

KKR: When scale becomes the story

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On August 5, KKR & Co. filed its second-quarter Form 10-Q. The results gave investors two stories to reconcile. The firm reported nearly \$800 billion in assets under management (AUM), record fee-related earnings (FRE), and strong growth across several company-defined earnings measures. At the same time, the quarter's numbers combined new fundraising, an acquisition, changes in asset values, insurance earnings, investment realizations, and a change in where one category of performance revenue appeared.

An outside investor preparing a strategic-quality assessment had to decide what the evidence said about KKR's platform. Did the wider mix of fee-paying assets and businesses make earnings more durable? Or did the latest growth figures leave too much uncertainty about investment performance, the source of capital growth, and how much "recurring" meant in practice? A third reading was possible: diversification might make the firm more resilient while adding complexity that investors needed to monitor.

This is a strategic assessment, not a valuation exercise. The evidence below is limited to information public by August 5, 2026. Company forecasts and characterizations are identified as such.

A firm built across three earnings engines

KKR reported three segments: Asset Management, Insurance (Global Atlantic), and Strategic Holdings. Management describes the combined platform as drawing on investing, capital-allocation, and collaborative capabilities. The businesses, however, earn money in different ways. Asset Management receives management fees and other revenues tied to funds and vehicles, and may earn performance-related revenues. Global Atlantic earns a spread between investment returns and policyholder costs, subject to insurance capital, liquidity, and regulatory requirements. Strategic Holdings has a portfolio of investments and operating businesses.

At June 30, 2026, KKR reported \$796.487 billion of AUM and \$638.403 billion of fee-paying AUM (FPAUM). AUM included \$220 billion attributed to Global Atlantic. KKR's AUM definition also includes categories that are not all fee-paying, such as certain unfunded commitments, CLO par value, and assets sponsored or managed through third-party vehicles. FPAUM is closer to the assets used to calculate certain fees, but it is not cash collected, investment value, or client return. [P1, pp. 102-109; P2, pp. 23-24]

For the six months from year-end 2025, AUM grew from \$743.858 billion to \$796.487 billion. The company's bridge showed \$62.075 billion of new capital, \$15.996 billion acquired with Arctos, \$16.131 billion of value change, and \$41.573 billion of distributions and other reductions. FPAUM rose from \$604.144 billion to \$638.403 billion, with \$55.033 billion of new

capital, \$10.084 billion acquired, \$4.518 billion of value change, and \$35.376 billion of distributions and other reductions. The bridge separates several sources of change, but does not make headline AUM growth equivalent to organic fundraising or investment returns. “Distributions and other” combines items. [P1, “Operating and Capital Metrics”; P2, pp. 23-24]

The distinction matters for an asset manager. New capital can support future fee revenue, but it does not establish net client returns or retention. Acquired assets add scale, but their future contribution depends on integration, economics, and whether clients and investment teams remain. Higher asset values can lift AUM without new commitments. Distributions reduce reported assets even when they represent capital returned to clients.

What grew in the quarter?

In Q2 2026, KKR reported FRE of \$1.214 billion, compared with \$886.8 million a year earlier, a reported increase of 37%. Total operating earnings (TOE) were \$1.539 billion, up 29%; adjusted net income (ANI) was \$1.493 billion, up 40%. LTM FRE was \$4.2 billion, up 19%. GAAP net income attributable to common shareholders was \$660.1 million. FRE, TOE, and ANI are company-defined non-GAAP measures, and their definitions differ from GAAP net income. KKR said 84% of LTM segment earnings came from the “more durable and recurring” portions. That is management’s characterization, not a GAAP category or an independently measured persistence rate. [P1, pp. 107-109, 110-148; P2, pp. 2-4]

One classification change complicates comparison. Beginning in Q2 2026, KKR included approximately \$160 million of K-Series private-equity performance revenue in fee-related performance revenue within FRE. Approximately \$80 million had been reported as net realized performance income in Q2 2025. KKR did not recast the prior period and said the change did not affect total segment revenue, total segment earnings, GAAP net income, or ANI. Thus the reported FRE growth rate compares periods with a different classification for this revenue; public information at the cutoff did not supply a recast comparison. [P1, “Analysis of Asset Management Segment Operating Results,” p. 141; P2, p. 3]

KKR defines fee-related performance revenue as realized performance fees expected to recur from certain indefinite-term AUM, where payment does not depend on realization of the fund’s underlying investments. FRE therefore includes more than management fees. TOE combines FRE with Insurance Operating Earnings and Strategic Holdings Operating Earnings. The metrics can help describe management’s view of the platform, but interpreting them requires attention to their components and definitions. [P1, “Analysis of Non-GAAP Performance Measures,” pp. 107-109]

Fund activity was also mixed. KKR reported \$34.325 billion of new capital raised and \$24.159 billion invested in Q2. LTM figures were \$133 billion raised and \$104 billion invested. The company also described strong monetization and client return of capital. Fundraising, investment deployment, realizations, and distributions describe different stages of the business; none alone establishes client-level performance across the platform. [P1, “Operating and Capital Metrics”; P2, capital metrics]

Insurance adds a different kind of scale

Global Atlantic reported Q2 Insurance Operating Earnings of \$288.220 million, compared with \$277.932 million in Q2 2025. KKR attributed the increase to a larger average asset base, investment realizations, and higher portfolio yields, partly offset by higher costs associated with new business and higher crediting rates. New-business volumes were lower year over year: individual retirement-product sales were \$2.293 billion versus \$3.160 billion, and institutional-channel volume was \$1.224 billion versus \$3.819 billion. KKR cautioned that institutional blocks and funding-agreement activity can be episodic and market-dependent. [P1, pp. 103, 140; P2, insurance segment detail]

This business can diversify earnings, but it is not simply another pool of fee-paying fund assets. Its spread depends on investment returns relative to policyholder obligations and is accompanied by asset-liability, reserve, liquidity, capital, and regulatory considerations. Stronger insurance operating earnings and lower new-business volume can coexist; neither fact alone resolves the durability question. [P1, “Analysis of Insurance Segment Operating Results”; P3, Items 1 and 1A]

Two research lenses, with limits

Kaplan and Schoar examined private-equity fund returns, persistence, and capital flows using Venture Economics data through 2001. Their main cash-flow sample contained 746 largely liquidated funds (577 venture-capital and 169 buyout); a broader reported-IRR sample contained 1,090 funds. Using public-market equivalents, average buyout PME was 0.97 equal-weighted and 0.93 size-weighted; venture-capital PME was 0.96 equal-weighted and 1.21 size-weighted. Their regressions found persistence across successive funds, and capital raising rose with past performance but did so nonlinearly; fundraising and fund formation were also cyclical. These results suggest questions about performance, capacity, and fundraising, but the voluntary historical sample, selection of largely realized funds, and incomplete risk adjustment limit transfer to KKR’s current multi-business platform. [A1, Tables II and VI-VIII, pp. 1803-1816; capital flows, pp. 1817-1820]

Metrick and Yasuda studied 238 prospective venture and buyout funds from one large institutional investor’s records, using fund contracts and a simulation model to estimate GP revenue. Their model attributed roughly two-thirds of expected manager revenue to fixed-revenue components. They also found that later, larger buyout funds could raise expected revenue per partner even as revenue per managed dollar declined. This helps distinguish fee-base scale from revenue per dollar, but it models GP compensation under older fund structures and assumptions; it does not estimate KKR’s earnings, its clients’ returns, or shareholder returns. [A2, Tables 5-6, pp. 2327-2330; model and limits, pp. 2310-2322, 2328-2336]

Neither study supplies a KKR-specific forecast. For KKR, an investor would need to weigh evidence of durable fee economics against performance variability, fundraising cycles, acquisition effects, metric classification, and the distinct risks of insurance and strategic holdings.

Assignment

Prepare a short outside-investor assessment of KKR’s strategic quality as of August 5, 2026. Choose and defend one of three interpretations:

1. The mix of fee-paying capital and business lines is making the earnings platform more durable.

2. Headline growth overstates what can yet be concluded about durable, organically generated earnings.
3. Diversification can improve resilience, but also increases complexity and requires additional evidence before drawing a firm conclusion.

Identify the two or three disclosures that most affect your interpretation. Explain how you would distinguish new capital, acquired assets, value change, and distributions when evaluating AUM growth. Address how the K-Series classification change affects FRE comparability, and assess what Global Atlantic contributes and complicates. What additional public evidence would most improve your confidence over the next year? Do not estimate KKR's fair value or make a buy/sell recommendation.

Sources

- **P1:** KKR & Co., Q2 2026 Form 10-Q, filed August 5, 2026, [SEC filing](#).
- **P2:** KKR & Co., Q2 2026 earnings release, July 30, 2026, [SEC Exhibit 99.1](#).
- **P3:** KKR & Co., 2025 Form 10-K, filed February 27, 2026, [SEC filing](#).
- **A1:** Steven N. Kaplan and Antoinette Schoar, "Private Equity Performance: Returns, Persistence, and Capital Flows," *The Journal of Finance* 60, no. 4 (2005): 1791-1823, [DOI](#).
- **A2:** Andrew Metrick and Ayako Yasuda, "The Economics of Private Equity Funds," *The Review of Financial Studies* 23, no. 6 (2010): 2303-2341, [DOI](#).