition, KKR has elected the fair value option for the investments and debt obligations of consolidated CLO vehicles.

The carrying amounts of Other Assets, Accounts Payable, Accrued Expenses and Other Liabilities recognized on the consolidated statements of financial condition (excluding Fixed Assets, Goodwill, Intangible Assets, contingent consideration and certain debt obligations) approximate fair value due to their short term maturities. Further information on KKR's debt obligations are presented in Note 9, "Debt Obligations."

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgment, the degree of which is dependent on a variety of factors. See Note 5, "Fair Value Measurements" for further information on KKR's valuation techniques that involve unobservable inputs. Assets and liabilities recorded at fair value in the statements of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined under GAAP, are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets and liabilities. The hierarchical levels defined under GAAP are as follows:

Level I

Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The type of investments and other financial instruments included in this category are publicly-listed equities, debt and securities sold short.

Level II

Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The type of investments and other financial instruments included in this category are credit investments, investments of consolidated CLOs, convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private portfolio companies, real assets investments and credit investments for which a sufficiently liquid trading market does not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

to the fair value measurement in its entirety. KKR's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset.

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by KKR in determining fair value is greatest for instruments categorized in Level III. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels I, II, and III, which KKR recognizes at the beginning of the reporting period.

Investments and other financial instruments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price.

Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

Level II Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of credit investments, investments of consolidated CLOs, convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

Credit investments and investments of consolidated CLOs: These investments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an asset. Ask prices represent the lowest price that KKR and others are willing to accept for an asset. For financial assets and liabilities whose inputs are based on bid-ask prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. KKR's policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets KKR's best estimate of fair value.

Securities indexed to publicly listed securities: The securities are typically valued using standard convertible security pricing models. The key inputs into these models that require some amount of judgment are the credit spreads utilized and the volatility assumed. To the extent the company being valued has other outstanding debt securities that are publicly-traded, the implied credit spread on the company's other outstanding debt securities would be utilized in the valuation. To the extent the company being valued does not have other outstanding debt securities that are publicly-traded, the

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

credit spread will be estimated based on the implied credit spreads observed in comparable publicly-traded debt securities. In certain cases, an additional spread will be added to reflect an illiquidity discount due to the fact that the security being valued is not publicly-traded. The volatility assumption is based upon the historically observed volatility of the underlying equity security into which the convertible debt security is convertible and/or the volatility implied by the prices of options on the underlying equity security.

Restricted Equity Securities: The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Derivatives: The valuation incorporates observable inputs comprising yield curves, foreign currency rates and credit spreads.

Level III Valuation Methodologies

Financial assets and liabilities categorized as Level III consist primarily of the following:

Private Equity Investments: KKR generally employs two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market comparables analysis that considers key financial inputs and recent public and private transactions and other available measures. The second methodology utilized is typically a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Other inputs are also used in both methodologies. However, when a definitive agreement has been executed to sell an investment, KKR generally considers a significant determinant of fair value to be the consideration to be received by KKR pursuant to the executed definitive agreement.

Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies, except that the value may be higher or lower than such range in the case of investments being sold pursuant to an executed definitive agreement.

When determining the weighting ascribed to each valuation methodology, KKR considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis, the expected hold period and manner of realization for the investment, and in the case of investments being sold pursuant to an executed definitive agreement, the probability of such sale being completed. These factors can result in different weightings among investments in the portfolio and in certain instances may result in up to a 100% weighting to a single methodology. Across the Level III private equity investment portfolio, approximately 58.3% of the fair value is derived from investments that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of the Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis.

When an illiquidity discount is to be applied, KKR seeks to take a uniform approach across its portfolio and generally applies a minimum 5% discount to all private equity investments. KKR then evaluates such private equity investments to determine if factors exist that could make it more

Table of Contents**Notes to Consolidated Financial Statements (Continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

challenging to monetize the investment and, therefore, justify applying a higher illiquidity discount. These factors generally include (i) whether KKR is unable to sell the portfolio company or conduct an initial public offering of the portfolio company due to the consent rights of a third party or similar factors, (ii) whether the portfolio company is undergoing significant restructuring activity or similar factors and (iii) characteristics about the portfolio company regarding its size and/or whether the portfolio company is experiencing, or expected to experience, a significant decline in earnings. These factors generally make it less likely that a portfolio company would be sold or publicly offered in the near term at a price indicated by using just a market multiples and/or discounted cash flow analysis, and these factors tend to reduce the number of opportunities to sell an investment and/or increase the time horizon over which an investment may be monetized. Depending on the applicability of these factors, KKR determines the amount of any incremental illiquidity discount to be applied above the 5% minimum, and during the time KKR holds the investment, the illiquidity discount may be increased or decreased, from time to time, based on changes to these factors. The amount of illiquidity discount applied at any time requires considerable judgment about what a market participant would consider and is based on the facts and circumstances of each individual investment. Accordingly, the illiquidity discount ultimately considered by a market participant upon the realization of any investment may be higher or lower than that estimated by KKR in its valuations.

Real Assets Investments: Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Infrastructure investments are generally valued using the discounted cash flow analysis. Key inputs used in this methodology include the weighted average cost of capital and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Energy investments are generally valued using a discounted cash flow analysis. Key inputs used in this methodology that require estimates include commodity price forecasts and the weighted average cost of capital. Certain energy investments do not include a minimum illiquidity discount. In addition, the valuations of energy investments generally incorporate both commodity prices as quoted on indices and long-term commodity price forecasts, which may be substantially different from, and are currently higher than, commodity prices on certain indices for equivalent future dates. Long-term commodity price forecasts are utilized to capture the value of the investments across a range of commodity prices within the energy investment portfolio associated with future development and to reflect price expectations that are estimated to be required to balance demand and production in global commodity markets over the long-term. Real estate investments are generally valued using a combination of direct income capitalization and discounted cash flow analysis. Key inputs used in such methodologies that require estimates include an unlevered discount rate and current capitalization rate, and certain real estate investments do not include a minimum illiquidity discount. The valuations of real assets investments also use other inputs.

Credit Investments: Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are valued by KKR based on ranges of valuations determined by an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

Other Investments: With respect to other investments including equity method, KKR generally employs the same valuation methodologies as described above for private equity investments when valuing these other investments.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

CLO Debt Obligations: Collateralized loan obligation senior secured and subordinated notes are initially valued at transaction price and are subsequently valued using a third party valuation service. The approach used to estimate the fair values is the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. Debt obligations are discounted based on the appropriate yield curve given the loan's respective maturity and credit rating. The most significant inputs to the valuation of these instruments are default and loss expectations and discount margins.

Key unobservable inputs that have a significant impact on KKR's Level III investment valuations as described above are included in Note 5 "Fair Value Measurements." KKR utilizes several unobservable pricing inputs and assumptions in determining the fair value of its Level III investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of KKR's valuation methodologies. KKR's reported fair value estimates could vary materially if KKR had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if KKR only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

Level III Valuation Process

The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review. KKR has a Private Markets valuation committee for private equity and real assets investments and a valuation committee for credit (including investments held by consolidated CLOs) and other investments. The Private Markets valuation committee may be assisted by subcommittees for example in the valuation of real estate investments. Each of the Private Markets valuation committee and the credit valuation committee is assisted by a valuation team, which, except as noted below, is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of the investments being valued. The valuation teams for energy, infrastructure and real estate investments include investment professionals who participate in the preparation of preliminary valuations and oversight for those investments. The valuation committees and teams are responsible for coordinating and consistently implementing KKR's quarterly valuation policies, guidelines and processes. For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed with the investment professionals by the applicable valuation team and are also reviewed by an independent valuation firm engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations annually for all Level III investments in Private Markets and quarterly for investments other than certain investments, which fall below pre-set value thresholds and which in the aggregate comprise less than 5% of the total value of KKR's Level III Private Markets investments. For most investments classified as Level III in Public Markets, in general, an independent valuation firm is engaged by KKR to provide third party valuations, or ranges of valuations from which KKR's investment professionals select a preliminary valuation, or an independent valuation firm is engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations. All preliminary valuations in Private Markets and Public Markets are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to the firm's management committee. When these valuations are approved by this committee after reflecting any

Table of Contents**Notes to Consolidated Financial Statements (Continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of KKR's board of directors and are then reported on to the board of directors.

Fees and Other

Fees and other consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles, and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants.

For the years ended December 31, 2014, 2013 and 2012, fees and other consisted of the following:

	For the Years Ended December 31,		
	2014	2013	2012
Transaction Fees	\$ 425,019	\$ 287,387	\$ 237,089
Management Fees	215,266	177,961	98,144
Oil and Gas Revenue	186,876	22,105	
Monitoring Fees	190,584	161,796	146,443
Consulting Fees	41,573	47,930	46,215
Incentive Fees	50,690	65,367	40,551
Total Fees and Other	\$ 1,110,008	\$ 762,546	\$ 568,442

All fees presented in the table above, except for oil and gas revenue, are earned from KKR investment funds, vehicles and portfolio companies. Consulting fees are earned by entities that employ non-employee operating consultants, which are consolidated by KKR but whose fees are not shared with KKR.

Transaction Fees

Transaction fees are earned by KKR primarily in connection with successful investment transactions and capital markets activities. Transaction fees are recognized upon closing of the transaction. Fees are typically paid on or shortly after the closing of a transaction.

In connection with pursuing successful portfolio company investments, KKR receives reimbursement for certain transaction-related expenses. Transaction-related expenses, which are reimbursed by third parties, are typically deferred until the transaction is consummated and are recorded in Other Assets on the consolidated statements of financial condition on the date incurred. The costs of successfully completed transactions are borne by the KKR investment funds and included as a component of the investment's cost basis. Subsequent to closing, investments are recorded at fair value each reporting period as described in the section above titled "Investments". Upon reimbursement from a third party, the cash receipt is recorded and the deferred amounts are relieved. No fees or expenses are recorded for these reimbursements.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Fees

Management fees are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement. Management fees earned from private equity funds and certain investment vehicles are based upon a percentage of capital committed or capital invested during the investment period, and thereafter generally based on remaining invested capital or net asset value. For certain other investment vehicles, CLOs, and separately managed accounts, management fees are recognized in the period during which the related services are performed and are based upon the net asset value, gross assets or as otherwise defined in the respective agreements.

Management fees received from KKR's consolidated funds and vehicles are eliminated in consolidation. However, because these amounts are funded by, and earned from, noncontrolling interests, KKR's allocated share of the net income from KKR's consolidated funds and vehicles is increased by the amount of fees that are eliminated. Accordingly, the elimination of these fees does not have an effect on the net income (loss) attributable to KKR or KKR partners' capital.

Private Equity Funds

For KKR's consolidated and unconsolidated private equity funds, gross management fees generally range from 1% to 2% of committed capital during the fund's investment period and is generally 0.75% to 1.25% of invested capital after the expiration of the fund's investment period with subsequent reductions over time. Typically, an investment period is defined as a period of up to six years. The actual length of the investment period may be shorter based on the timing and deployment of committed capital.

Certain of KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, a liability to the fund's limited partners is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the cash management fees earned. The refunds to the limited partners are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover all or a portion of the amount that represents 20% of the earned cash management fees, these fees would not be returned to the funds' limited partners, in accordance with the respective fund agreements.

Other Investment Vehicles

Certain other investment vehicles that invest capital in real assets, credit and hedge fund strategies provide for management fees determined quarterly based on an annual rate generally ranging from 0.5% to 1.5%. Such rate may be based on the investment vehicles' average net asset value, capital commitments, or invested capital.

CLOs

KKR's management agreements for its CLO vehicles provide for senior collateral management fees and subordinate collateral management fees. Senior collateral management fees are determined based on an annual rate ranging from 0.15% to 0.20% of collateral and subordinate collateral management

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

fees are determined based on an annual rate ranging from 0.30% to 0.35% of collateral. If amounts distributable on any payment date are insufficient to pay the collateral management fees according to the priority of payments, any shortfall is deferred and payable on subsequent payment dates. KKR has the right to waive all or any portion of any collateral management fee. For the purpose of calculating the collateral management fees, collateral, the payment dates, and the priority of payments are terms defined in the management agreements.

Oil and Gas Revenue Recognition

Oil and gas revenues are recognized when production is sold to a purchaser at fixed or determinable prices, when delivery has occurred and title has transferred and collectability of the revenue is reasonably assured. The oil and gas producing entities consolidated by KKR follow the sales method of accounting for natural gas revenues. Under this method of accounting, revenues are recognized based on volumes sold, which may differ from the volume to which the entity is entitled based on KKR's working interest. An imbalance is recognized as a liability only when the estimated remaining reserves will not be sufficient to enable the under-produced owners to recoup their entitled share through future production. Under the sales method, no receivables are recorded when these entities have taken less than their share of production and no payables are recorded when it has taken more than its share of production unless reserves are not sufficient.

Monitoring Fees

Monitoring fees are earned by KKR for services provided to portfolio companies and are recognized as services are rendered. These fees are generally paid based on a fixed periodic schedule by the portfolio companies either in advance or in arrears and are separately negotiated for each portfolio company.

In connection with the monitoring of portfolio companies and certain unconsolidated funds, KKR receives reimbursement for certain expenses incurred on behalf of these entities. Costs incurred in monitoring these entities are classified as general, administrative and other expenses and reimbursements of such costs are classified as monitoring fees. In addition, certain monitoring fee provisions may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

Consulting Fees

Consulting fees are earned by certain consolidated entities that employ non-employee operating consultants from providing advisory and other services to portfolio companies and other companies and are recognized as the services are rendered. These fees are separately negotiated with each company for which services are provided and are not shared with KKR.

Incentive Fees

Incentive fees earned on the performance of certain hedge fund structures are recognized based on fund performance, subject to the achievement of minimum return levels, and/or high water marks, in accordance with the respective terms set out in each fund's governing agreements. Incentive fee rates generally range from 5% to 20%. KKR does not record performance-based incentive fees until the end of each fund's measurement period (which is generally one year) when the performance-based incentive fees become fixed and determinable.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Income

Investment income consists primarily of the net impact of:

- (i) Realized and unrealized gains and losses on investments, securities sold short and debt obligations of consolidated CLOs which are recorded in Net Gains (Losses) from Investment Activities.
- (ii) Foreign exchange gains and losses relating to mark-to-market activity on foreign exchange forward contracts, foreign currency options and foreign denominated debt which are recorded in Net Gains (Losses) from Investment Activities.
- (iii) Dividends, which are recognized on the ex-dividend date, or in the absence of a formal declaration, on the date it is received.
- (iv) Interest income, which is recognized as earned.
- (v) Interest expense, which is recognized as incurred. In addition to these interest costs, KKR capitalizes debt financing costs incurred in connection with new debt arrangements. Such costs are amortized into interest expense using either the interest method or the straight-line method, as appropriate.

Unrealized gains or losses result from changes in fair value of investments during the period and are included in Net Gains (Losses) from Investment Activities. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and a realized gain or loss is recognized.

Carried Interest

Carried interest entitles the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interest are included as investment income (loss) in Net Gains (Losses) from Investment Activities in the consolidated statements of operations and are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as investment losses in Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Carried interest is recognized based on the contractual formula set forth in the agreements governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of KKR's private equity funds and other investment vehicles, KKR believes that this approach results in income recognition that best reflects the periodic performance of KKR in the management of those funds. For funds that are consolidated, all investment income (loss), including the portion of a funds' investment income (loss) that is allocable to KKR's carried interest, is included in investment income (loss) on the consolidated statements of operations. The carried interest that KKR retains in net income (loss) attributable to KKR & Co. L.P. is reflected as an adjustment to net income (loss) attributable to noncontrolling interests. See Note 13 "Segment Reporting" for the amount of carried interest income earned or reversed for years ended December 31, 2014, 2013 and 2012.

The agreements governing KKR's private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

may require the general partner to return or contribute amounts to the fund for distribution to fund investors at the end of the life of the fund. See Note 16 "Commitments and Contingencies".

Compensation and Benefits

Compensation and Benefits expense includes cash compensation consisting of salaries, bonuses, and benefits, as well as equity based compensation consisting of charges associated with the vesting of equity-based awards and carry pool allocations.

All KKR employees and employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as Compensation and Benefits expense in the consolidated statements of operations. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain of KKR's principals are currently borne by KKR Holdings. These bonuses are funded with distributions that KKR Holdings receives on KKR Group Partnership Units held by KKR Holdings but are not then passed on to holders of unvested units of KKR Holdings. Because KKR principals are not entitled to receive distributions on units that are unvested, any amounts allocated to principals in excess of a principal's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges are recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings at the time of the distribution.

Further disclosure regarding equity based compensation is presented in Note 11 "Equity Based Compensation."

Carry Pool Allocation

With respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR allocates to its employees and employees of certain consolidated entities a portion of the carried interest earned in relation to these funds as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in Accounts Payable, Accrued Expenses and Other Liabilities within the accompanying consolidated statements of financial condition in conjunction with the related carried interest income and recorded as compensation expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations. See Note 13 "Segment Reporting" for the amount of carry pool allocation expense recognized for the years ended December 31, 2014, 2013 and 2012.

Profit Sharing Plan

KKR provides certain profit sharing programs for KKR employees and other eligible personnel. In particular, KKR provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain professionals who are participants in the Plan, KKR may, in its discretion, contribute an amount after the end of the Plan year. For the years ended December 31, 2014, 2013 and 2012, KKR incurred expenses of \$6.9 million, \$7.7 million and \$6.5 million, respectively, in connection with the Plan.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General, Administrative and Other

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges, changes in fair value of contingent consideration, expenses incurred by oil and gas-producing entities (including impairment charges) that are consolidated and other general and operating expenses which are not borne by fund investors and are not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds. General, administrative and other expense also consists of costs incurred in connection with pursuing potential investments that do not result in completed transactions, a substantial portion of which are borne by fund investors.

Foreign Currency

Consolidated entities which have a functional currency that differs from KKR's reporting currency are primarily KKR's investment management and capital markets companies located outside the United States. Foreign currency denominated assets and liabilities are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included as a component of accumulated other comprehensive income (loss) until realized. Foreign currency income or expenses resulting from transactions outside of the functional currency of a consolidated entity are recorded as incurred in general, administrative and other expense in the consolidated statements of operations.

Derivatives

Derivative contracts include forward, swap and option contracts related to foreign currencies and credit standing of reference entities to manage foreign exchange risk and credit risk arising from certain assets and liabilities. All derivatives are recognized in Other Assets or Accounts Payable, Accrued Expenses and Other Liabilities and are presented gross in the consolidated statements of financial condition and measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying consolidated statements of operations. KKR's derivative financial instruments contain credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. KKR attempts to minimize this risk by limiting its counterparties to major financial institutions with strong credit ratings.

Securities Sold Short

Whether part of a hedging transaction or a transaction in its own right, securities sold short represent obligations of KKR to deliver the specified security at the contracted price at a future point in time, and thereby create a liability to repurchase the security in the market at the prevailing prices. The liability for such securities sold short, which is recorded in Accounts Payable, Accrued Expenses and Other Liabilities in the statement of financial condition, is marked to market based on the current fair value of the underlying security at the reporting date with changes in fair value recorded as unrealized gains or losses in Net Gains (Losses) from Investment Activities in the accompanying consolidated statements of operations. These transactions may involve market risk in excess of the amount currently reflected in the accompanying consolidated statements of financial condition.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

KKR considers all highly liquid short-term investments with original maturities of 90 days or less when purchased to be cash equivalents.

Cash and Cash Equivalents Held at Consolidated Entities

Cash and cash equivalents held at consolidated entities represents cash that, although not legally restricted, is not available to fund general liquidity needs of KKR as the use of such funds is generally limited to the investment activities of KKR's investment funds and CLOs.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents primarily represent amounts that are held by third parties under certain of KKR's financing and derivative transactions.

Due from and Due to Affiliates

KKR considers its principals and their related entities, unconsolidated funds and the portfolio companies of its funds to be affiliates. Receivables from and payables to affiliates are recorded at their current settlement amount.

Fixed Assets, Depreciation and Amortization

Fixed assets consist primarily of leasehold improvements, furniture and computer hardware. Such amounts are recorded at cost less accumulated depreciation and amortization and are included in Other Assets within the accompanying consolidated statements of financial condition. Depreciation and amortization are calculated using the straight-line method over the assets' estimated economic useful lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, and three to seven years for other fixed assets.

Comprehensive Income (Loss)

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from contributions from and distributions to owners. In the accompanying consolidated financial statements, comprehensive income represents Net Income (Loss), as presented in the consolidated statements of operations and net foreign currency translation adjustments.

Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit

Basic Income (Loss) Attributable to KKR per common unit is calculated by dividing Net Income (Loss) Attributable to KKR by the weighted-average number of common units outstanding for the period. Diluted Income (Loss) Attributable to KKR per common unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Attributable to KKR per common unit excludes the anti-dilutive effect of KKR Holdings units, which are exchangeable on a one-for-one basis into common units of KKR & Co. L.P. The KKR Holdings units are excluded from the diluted calculation since the exchange of these units would not dilute KKR's respective ownership interests in the KKR Group Partnerships.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The consolidated entities of KKR are generally treated as partnerships or disregarded entities for U.S. and non-U.S. tax purposes. However, certain consolidated subsidiaries are treated as corporations for U.S. and non-U.S. tax purposes and are therefore subject to U.S. federal, state and/or local income taxes at the entity-level. In addition, certain consolidated entities which are treated as partnerships for U.S. tax purposes are subject to the New York City Unincorporated Business Tax or other local taxes.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets, which are recorded in Other Assets within the statement of financial condition, are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

For a particular tax-paying component of an entity and within a particular tax jurisdiction, deferred tax assets and liabilities are offset and presented as a single amount within Other Assets or Accounts Payable, Accrued and Other Liabilities, as applicable, in the accompanying statements of financial position.

KKR analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, KKR determines that uncertainties in tax positions exist, a reserve is established. KKR recognizes accrued interest and penalties related to uncertain tax positions within the provision for income taxes in the consolidated statements of operations.

KKR records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Recently Issued Accounting Pronouncements

Foreign Currency Matters

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters," which indicates that the entire amount of a cumulative translation adjustment related to an entity's investment in a foreign entity should be released when there has been a (i) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, (ii) loss of a controlling financial interest in an investment in a foreign entity, or (iii) step acquisition for a foreign entity. This guidance was effective as of January 1, 2014. The adoption of this guidance did not have a material impact on KKR's financial statements.

Amendments to Investment Company Scope, Measurement, and Disclosures

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies Topic 946 ("ASU 2013-08") which amends the scope, measurement, and disclosure requirements for investment

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

companies. ASU 2013-08 (i) amends the criteria for an entity to qualify as an investment company, (ii) requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and (iii) introduces new disclosure requirements. This guidance was effective as of January 1, 2014. The adoption of this guidance did not have a material impact on KKR's financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers Topic 606 ("ASU 2014-09") which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Revenue recorded under ASU 2014-09 will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for KKR's fiscal year beginning January 1, 2017 and early adoption is not permitted. KKR is currently evaluating the impact the adoption of this guidance may have on its consolidated financial statements, including with respect to the timing of the recognition of carried interest.

Measurement of Financial Assets and Liabilities Consolidated Collateralized Financing Entities

In August 2014, the FASB issued ASU 2014-13, "Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity" ("CFE"), such as CLOs. This standard provides that an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE should be measured on the basis of either the fair value of the CFE's financial assets or financial liabilities, whichever is more observable. The effective date of the consensus will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption will be permitted. KKR is currently evaluating the impact on its consolidated financial statements.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

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Notes to Consolidated Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives and Hedging

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16"). The guidance in ASU 2014-16 states that implied substantive terms and features of a hybrid financial instrument issued in the form of a stock should weigh each term and feature on the basis of relevant facts and circumstances. An entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. ASU 2014-16 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The guidance in ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and also eliminates the consolidation model specific to limited partnerships. The amendments also clarify how to treat fees paid to an asset manager or other entity that makes the decisions for the investment vehicle and whether they should be considered in determining when a variable interest entity should be reported on an asset manager's balance sheet. ASU 2015-02 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted. KKR is currently evaluating the impact on its consolidated financial statements but expects to deconsolidate certain investment funds, vehicles and entities upon adoption of this guidance.

3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

Net Gains (Losses) from Investment Activities in the consolidated statements of operations consist primarily of the realized and unrealized gains and losses on investments (including foreign exchange gains and losses attributable to foreign denominated investments and related activities) and other financial instruments, including those for which the fair value option has been elected. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments during a period. Upon disposition of an investment or financial instrument, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES (Continued)**

The following table summarizes total Net Gains (Losses) from Investment Activities for the years ended December 31, 2014, 2013 and 2012, respectively:

	For the Years Ended December 31,					
	2014		2013		2012	
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)
Private Equity(a)	\$ 4,985,786	\$ (399,593)	\$ 3,664,219	\$ 4,052,553	\$ 4,947,661	\$ 2,988,494
Credit and Other(a)	323,676	(229,004)	351,417	182,752	240,831	241,066
Investments of Consolidated CLOs(a)	15,921	(237,199)				
Real Assets(a)	225,497	(548,788)	15,868	(64,667)	54,724	(309,620)
Foreign Exchange Forward Contracts and Options(b)	(10,620)	787,682	17,760	(235,794)	2,688	(175,927)
Securities Sold Short(b)	(59,071)	21,057	(105,513)	(19,205)	(31,557)	(4,978)
Other Derivatives(b)	(34,319)	(15,384)	(24,223)	(2,030)	(11,746)	(9,322)
Contingent Carried Interest Repayment Guarantee						(55,937)
Foreign Exchange Gains (Losses) and Other(c)	(13,284)	(34,125)	(10,096)	3,041	63	(4,767)
Total Net Gains (Losses) from Investment Activities	\$ 5,433,586	\$ (655,354)	\$ 3,909,432	\$ 3,916,650	\$ 5,202,664	\$ 2,669,009

(a) See Note 4 "Investments."

(b) See Note 7 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."

(c) Foreign Exchange Gains (Losses) includes foreign exchange gains (losses) on debt obligations, cash and cash equivalents, and cash and cash equivalents held at consolidated entities.

4. INVESTMENTS

Investments consist of the following:

	Carrying Value		Cost	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Private Equity	\$ 38,222,255	\$ 37,439,659	\$ 29,317,314	\$ 27,613,803
Credit	6,702,740	5,023,253	6,906,583	4,841,913
Investments of Consolidated CLOs	8,559,967		8,815,286	
Real Assets	3,130,404	2,789,639	5,354,191	4,945,958

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Other	3,552,260	2,131,146	3,182,917	1,796,126
Total Investments	\$ 60,167,626	\$ 47,383,697	\$ 53,576,291	\$ 39,197,800

As of December 31, 2014, investments which represented greater than 5% of total investments consisted of Walgreens Boots Alliance Inc. of \$5.5 billion and First Data Corporation of \$3.8 billion. As of December 31, 2013, investments which represented greater than 5% of total investments consisted of Walgreens Boots Alliance Inc. of \$4.6 billion. In addition, as of December 31, 2014 and 2013,

Table of Contents**Notes to Consolidated Financial Statements (Continued)****4. INVESTMENTS (Continued)**

investments totaling \$11.4 billion and \$3.3 billion, respectively, were pledged as direct collateral against various financing arrangements. See Note 9 "Debt Obligations."

The following table represents private equity investments by industry as of December 31, 2014 and 2013, respectively:

	Fair Value	
	December 31, 2014	December 31, 2013
Health Care	\$ 10,269,605	\$ 8,480,933
Financial Services	5,691,815	