KKR & Co. L.P.
Form 10-Q
August 04, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2017

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	26-0426107
(State or other Jurisdiction of Incorporation or Organization)	(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.)

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

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 ý No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

(Do not check if a smaller
reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of August 2, 2017, there were 469,983,183 Common Units of the registrant outstanding.

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KKR & CO. L.P.

FORM 10-Q

For the Quarter Ended June 30, 2017

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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 declaration and payment of distributions on common or preferred units of KKR, the timing, manner and volume of repurchases of common units pursuant to a repurchase program, and the expected synergies from acquisitions, reorganizations, or strategic partnerships, may constitute forward-looking statements. 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 or cause the benefits and anticipated synergies from transactions to not be realized. We believe these factors include those described under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission on February 24, 2017. 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. In connection with KKR's issuance of Series A Preferred Units and Series B Preferred Units, the KKR Group Partnerships issued preferred units with economic terms designed to mirror those of the Series A Preferred Units and Series B Preferred Units, respectively.

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 and other employees and non-employee operating consultants 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 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.

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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 "Condensed Consolidated Financial Statements (Unaudited)—Note 14. Segment Reporting" and later in this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Segment Operating and Performance Measures" and "— Segment Balance Sheet."

This report uses the terms assets under management or AUM, fee paying assets under management or FPAUM, economic net income or ENI, fee related earnings or FRE, distributable earnings, capital invested, syndicated capital and book value. 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—Segment Operating and Performance Measures" and "— Segment Balance Sheet."

References to "our funds" or "our vehicles" refer to investment funds, vehicles and accounts advised, sponsored or managed by one or more subsidiaries of KKR including CLO and CMBS vehicles, unless the context requires otherwise. They do not include investment funds, vehicles or accounts of any hedge fund manager with which we have formed a strategic partnership where we have acquired a non-controlling interest.

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 granted from the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our "Equity Incentive Plan." Our fully exchanged and diluted common units outstanding do not include (i) common units available for issuance pursuant to our Equity Incentive Plan for which equity awards have not yet been granted and (ii) common units which we have the option to issue in connection with our acquisition of additional interests in Marshall Wace.

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KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
(Amounts in Thousands, Except Unit Data)

	June 30, 2017	December 31, 2016
Assets		
Cash and Cash Equivalents	$2,131,687	$2,508,902
Cash and Cash Equivalents Held at Consolidated Entities	1,477,009	1,624,758
Restricted Cash and Cash Equivalents	103,372	212,155
Investments	36,267,767	31,409,765
Due from Affiliates	394,717	250,452
Other Assets	2,493,529	2,996,865
Total Assets	$42,868,081	$39,002,897
Liabilities and Equity		
Debt Obligations	$19,425,253	$18,544,075
Due to Affiliates	392,340	359,479
Accounts Payable, Accrued Expenses and Other Liabilities	3,508,129	2,981,260
Total Liabilities	23,325,722	21,884,814
Commitments and Contingencies		
Redeemable Noncontrolling Interests	512,481	632,348
Equity		
Series A Preferred Units		
(13,800,000 units issued and outstanding as of June 30, 2017 and December 31, 2016)	332,988	332,988
Series B Preferred Units		
(6,200,000 units issued and outstanding as of June 30, 2017 and December 31, 2016)	149,566	149,566
KKR & Co. L.P. Capital - Common Unitholders		
(469,968,183 and 452,380,335 common units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively)	6,212,556	5,457,279
Total KKR & Co. L.P. Partners' Capital	6,695,110	5,939,833
Noncontrolling Interests	12,334,768	10,545,902
Total Equity	19,029,878	16,485,735
Total Liabilities and Equity	$42,868,081	$39,002,897

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued) (UNAUDITED)
(Amounts in Thousands)

The following presents the portion of the consolidated balances presented in the condensed consolidated statements of financial condition attributable to consolidated variable interest entities (“VIEs”) as of June 30, 2017 and December 31, 2016. KKR's consolidated VIEs consist primarily of certain collateralized financing entities (“CFEs”) holding collateralized loan obligations ("CLOs") and commercial real estate mortgage-backed securities ("CMBS”) and certain investment funds. With respect to consolidated VIEs, the following assets may only be used to settle obligations of these consolidated VIEs and the following liabilities are only the obligations of these consolidated VIEs. The noteholders, limited partners and other creditors of these VIEs have no recourse to KKR’s general assets. Additionally, KKR has no right to the benefits from, nor does KKR bear the risks associated with, the assets held by these VIEs beyond KKR’s beneficial interest therein and any fees generated from the VIEs. There are neither explicit arrangements nor does KKR hold implicit variable interests that would require KKR to provide any material ongoing financial support to the consolidated VIEs, beyond amounts previously committed, if any.

	June 30, 2017		
	Consolidated CFEs	Consolidated KKR Funds and Other Entities	Total
Assets			
Cash and Cash Equivalents Held at Consolidated Entities	$1,027,597	$449,412	$1,477,009
Restricted Cash and Cash Equivalents	—	67,629	67,629
Investments	15,286,680	8,731,362	24,018,042
Due from Affiliates	—	7,030	7,030
Other Assets	156,010	169,497	325,507
Total Assets	$16,470,287	$9,424,930	$25,895,217
Liabilities			
Debt Obligations	$14,740,575	$961,452	$15,702,027
Accounts Payable, Accrued Expenses and Other Liabilities	957,248	196,573	1,153,821
Total Liabilities	$15,697,823	$1,158,025	$16,855,848

	December 31, 2016		
	Consolidated CFEs	Consolidated KKR Funds and Other Entities	Total
Assets			
Cash and Cash Equivalents Held at Consolidated Entities	$1,158,641	$466,117	$1,624,758
Restricted Cash and Cash Equivalents	86,777	95,105	181,882
Investments	13,950,897	8,979,341	22,930,238
Due from Affiliates	—	5,555	5,555
Other Assets	153,283	430,326	583,609
Total Assets	$15,349,598	$9,976,444	$25,326,042
Liabilities			
Debt Obligations	$13,858,288	$1,612,799	$15,471,087

Accounts Payable, Accrued Expenses and Other Liabilities	722,714	316,121	1,038,835
Total Liabilities	$14,581,002	$1,928,920	$16,509,922

See notes to condensed consolidated financial statements.

KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in Thousands, Except Unit Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Fees and Other	$931,788	$576,757	$1,647,740	$739,562
Expenses				
Compensation and Benefits	462,841	296,412	865,804	421,901
Occupancy and Related Charges	14,032	16,188	28,883	32,754
General, Administrative and Other	152,855	110,618	275,055	276,886
Total Expenses	629,728	423,218	1,169,742	731,541
Investment Income (Loss)				
Net Gains (Losses) from Investment Activities	418,428	9,168	976,876	(726,055)
Dividend Income	69,446	31,669	79,370	94,882
Interest Income	295,718	266,213	576,698	496,689
Interest Expense	(198,590)	(181,313)	(385,444)	(352,707)
Total Investment Income (Loss)	585,002	125,737	1,247,500	(487,191)
Income (Loss) Before Taxes	887,062	279,276	1,725,498	(479,170)
Income Tax / (Benefit)	18,538	6,045	59,080	7,935
Net Income (Loss)	868,524	273,231	1,666,418	(487,105)
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	22,387	1,533	43,320	1,495
Net Income (Loss) Attributable to Noncontrolling Interests	432,150	172,115	941,427	(258,244)
Net Income (Loss) Attributable to KKR & Co. L.P.	413,987	99,583	681,671	(230,356)
Net Income Attributable to Series A Preferred Unitholders	5,822	5,693	11,644	5,693
Net Income Attributable to Series B Preferred Unitholders	2,519	—	5,038	—
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	$405,646	$93,890	$664,989	$(236,049)
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit				
Basic	$0.87	$0.21	$1.45	$(0.53)
Diluted	$0.81	$0.19	$1.33	$(0.53)
Weighted Average Common Units Outstanding				
Basic	466,170,025	448,221,538	459,967,395	449,241,840
Diluted	501,177,423	481,809,612	498,943,294	449,241,840

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(Amounts in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Income (Loss)	$868,524	$273,231	$1,666,418	$(487,105)
Other Comprehensive Income (Loss), Net of Tax:				
Foreign Currency Translation Adjustments	20,520	(10,207)	37,096	(1,773)
Comprehensive Income (Loss)	889,044	263,024	1,703,514	(488,878)
Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests	22,387	1,533	43,320	1,495
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests	441,638	165,664	961,747	(261,109)
Comprehensive Income (Loss) Attributable to KKR & Co. L.P.	$425,019	$95,827	$698,447	$(229,264)

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.								
	Common Units	Capital - Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Total Capital - Common Units	Capital - Series A Preferred Units	Capital - Series B Preferred Units	Noncontrolling Interests	Total Equity	Redeema Noncontr Interests
Balance at January 1, 2016	457,834,875	$5,575,981	$(28,799)	$5,547,182	$—	$—	$43,731,774	$49,278,956	$188,629
Net Income (Loss)		(236,049)		(236,049)	5,693		(258,244)	(488,600)	1,495
Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax)			1,092	1,092			(2,865)	(1,773)	
Deconsolidation of Funds				—			(34,240,240)	(34,240,240)	
Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units	2,668,200	31,532	(268)	31,264			(31,264)	—	
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		(3,981)	(131)	(4,112)				(4,112)	
Net Delivery of Common Units - Equity Incentive Plan	5,104,131	(28,234)		(28,234)				(28,234)	
Equity Based Compensation		97,987		97,987			26,493	124,480	
Unit Repurchases	(19,403,655)	(265,218)		(265,218)				(265,218)	
Equity Issued in connection with Preferred Unit				—	332,988	149,566		482,554	

Offering									
Capital Contributions				—			1,454,761	1,454,761	167,000
Capital Distributions		(142,310)		(142,310)	(5,693)		(820,255)	(968,258)	(17,487
Balance at June 30, 2016	446,203,551	$5,029,708	$(28,106)	$5,001,602	$332,988	$149,566	$9,860,160	$15,344,316	$339,637

	KKR & Co. L.P.								
	Common Units	Capital - Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Total Capital - Common Units	Capital - Series A Preferred Units	Capital - Series B Preferred Units	Noncontrolling Interests	Total Equity	Redeema Noncontr Interests
Balance at January 1, 2017	452,380,335	$5,506,375	$(49,096)	$5,457,279	$332,988	$149,566	$10,545,902	$16,485,735	$632,348
Net Income (Loss)		664,989		664,989	11,644	5,038	941,427	1,623,098	43,320
Other Comprehensive Income (Loss)-Foreign Currency Translation (Net of Tax)			16,776	16,776			20,320	37,096	
Changes in Consolidation				—			(71,657)	(71,657)	(315,057
Transfer of interests under common control (See Note 15)		12,269	(1,988)	10,281			(10,281)	—	
Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units	11,361,012	154,789	(1,315)	153,474			(153,474)	—	
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units		2,605	424	3,029				3,029	
Net Delivery of Common Units - Equity Incentive Plan	6,226,836	(37,304)		(37,304)				(37,304)	
Equity Based Compensation		94,919		94,919			104,057	198,976	
Unit Repurchases				—				—	

Capital Contributions				—			1,759,873	1,759,873	152,222
Capital Distributions		(150,887)		(150,887)	(11,644)	(5,038)	(801,399)	(968,968)	(352
Balance at June 30, 2017	469,968,183	$6,247,755	$(35,199)	$6,212,556	$332,988	$149,566	$12,334,768	$19,029,878	$512,481

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in Thousands)

	Six Months Ended June 30,	
	2017	2016
Operating Activities		
Net Income (Loss)	$1,666,418	$(487,105)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	198,976	124,480
Net Realized (Gains) Losses on Investments	(44,752)	(65,488)
Change in Unrealized (Gains) Losses on Investments	(932,124)	791,543
Carried Interest Allocated as a result of Changes in Fund Fair Value	(886,776)	(187,831)
Other Non-Cash Amounts	31,186	1,234
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	199,676	(767,808)
Change in Due from / to Affiliates	(124,400)	(95,261)
Change in Other Assets	146,267	32,777
Change in Accounts Payable, Accrued Expenses and Other Liabilities	883,099	250,666
Investments Purchased	(22,853,278)	(7,386,747)
Proceeds from Investments	19,852,232	6,598,621
Net Cash Provided (Used) by Operating Activities	(1,863,476)	(1,190,919)
Investing Activities		
Change in Restricted Cash and Cash Equivalents	108,783	80,345
Purchase of Fixed Assets	(48,239)	(3,784)
Development of Oil and Natural Gas Properties	(1,111)	(1,190)
Net Cash Provided (Used) by Investing Activities	59,433	75,371
Financing Activities		
Distributions to Partners	(150,887)	(142,310)
Distributions to Redeemable Noncontrolling Interests	(352)	(17,487)
Contributions from Redeemable Noncontrolling Interests	152,222	167,000
Distributions to Noncontrolling Interests	(801,399)	(820,255)
Contributions from Noncontrolling Interests	1,755,608	1,027,774
Issuance of Preferred Units (net of issuance costs)	—	482,554
Preferred Unit Distributions	(16,682)	(5,693)
Net Delivery of Common Units - Equity Incentive Plan	(37,304)	(28,234)
Unit Repurchases	—	(265,218)
Proceeds from Debt Obligations	5,297,648	3,404,624
Repayment of Debt Obligations	(4,763,930)	(2,219,243)
Financing Costs Paid	(8,096)	(3,229)
Net Cash Provided (Used) by Financing Activities	1,426,828	1,580,283
Net Increase/(Decrease) in Cash and Cash Equivalents	(377,215)	464,735
Cash and Cash Equivalents, Beginning of Period	2,508,902	1,047,740
Cash and Cash Equivalents, End of Period	$2,131,687	$1,512,475

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) (UNAUDITED)
(Amounts in Thousands)

	Six Months Ended June 30,	
	2017	2016
Supplemental Disclosures of Cash Flow Information		
Payments for Interest	$369,666	$327,682
Payments for Income Taxes	$22,828	$13,448
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Non-Cash Contributions of Equity Based Compensation	$198,976	$124,480
Non-Cash Contributions from Noncontrolling Interests	$4,265	$426,987
Debt Obligations - Net Gains (Losses), Translation and Other	$(352,664)	$(337,316)
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units	$3,029	$(4,112)
Changes in Consolidation and Other		
Cash and Cash Equivalents Held at Consolidated Entities	$(2,244)	$(270,458)
Restricted Cash and Cash Equivalents	$—	$(54,064)
Investments	$(174,906)	$(35,686,489)
Due From Affiliates	$(3,536)	$147,427
Other Assets	$(298,097)	$(532,226)
Debt Obligations	$—	$(2,355,305)
Due to Affiliates	$—	$329,083
Accounts Payable, Accrued Expenses and Other Liabilities	$(114,573)	$(129,348)
Noncontrolling Interests	$(71,657)	$(34,240,240)
Redeemable Noncontrolling Interests	$(315,057)	$—

See notes to condensed consolidated financial statements.

KKR & CO. L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(All Amounts in Thousands, Except Unit, Per Unit Data, and Except Where Noted)

1. ORGANIZATION

KKR & Co. L.P. (NYSE: KKR), together with its consolidated subsidiaries (“KKR”), is a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate, credit and, through its strategic partners, 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 with KKR's portfolio companies. KKR invests its own capital alongside its partners' capital and provides financing solutions and investment opportunities 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 June 30, 2017, KKR & Co. L.P. held approximately 57.8% of the KKR Group Partnership Units and principals through KKR Holdings held approximately 42.2% 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 or repurchases KKR & Co. L.P. common units. The KKR Group Partnerships also have outstanding equity interests that provide for the carry pool and preferred units with economic terms that mirror the preferred units issued by KKR & Co. L.P.

PAAMCO Prisma

On June 1, 2017, KKR completed its previously announced transaction to combine Pacific Alternative Asset Management Company, LLC (“PAAMCO”) and Prisma Capital Partners LP (“Prisma”), formerly known as KKR Prisma or KKR’s hedge fund solutions platform, to create PAAMCO Prisma Holdings, LLC ("PAAMCO Prisma"). PAAMCO Prisma is a leading liquid alternatives investment firm, which operates independently from KKR.

In connection with this transaction, KKR contributed $114.1 million of net assets, including intangible assets and an allocation of goodwill, in exchange for a 39.9% equity interest in PAAMCO Prisma and the right to receive certain payments from PAAMCO Prisma, the collective fair value of which was $131.6 million. KKR reports its investment in PAAMCO Prisma using the equity method of accounting. See Note 16 "Goodwill and Intangible Assets."

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of KKR & Co. L.P. have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements (referred to hereafter as the "financial statements"), including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the financial statements are presented fairly and that estimates made in preparing the financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The December 31, 2016 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in KKR's Annual Report on Form 10-K for the year ended December 31, 2016, which include all disclosures required by GAAP. These financial statements should be read in conjunction with the audited consolidated financial statements included in KKR & Co. L.P.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

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 investment funds, general partners of consolidated investment funds and their respective consolidated investment funds and certain other entities including CFEs. 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.
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 that have all the attributes of an investment company, like investment funds, (iii) CFEs 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 assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

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 and vehicles reflect their investments at fair value as described below in "Fair Value Measurements."

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 the 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. Limited partnerships and other similar entities where unaffiliated limited partners have not been granted (i) substantive participatory rights or (ii) substantive rights to either dissolve the partnership or remove the general partner ("kick-out rights") are VIEs under condition (b) above. KKR's investment funds that are not CFEs (i) are generally limited partnerships, (ii) generally provide KKR with operational discretion and control, and (iii) generally have fund investors with no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, and as such the limited partners do not hold kick-out rights. Accordingly, most of KKR's investment funds are categorized as VIEs.

KKR consolidates all VIEs in which it is the primary beneficiary. A reporting entity is determined to be the primary beneficiary if it holds a controlling financial interest in a VIE. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (i) whether an entity in which KKR holds a variable interest is a VIE and (ii) whether KKR's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Fees earned by KKR that are customary and commensurate with the level of effort required to provide those services, and where KKR does not hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered variable interests. KKR factors in all economic interests including interests held through related parties, to determine if it holds a variable interest. KKR determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion periodically.

For entities that are determined not to be VIEs, these entities are generally considered VOEs and are evaluated under the voting interest model. KKR consolidates VOEs it controls through a majority voting interest or through other means.

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 CLOs (which are generally VIEs), in its role as collateral manager, KKR generally has the power to direct the activities of the CLO that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through its residual interest in the CLO 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 the power to direct the activities of the CLO that most significantly impact the CLO's economic performance and 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 is deemed to be the primary beneficiary and consolidates the CLO.

With respect to CMBS vehicles (which are generally VIEs), KKR holds unrated and non-investment grade rated securities issued by the CMBS, which are the most subordinate tranche of the CMBS vehicle. The economic performance of the CMBS is most significantly impacted by the performance of the underlying assets. Thus, the activities that most significantly impact the CMBS economic performance are the activities that most significantly impact the performance of the underlying assets. The special servicer has the ability to manage the CMBS assets that are delinquent or in default to improve the economic performance of the CMBS. KKR generally has the right to unilaterally appoint and remove the special servicer for the CMBS and as such is considered the controlling class of the CMBS vehicle. These rights give KKR the ability to direct the activities that most significantly impact the economic performance of the CMBS. Additionally, as the holder of the most subordinate tranche, KKR is in a first loss position and has the right to receive benefits, including the actual residual returns of the CMBS, if any. In these cases, KKR is deemed to be the primary beneficiary and consolidates the CMBS.

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment funds and vehicles 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 condensed consolidated statements of financial condition and presented as Net Income (Loss) Attributable to Redeemable Noncontrolling Interests in the accompanying condensed 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 condensed consolidated statements of financial condition. For all consolidated investment vehicles and funds in which redemption rights have not been granted, noncontrolling

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interests are presented within Equity in the accompanying condensed 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;
(ii) third parties entitled to up to 1% of the carried interest received by certain general partners of KKR's funds and 1% of KKR's other profits (losses) through and including December 31, 2015;
(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' tenure with KKR prior to October 1, 2009;
(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 & Co. L.P. and are borne by KKR Holdings.

The following table presents the calculation of noncontrolling interests held by KKR Holdings:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at the beginning of the period	$4,491,197	$3,998,930	$4,293,337	$4,347,153
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (1)	305,280	73,400	521,712	(198,175)
Other comprehensive income (loss), net of tax (2)	8,833	(3,998)	13,753	(268)
Impact of the exchange of KKR Holdings units to KKR & Co. L.P. common units (3)	(104,797)	(1,598)	(140,701)	(30,978)
Equity based compensation	42,964	9,041	104,057	19,647
Capital contributions	2,913	69	2,950	138
Capital distributions	(62,717)	(57,539)	(119,354)	(119,212)
Transfer of interests under common control (See Note 15 "Equity")	—	—	7,919	—
Balance at the end of the period	$4,683,673	$4,018,305	$4,683,673	$4,018,305

(1) Refer to the table below for calculation of Net income (loss) attributable to noncontrolling interests held by KKR Holdings.

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(2) Calculated on a pro rata basis based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.

(3) 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.

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 Incentive Plan ("Equity Incentive Plan"), equity allocations shown in the condensed 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$868,524	$273,231	$1,666,418	$(487,105)
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	22,387	1,533	43,320	1,495
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities	126,870	98,715	419,715	(60,069)
Less: Net income (loss) attributable to Series A and Series B Preferred Unitholders	8,341	5,693	16,682	5,693
Plus: Income tax / (benefit) attributable to KKR Management Holdings Corp.	5,348	(2,178)	24,508	(11,563)
Net income (loss) attributable to KKR & Co. L.P. Common Unitholders and KKR Holdings	$716,274	$165,112	$1,211,209	$(445,787)
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	$305,280	$73,400	$521,712	$(198,175)

Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CFEs, equity method, carried interest and other investments. Investments denominated in currencies other than the entity's functional currency 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, including growth equity investments.

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 securities (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

Investments of Consolidated CFEs - Consists primarily of (i) investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLOs and (ii) investments in originated, fixed-rate mortgage loans held directly by the consolidated CMBS vehicles.

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Equity Method - Consists primarily of (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 GAAP.

Carried Interest - Consists of carried interest from unconsolidated investment funds that are allocated to KKR as the general partner of the investment fund based on cumulative fund performance to date, and where applicable, subject to a preferred return.

Other - Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit or investments of consolidated CFEs.

Investments held by Consolidated Investment Funds

The consolidated investment funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments, including portfolio companies that are majority-owned and controlled by KKR's investment funds, at fair value. KKR has retained this specialized accounting for the consolidated funds in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments and other financial instruments held by the consolidated investment funds are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

Certain energy investments are made through consolidated investment funds, including investments in working and royalty interests in oil and natural gas producing properties as well as investments in operating companies that operate in the energy industry. Since these investments are held through consolidated investment funds, such investments are reflected at fair value as of the end of the reporting period.

Investments in operating companies that are held through KKR’s consolidated investment funds are generally classified within private equity investments and investments in working and royalty interests in oil and natural gas producing properties are generally classified as real asset investments.

Energy Investments held directly by KKR

Certain energy investments are made by KKR directly in working and royalty interests in oil and natural gas producing properties and not through investment funds. Oil and natural gas producing activities are accounted for under the successful efforts method of accounting and such working interests are consolidated based on the proportion of the working interests held by KKR. Accordingly, KKR reflects its proportionate share of the underlying statements of financial condition and statements of operations of the consolidated working interests on a gross basis and changes in the value of these working interests are not reflected as unrealized gains and losses in the consolidated statements of operations. Under the successful efforts 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 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 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. Any impairment in value is recognized when incurred and is recorded in General, Administrative, and Other expense in the condensed consolidated statements of operations.

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Fair Value Option

For certain investments and other financial instruments, KKR has elected the fair value option. Such election is irrevocable and is applied on a financial instrument by financial instrument basis at initial recognition. KKR has elected the fair value option for certain private equity, real assets, credit, investments of consolidated CFEs, equity method and other financial instruments not held through a consolidated investment fund with gains and losses recorded in net income. Accounting for these investments at fair value is consistent with how KKR accounts for its investments held through consolidated investment funds. Changes in the fair value of such instruments are recognized in Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Interest income on interest bearing credit securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest Income in the condensed consolidated statements of operations.

Equity Method

For certain investments in entities over which KKR exercises significant influence but which do not meet the requirements for consolidation and for which KKR has not elected the fair value option, KKR uses the equity method of accounting. KKR’s share of earnings (losses) from these investments is reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. For equity method investments, KKR records its proportionate share of the investee's earnings or losses based on the most recently available financial information of the investee, which in certain cases may lag the date of KKR's financial statements by no more than three calendar months. As of June 30, 2017, equity method investees for which KKR reports financial results on a quarter lag include Marshall Wace LLP and USI, Inc. KKR evaluates its equity method investments for which KKR has not elected the fair value option for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

The carrying value of equity method investments in private equity funds, real assets funds and credit funds, which are not consolidated, approximate fair value, because the underlying investments of the unconsolidated investment funds are reported at fair value.

The carrying value of equity method investments in certain operating companies, which KKR is determined to exert significant influence under GAAP and for which KKR has not elected the fair value option, 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.

Financial Instruments held by Consolidated CFEs

KKR measures both the financial assets and financial liabilities of the consolidated CFEs in its financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities which results in KKR’s consolidated net income (loss) reflecting KKR’s own economic interests in the consolidated CFEs including (i) changes in the fair value of the beneficial interests retained by KKR and (ii) beneficial interests that represent compensation for services rendered.

For the consolidated CLO entities, KKR has determined that the fair value of the financial assets of the consolidated CLOs is more observable than the fair value of the financial liabilities of the consolidated CLOs. As a result, the financial assets of the consolidated CLOs are being measured at fair value and the financial liabilities are being measured as: (1) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets that are incidental to the operations of the CLOs less (2) the sum of the fair value of any beneficial interests retained by KKR (other than those that represent compensation for services) and KKR’s carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interests retained by KKR).

For the consolidated CMBS vehicles, KKR has determined that the fair value of the financial liabilities of the consolidated CMBS vehicles is more observable than the fair value of the financial assets of the consolidated CMBS vehicles. As a result, the financial liabilities of the consolidated CMBS vehicles are being measured at fair value and the financial assets are being measured in consolidation as: (1) the sum of the fair value of the financial liabilities (other than the beneficial interests retained by KKR), the fair value of the beneficial interests retained by KKR and the carrying value of any nonfinancial liabilities that are incidental to the operations of the CMBS vehicles less (2) the carrying value of any nonfinancial assets that are incidental to the operations of the CMBS vehicles. The resulting amount is allocated to the individual financial assets.

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Fair Value Measurements

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. Except for certain of KKR's equity method investments (see "Equity Method" above in this Note 2 "Summary of Significant Accounting Policies") and debt obligations (as described in Note 10 "Debt Obligations"), KKR's investments and other financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. 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.

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments and financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I - Pricing inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date. The types of financial instruments included in this category are publicly-listed equities, credit investments and securities sold short.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. The types of financial instruments included in this category are credit investments, investments and debt obligations of consolidated CLO entities, 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 - Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. The types of financial instruments generally included in this category are private portfolio companies, real assets investments, credit investments, equity method investments for which the fair value option was elected and investments and debt obligations of consolidated CMBS entities.

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. 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.

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Management's determination of fair value is based upon the methodologies and processes described below and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

Level II Valuation Methodologies

Credit Investments: These instruments 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 instrument. Ask prices represent the lowest price that KKR and others are willing to accept for an instrument. 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.

Investments and Debt Obligations of Consolidated CLO Vehicles: Investments of consolidated CLO vehicles are reported within Investments of Consolidated CFEs and are valued using the same valuation methodology as described above for credit investments. Under ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

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 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

Investments and financial instruments 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. 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, 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, an estimated 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.

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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 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.

In the case of growth equity investments, enterprise values may be determined using the market comparables analysis and discounted cash flow analysis described above. A scenario analysis may also be conducted to subject the estimated enterprise values to a downside, base and upside case, which involves significant assumptions and judgments. A milestone analysis may also be conducted to assess the current level of progress towards value drivers that we have determined to be important, which involves significant assumptions and judgments. The enterprise value in each case may then be allocated across the investment's capital structure to reflect the terms of the security and subjected to probability weightings. In certain cases, the values of growth equity investments may be based on recent or expected financings.

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 can 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 the weighted average cost of capital. 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 commodity prices on certain indices for equivalent future dates. Certain energy investments do not include an illiquidity discount. 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 a range of price expectations. 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. 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 generally 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 investments for which the fair value election has been made, KKR generally employs the same valuation methodologies as described above for private equity investments when valuing these other investments.

Investments and Debt Obligations of Consolidated CMBS Vehicles: Under ASU 2014-13, KKR measures CMBS investments, which are reported within Investments of Consolidated CFEs on the basis of the fair value of the financial liabilities of the CMBS. Debt obligations of consolidated CMBS vehicles are valued based on discounted cash flow analyses. The key input is the expected yield of each CMBS security using both observable and unobservable factors, which may include recently offered or completed trades and published yields of similar securities, security-specific characteristics (e.g. securities ratings issued by nationally recognized statistical rating organizations, credit support by other subordinate securities issued by the CMBS and coupon type) and other characteristics.

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

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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.

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 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 have values less than 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. The valuations of certain real asset investments are determined solely by an independent valuation firm without the preparation of preliminary valuations by our investment professionals, and instead such independent valuation firm relies principally on valuation information available to it as a broker or valuation firm. For credit investments and debt obligations of consolidated CMBS vehicles, an independent valuation firm is generally engaged by KKR with respect to investments classified as Level III. The valuation firm either provides a value, or provides a valuation range from which KKR's investment professionals select a point in the range to determine the preliminary valuation or performs certain procedures in order to assess the reasonableness and provide positive assurance of KKR's valuations. After reflecting any input from the independent valuation firm, the valuation proposals are submitted to their respective valuation sub-committees.

KKR has a global valuation committee comprised of senior employees including investment professionals and professionals from business operations functions, and includes one of KKR's Co-Presidents and Co-Chief Operating Officers and its Chief Financial Officer, General Counsel and Chief Compliance Officer. The global valuation committee is assisted by valuation sub-committees and investment professionals for each business strategy. All preliminary Level III valuations are reviewed and approved by the valuation sub-committees for private equity, real estate, energy and infrastructure, and credit, as applicable. For periods prior to the completion of the PAAMCO Prisma transaction, when Level III valuations were required to be performed on hedge fund investments, a valuation sub-committee for hedge funds reviewed these valuations. The valuation sub-committees are responsible for the review and approval of valuations in their respective business lines on a quarterly basis. The members of the valuation sub-committees are comprised of investment professionals, including the heads of each respective strategy, and professionals from business operations functions such as legal, compliance and finance, who are not primarily responsible for the management of the investments.

The global valuation committee provides general oversight of the valuation sub-committees. The global valuation committee is responsible for coordinating and implementing the firm's valuation process to ensure consistency in the application of valuation principles across portfolio investments and between periods. All valuations are subject to approval by the global valuation committee. When valuations are approved by the global valuation 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 the board of directors of the general partner of KKR & Co. L.P. and are then reported 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) carried interest allocations to general partners of unconsolidated funds, (v) revenue earned by oil and gas-producing entities that are consolidated and (vi) consulting fees earned by consolidated entities that employ non-employee operating consultants.

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For the three and six months ended June 30, 2017 and 2016, respectively, fees and other consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Management Fees	$177,269	$159,569	$338,451	$315,899
Transaction Fees	156,472	67,452	400,130	164,720
Monitoring Fees	66,586	47,918	103,355	76,021
Fee Credits	(48,677)	(37,152)	(136,755)	(59,531)
Carried Interest	551,003	304,787	886,776	187,831
Incentive Fees	845	4,253	1,118	2,245
Oil and Gas Revenue	17,382	18,225	34,655	31,786
Consulting Fees	10,908	11,705	20,010	20,591
Total Fees and Other	$931,788	$576,757	$1,647,740	$739,562

All revenues presented in the table above, except for oil and gas revenue and certain transaction fees earned by KKR's Capital Markets business, are earned from KKR investment funds and portfolio companies. 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. These fees are separately negotiated with each company for which services are provided and are not shared with KKR.

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 funds 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 funds, CLOs, and separately managed accounts, management fees 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.

Transaction Fees

Transaction fees are earned by KKR primarily in connection with successful investment transactions and capital markets activities. Transaction fees are recognized in the period when the transaction closes. 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.

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

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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.

Fee Credits

Agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of certain fees, including monitoring and transaction fees received from portfolio companies ("Fee Credits"). Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% for older funds, or 100% for our newer funds, of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

Carried Interest

For certain investment fund structures, carried interest is allocated to the general partner based on cumulative fund performance to date, and where applicable, subject to a preferred return to limited partners. At the end of each reporting period, KKR calculates the carried interest that would be due to KKR for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as carried interest to reflect either (a) positive performance resulting in an increase in the carried interest allocated to the general partner or (b) negative performance that would cause the amount due to KKR to be less than the amount previously recognized as revenue, resulting in a negative adjustment to carried interest allocated to the general partner. In each case, it is necessary to calculate the carried interest on cumulative results compared to the carried interest recorded to date and make the required positive or negative adjustments. KKR ceases to record negative carried interest allocations once previously recognized carried interest allocations for a fund have been fully reversed. KKR is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative carried interest over the life of a fund. Accrued but unpaid carried interest as of the reporting date is reflected in Investments in the condensed consolidated statements of financial condition.

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.

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.

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.

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Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers Topic 606 (“ASU 2014-09”) which has subsequently been amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12. These ASUs outline 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. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. A full retrospective or modified retrospective approach is required.

Carried interest is a capital allocation to the general partner based on fund performance, and where applicable, subject to a preferred return to limited partners. KKR has concluded that capital allocation-based carried interest represents income from equity method investments that is not in the scope of ASU 2014-09. Accordingly, in connection with the adoption of ASU 2014-09, KKR will account for such carried interest as a financial instrument under the equity method of accounting within the scope of ASC 323, Investments - Equity Method and Joint Ventures (“ASC 323”). In accordance with ASC 323, KKR will record equity method income (losses) based on the change in KKR’s proportionate claim on the net assets of the investment fund, including performance-based capital allocations, assuming the investment fund was liquidated as of each reporting date pursuant to each investment fund's governing agreements. As carried interest and the related general partner investments are considered to be a single unit of account under KKR’s new accounting policy, the equity method income associated with the general partner interests will be combined with the associated carried interest and reported in a single line within the statement of operations. KKR expects to apply this change in accounting on a full retrospective basis. The pattern and amount of recognition under the new policy is not expected to differ materially from KKR’s existing recognition. As it pertains to incentive fees, KKR expects the recognition of incentive fees, which are a form of variable consideration, to be deferred until such fees are no longer subject to significant reversal, which is consistent with KKR’s existing recognition treatment. Additionally, KKR is currently in the process of implementing the new revenue guidance and is continuing to evaluate the effect this guidance will have on other revenue streams. KKR expects to adopt the new revenue recognition guidance effective January 1, 2018.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Liabilities (“ASU 2016-01”). The amended guidance (i) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is currently required to be disclosed for financial instruments measured at fair value; (iii) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and (iv) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amended guidance should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amended guidance related to equity securities without readily determinable fair values (including the disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. KKR is currently evaluating the impact of this guidance on the financial statements.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP. For operating leases, a lessee is required to do the following: (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the Statement of Financial Condition, (b) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (c) classify all cash payments within operating activities in the statement of cash flows. The guidance is effective for fiscal periods beginning after December 15, 2018. Early application is permitted. KKR is currently evaluating the impact of this guidance on the financial statements.

Investments

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"), which simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 is effective for all entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted for all entities. Entities are required to apply the guidance prospectively to increases in the level of ownership interest or degree of influence occurring after the ASU's effective date. Additional transition disclosures are not required upon adoption. This guidance has been adopted as of January 1, 2017 and did not have a material impact on KKR's results of operations or financial condition.

Equity-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. KKR adopted ASU 2016-09 on January 1, 2017 and will apply prospective application. In connection with this adoption, the most significant impacts to KKR relate to the following: (i) with respect to the tax impact of equity based compensation charges, KKR has accounted for the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes as an income tax expense or benefit in the statement of operations, (ii) KKR has classified this difference with other income tax cash flows as an operating activity in the statement of cash flows and (iii) KKR has made an election to continue to estimate the number of equity compensation awards that are expected to vest, net of forfeitures, over the life of an equity award and not account for forfeitures as they occur.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. KKR is currently evaluating the impact of this guidance on the financial statements.

Cash Flow Classification

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amended guidance adds or clarifies guidance on eight cash flow matters: (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance

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principle. The guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The guidance must be applied retrospectively to all periods presented but may be applied prospectively from the earliest date practicable if retrospective application would be impracticable. KKR is currently evaluating the impact of this guidance on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”), which amends the guidance to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The amended guidance requires the following: (i) restricted cash and restricted cash equivalents should be included in the cash and cash-equivalents balances in the statement of cash flows; (ii) changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows; (iii) a reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents; and (iv) the nature of the restrictions must be disclosed for material restricted cash and restricted cash equivalents amounts. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods therein. Early adoption is permitted. The guidance must be applied retrospectively to all periods presented. KKR is currently evaluating the impact of this guidance on the financial statements.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory ("ASU 2016-16"), which removed the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. KKR is currently evaluating the impact of this guidance on the financial statements.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”). This guidance amends the definition of a business and provides a threshold which must be considered to determine whether a transaction is an asset acquisition or a business combination. ASU 2017-01 is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. KKR is currently evaluating the impact of this guidance on the financial statements.

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). This guidance simplifies the accounting for goodwill impairments by eliminating the second step from the goodwill impairment test. The ASU requires goodwill impairments to be measured on the basis of the fair value of a reporting unit relative to the reporting unit’s carrying amount rather than on the basis of the implied amount of goodwill relative to the goodwill balance of the reporting unit. The ASU also (i) clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units related to an entity’s testing of reporting units for goodwill impairment; and (ii) clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance is effective for fiscal periods beginning after December 15, 2019. Early adoption is allowed for entities as of January 1, 2017, for annual and any interim impairment tests occurring after January 1, 2017. KKR is currently evaluating the impact of this guidance on the financial statements.

Other Income

In February 2017, the FASB issued ASU No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"). The ASU conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard (ASC 606, as amended). The effective date of the new guidance is aligned with the requirements in the new revenue standard, which is effective for annual and interim reporting periods beginning after December 15, 2017. The ASU allows an entity to use a full or modified retrospective adoption approach. KKR is currently evaluating the impact of this guidance on the financial statements.

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Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities (“ASU 2017-08”). This guidance amends the amortization period for certain purchased callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. The guidance does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted and the guidance when adopted should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. KKR is currently evaluating the impact of this guidance on the financial statements.

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3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

Net Gains (Losses) from Investment Activities in the condensed 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.

The following tables summarize total Net Gains (Losses) from Investment Activities for the three and six months ended June 30, 2017 and 2016, respectively:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Private Equity (1)	$21,253	$ 291,748	$313,001	$200,003	$ (237,407)	$(37,404)
Credit and Other (1)	(363,791)	256,371	(107,420)	18,338	(123,115)	(104,777)
Investments of Consolidated CFEs (1)	(3,777)	15,064	11,287	(183,816)	287,866	104,050
Real Assets (1)	(61,747)	170,593	108,846	—	119,365	119,365
Foreign Exchange Forward Contracts and Options (2)	8,082	(184,118)	(176,036)	(17,186)	34,799	17,613
Securities Sold Short (2)	258,924	9,398	268,322	(16,133)	(22,553)	(38,686)
Other Derivatives (2)	(119)	(706)	(825)	(1,876)	21,253	19,377
Debt Obligations and Other (3)	39,763	(38,510)	1,253	109,441	(179,811)	(70,370)
Net Gains (Losses) From Investment Activities	$(101,412)	$ 519,840	$418,428	$108,771	$ (99,603)	$9,168

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Private Equity (1)	$128,066	$ 295,036	$423,102	$197,876	$ (449,768)	$(251,892)
Credit and Other (1)	(586,199)	704,617	118,418	(22,166)	(360,165)	(382,331)
Investments of Consolidated CFEs (1)	(4,880)	28,047	23,167	(220,805)	507,050	286,245
Real Assets (1)	(58,687)	177,391	118,704	12,355	(3,773)	8,582
Foreign Exchange Forward Contracts and Options (2)	18,068	(242,381)	(224,313)	575	(11,401)	(10,826)
Securities Sold Short (2)	505,711	51,668	557,379	(974)	(39,888)	(40,862)
Other Derivatives (2)	(5,879)	(5,553)	(11,432)	(18,389)	25,609	7,220
Debt Obligations and Other (3)	48,552	(76,701)	(28,149)	117,016	(459,207)	(342,191)
Net Gains (Losses) From Investment Activities	$44,752	$ 932,124	$976,876	$65,488	$ (791,543)	$(726,055)

(1) See Note 4 "Investments."
(2) See Note 8 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."
(3) See Note 10 "Debt Obligations."

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4. INVESTMENTS

Investments consist of the following:

	June 30, 2017	December 31, 2016
Private Equity	$3,847,420	$2,915,667
Credit	5,553,692	4,847,936
Investments of Consolidated CFEs	15,286,680	13,950,897
Real Assets	2,457,053	1,807,128
Equity Method	3,536,324	2,728,995
Carried Interest	2,776,470	2,384,177
Other	2,810,128	2,774,965
Total Investments	$36,267,767	$31,409,765

As of June 30, 2017 and December 31, 2016, there were no investments which represented greater than 5% of total investments. In addition, as of June 30, 2017 and December 31, 2016, investments totaling $17.8 billion and $16.1 billion, respectively, were pledged as direct collateral against various financing arrangements. See Note 10 “Debt Obligations.” The majority of the securities underlying private equity investments represent equity securities.

Carried Interest

Carried interest allocated to the general partner in respect of performance of investment funds that are not consolidated were as follows:

Balance at December 31, 2016	$2,384,177
Carried Interest Allocated as a result of Changes in Fund Fair Value	886,776
Cash Proceeds Received	(494,483)
Balance at June 30, 2017	$2,776,470

5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR's assets and liabilities by the fair value hierarchy. Carried Interest and Equity Method Investments for which the fair value option has not been elected have been excluded from the tables below.

Assets, at fair value:

	June 30, 2017			
	Level I	Level II	Level III	Total
Private Equity	$1,384,889	$68,033	$2,394,498	$3,847,420
Credit	—	1,688,622	3,865,070	5,553,692
Investments of Consolidated CFEs	—	9,839,430	5,447,250	15,286,680
Real Assets	—	33,634	2,423,419	2,457,053
Equity Method	—	207,577	571,575	779,152
Other	1,001,303	37,198	1,771,627	2,810,128
Total	2,386,192	11,874,494	16,473,439	30,734,125
Foreign Exchange Contracts and Options	—	113,147	—	113,147

Other Derivatives	—	7,112	57,354	(1) 64,466
Total Assets	$2,386,192	$11,994,753	$16,530,793	$30,911,738

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(1) Includes derivative assets that were valued using a third party valuation firm. The approach used to estimate the fair value of these derivative assets was generally the discounted cash flow method, which includes consideration of the current portfolio, projected portfolio construction, projected portfolio realizations, portfolio volatility (based on the volatility, correlation, and size of each underlying asset class), and the discounting of future cash flows to the reporting date.

	December 31, 2016			
	Level I	Level II	Level III	Total
Private Equity	$1,240,108	$116,000	$1,559,559	$2,915,667
Credit	—	1,557,575	3,290,361	4,847,936
Investments of Consolidated CFEs	—	8,544,677	5,406,220	13,950,897
Real Assets	—	—	1,807,128	1,807,128
Equity Method	—	220,896	570,522	791,418
Other	994,677	12,715	1,767,573	2,774,965
Total	2,234,785	10,451,863	14,401,363	27,088,011
Foreign Exchange Contracts and Options	—	240,627	—	240,627
Other Derivatives	—	81,593	—	81,593
Total Assets	$2,234,785	$10,774,083	$14,401,363	$27,410,231

Liabilities, at fair value:

	June 30, 2017				
	Level I	Level II	Level III		Total
Securities Sold Short	$583,665	$—	$—		$583,665
Foreign Exchange Contracts and Options	—	176,400	—		176,400
Unfunded Revolver Commitments	—	—	16,533	(1)	16,533
Other Derivatives	—	28,271	50,400	(2)	78,671
Debt Obligations of Consolidated CFEs	—	9,407,372	5,333,203		14,740,575
Total Liabilities	$583,665	$9,612,043	$5,400,136		$15,595,844

(1) These unfunded revolver commitments are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.

(2) Includes options issued in connection with the acquisition of the 24.9% equity interest in Marshall Wace LLP and its affiliates to increase KKR's ownership interest to 39.9% in periodic increments from 2017 to 2019. The option is valued using a Monte-Carlo simulation valuation methodology. Key inputs used in this methodology that require estimates include Marshall Wace's dividend yield, assets under management volatility and equity volatility.

	December 31, 2016				
	Level I	Level II	Level III		Total
Securities Sold Short	$644,196	$3,038	$—		$647,234
Foreign Exchange Contracts and Options	—	75,218	—		75,218
Unfunded Revolver Commitments	—	9,023	—		9,023
Other Derivatives	—	44,015	56,000	(1)	100,015
Debt Obligations of Consolidated CFEs	—	8,563,547	5,294,741		13,858,288
Total Liabilities	$644,196	$8,694,841	$5,350,741		$14,689,778

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The following tables summarize changes in investments and debt obligations reported at fair value for which Level III inputs have been used to determine fair value for the three and six months ended June 30, 2017 and 2016, respectively:

	Three Months Ended June 30, 2017							
	Level III Investments							Level III Debt Obligations
	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Equity Method	Other	Total	Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	$2,001,204	$3,903,023	$5,426,552	$2,045,587	$593,227	$1,806,381	$15,775,974	$5,313,570
Transfers Out Due to Deconsolidation of Funds	—	—	—	—	—	—	—	—
Transfers In	—	—	—	—	—	—	—	—
Transfers Out	—	—	—	—	—	—	—	—
Asset Purchases / Debt Issuances	394,861	347,036	—	354,950	1,576	208,385	1,306,808	—
Sales / Paydowns	(149,854)	(549,466)	(8,995)	(85,964)	(8,300)	(134,608)	(937,187)	—
Settlements	—	30,200	—	—	—	—	30,200	(8,995)
Net Realized Gains (Losses)	689	(93,386)	—	(61,747)	626	(3,911)	(157,729)	—
Net Unrealized Gains (Losses)	147,598	224,757	29,693	170,593	(15,554)	(104,620)	452,467	28,628
Change in Other Comprehensive Income	—	2,906	—	—	—	—	2,906	—
Balance, End of Period	$2,394,498	$3,865,070	$5,447,250	$2,423,419	$571,575	$1,771,627	$16,473,439	$5,333,203
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	$147,598	$127,361	$29,693	$100,146	$(15,554)	$(104,620)	$284,624	$28,628

	Three Months Ended June 30, 2016
	Level III Investments

	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Equity Method	Other	Total	Level III Debt Obligations Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	$1,313,701	$4,256,576	$5,550,482	$1,426,693	$455,945	$504,326	$13,507,723	$5,447,158
Transfers Out Due to Deconsolidation of Funds	(49,350)	(1,643,833)	—	—	—	1,041,980	(651,203)	—
Transfers In	—	41,303	—	58,537	—	—	99,840	—
Transfers Out	(96,640)	(760)	—	—	—	—	(97,400)	—
Asset Purchases / Debt Issuances	18,535	210,044	—	229,252	10,761	169,744	638,336	—
Sales / Paydowns	—	(193,970)	(7,639)	(14,138)	(2,826)	(75,290)	(293,863)	—
Settlements	—	48,931	—	—	—	—	48,931	(7,639)
Net Realized Gains (Losses)	—	(19,986)	—	—	—	17,198	(2,788)	—
Net Unrealized Gains (Losses)	45,622	(20,429)	72,499	119,365	13,339	(162,261)	68,135	66,762
Change in Other Comprehensive Income	—	(5,697)	—	—	—	—	(5,697)	—
Balance, End of Period	$1,231,868	$2,672,179	$5,615,342	$1,819,709	$477,219	$1,495,697	$13,312,014	$5,506,281
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	$45,622	$(20,429)	$72,499	$119,365	$13,339	$(186,011)	$44,385	$66,762

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	Six Months Ended June 30, 2017							
	Level III Investments							Level III Debt Obligations
	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Equity Method	Other	Total	Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	$1,559,559	$3,290,361	$5,406,220	$1,807,128	$570,522	$1,767,573	$14,401,363	$5,294,741
Transfers Out Due to Deconsolidation of Funds	—	(95,962)	—	—	—	—	(95,962)	—
Transfers In	—	—	—	—	—	—	—	—
Transfers Out	—	—	—	—	—	(1,496)	(1,496)	—
Asset Purchases / Debt Issuances	824,505	943,898	—	605,228	11,132	223,504	2,608,267	—
Sales / Paydowns	(172,483)	(718,324)	(17,935)	(107,641)	(20,978)	(142,736)	(1,180,097)	—
Settlements	—	19,125	—	—	—	—	19,125	(17,935)
Net Realized Gains (Losses)	689	(102,629)	—	(58,687)	626	(23,441)	(183,442)	—
Net Unrealized Gains (Losses)	182,228	504,796	58,965	177,391	10,273	(51,777)	881,876	56,397
Change in Other Comprehensive Income	—	23,805	—	—	—	—	23,805	—
Balance, End of Period	$2,394,498	$3,865,070	$5,447,250	$2,423,419	$571,575	$1,771,627	$16,473,439	$5,333,203
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	$182,228	$407,400	$58,965	$106,944	$10,273	$(51,777)	$714,033	$56,397

	Six Months Ended June 30, 2016	
	Level III Investments	Level III Debt Obligations

	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Equity Method	Other	Total	Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	$18,903,538	$5,012,355	$—	$4,048,281	$891,606	$2,581,188	$31,436,968	$—
Transfers Out Due to Deconsolidation of Funds	(17,856,098)	(2,354,181)	—	(2,628,999)	—	(984,813)	(23,824,091)	—
Transfers In	—	43,750	4,343,829	—	—	—	4,387,579	4,272,081
Transfers Out	(104,000)	(760)	—	—	(311,270)	—	(416,030)	—
Asset Purchases / Debt Issuances	254,076	554,099	1,026,801	453,771	18,992	203,670	2,511,409	990,450
Sales / Paydowns	—	(480,074)	(14,917)	(72,757)	(60,386)	(130,818)	(758,952)	—
Settlements	—	50,178	—	—	—	—	50,178	(14,917)
Net Realized Gains (Losses)	—	(8,595)	—	12,355	(1,991)	(7,415)	(5,646)	—
Net Unrealized Gains (Losses)	34,352	(142,137)	259,629	7,058	(59,732)	(166,115)	(66,945)	258,667
Change in Other Comprehensive Income	—	(2,456)	—	—	—	—	(2,456)	—
Balance, End of Period	$1,231,868	$2,672,179	$5,615,342	$1,819,709	$477,219	$1,495,697	$13,312,014	$5,506,281
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	$34,352	$(142,137)	$259,629	$7,058	$(59,732)	$(189,865)	$(90,695)	$258,667

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Total realized and unrealized gains and losses recorded for Level III assets and liabilities are reported in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations.

The following table summarizes the fair value transfers between fair value levels for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Assets, at fair value:				
Transfers from Level I to Level II [1]	$—	$73,600	$—	$73,600
Transfers from Level II to Level III [2]	$—	$99,840	$—	$4,387,579
Transfers from Level III to Level II [3]	$—	$760	$—	$312,030
Transfers from Level III to Level I [4]	$—	$96,640	$1,496	$104,000
Liabilities, at fair value:				
Transfers from Level II to Level III [5]	$—	$—	$—	$4,272,081

(1) Transfers out of Level I into Level II are principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

(2) Transfers out of Level II into Level III are principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

(3) Transfers out of Level III into Level II are principally attributable to certain investments that experienced a higher level of market activity during the period and thus were valued using observable inputs.

(4) Transfers out of Level III into Level I are attributable to portfolio companies that are valued using their publicly traded market price.

(5) Transfers out of Level II into Level III are principally attributable to debt obligations of CMBS vehicles due to an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

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The following table presents additional information about valuation methodologies and significant unobservable inputs used for investments and debt obligations that are measured at fair value and categorized within Level III as of June 30, 2017:

	Fair Value June 30, 2017	Valuation Methodologies	Unobservable Input(s) (1)	Weighted Average (2)	Range	Impact to Valuation from an Increase in Input (3)
Private Equity	$2,394,498					
Private Equity	$1,131,550		Illiquidity Discount	9.2%	5.0% - 15.0%	Decrease
		Inputs to market comparables, discounted cash flow and transaction price	Weight Ascribed to Market Comparables	48.1%	0.0% - 50.0%	(4)
			Weight Ascribed to Discounted Cash Flow	49.3%	25.0% - 100.0%	(5)
			Weight Ascribed to Transaction Price	2.6%	0.0% - 50.0%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	13.5x	5.9x - 26.0x	Increase
			Enterprise Value/Forward EBITDA Multiple	12.0x	5.7x - 25.7x	Increase
		Discounted cash flow	Weighted Average Cost of Capital	9.8%	6.8% - 19.3%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	10.6x	6.0x - 13.4x	Increase
Growth Equity	$1,262,948		Illiquidity Discount	13.8%	10.0% - 20.0%	Decrease
		Inputs to market comparables, discounted cash flow and milestones	Weight Ascribed to Market Comparables	31.3%	0.0% - 100.0%	(4)
			Weight Ascribed to Discounted Cash Flow	9.9%	0.0% - 75.0%	(5)
			Weight Ascribed to Milestones	58.8%	0.0% - 100.0%	(6)
		Scenario Weighting	Base	53.2%	30.0% - 80.0%	Increase
			Downside	22.7%	10.0% - 40.0%	Decrease
			Upside	24.1%	10.0% - 40.0%	Increase
Credit	$3,865,070	Yield Analysis	Yield	11.3%	3.4% - 37.5%	Decrease
			Net Leverage	5.9x	0.3x - 19.3x	Decrease
			EBITDA Multiple	10.9x	0.1x - 18.4	Increase

Investments of Consolidated CFEs	$5,447,250 (9)					
Debt Obligations of Consolidated CFEs	$5,333,203	Discounted cash flow	Yield	5.4%	1.9% - 27.1%	Decrease
Real Assets	$2,423,419 (10)					
Energy	$1,267,241	Discounted cash flow	Weighted Average Cost of Capital	10.7%	9.6% - 16.9%	Decrease
			Average Price Per BOE (8)	$36.05	$30.34 - $39.39	Increase
Real Estate	$952,096	Inputs to direct income capitalization and discounted cash flow	Weight Ascribed to Direct Income Capitalization	34.2%	0.0% - 75.0%	(7)
			Weight Ascribed to Discounted Cash Flow	65.8%	25.0% - 100.0%	(5)
		Direct income capitalization	Current Capitalization Rate	5.8%	2.9% - 12.0%	Decrease
		Discounted cash flow	Unlevered Discount Rate	9.1%	4.5% - 20.0%	Decrease
Other	$1,771,627		Illiquidity Discount	10.6%	5.0% - 15.0%	Decrease
		Inputs to market comparables, discounted cash flow and transaction price	Weight Ascribed to Market Comparables	27.2%	0.0% - 100.0%	(4)
			Weight Ascribed to Discounted Cash Flow	46.8%	0.0% - 100.0%	(5)
			Weight Ascribed to Transaction Price	26.0%	0.0% - 100.0%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	11.6x	0.1x - 17.7x	Increase
			Enterprise Value/Forward EBITDA Multiple	9.9x	0.6x - 13.7x	Increase
		Discounted cash flow	Weighted Average Cost of Capital	11.1%	5.6% - 16.5%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	6.9x	2.2x - 9.0x	Increase

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(1) In determining certain of these inputs, management evaluates a variety of factors including economic conditions, industry and market developments, market valuations of comparable companies and company specific developments including exit strategies and realization opportunities. Management has determined that market participants would take these inputs into account when valuing the investments and debt obligations. LTM means last twelve months and EBITDA means earnings before interest taxes depreciation and amortization.

(2) Inputs were weighted based on the fair value of the investments included in the range.

(3) Unless otherwise noted, this column represents the directional change in the fair value of the Level III investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.

(4) The directional change from an increase in the weight ascribed to the market comparables approach would increase the fair value of the Level III investments if the market comparables approach results in a higher valuation than the discounted cash flow approach and transaction price. The opposite would be true if the market comparables approach results in a lower valuation than the discounted cash flow approach and transaction price.

(5) The directional change from an increase in the weight ascribed to the discounted cash flow approach would increase the fair value of the Level III investments if the discounted cash flow approach results in a higher valuation than the market comparables approach, transaction price and direct income capitalization approach. The opposite would be true if the discounted cash flow approach results in a lower valuation than the market comparables approach and transaction price.

(6) The directional change from an increase in the weight ascribed to the transaction price or milestones would increase the fair value of the Level III investments if the transaction price results in a higher valuation than the market comparables and discounted cash flow approach. The opposite would be true if the transaction price results in a lower valuation than the market comparables approach and discounted cash flow approach.

(7) The directional change from an increase in the weight ascribed to the direct income capitalization approach would increase the fair value of the Level III investments if the direct income capitalization approach results in a higher valuation than the discounted cash flow approach. The opposite would be true if the direct income capitalization approach results in a lower valuation than the discounted cash flow approach.

(8) The total energy fair value amount includes multiple investments (in multiple locations throughout North America) that are held in multiple investment funds and produce varying quantities of oil, condensate, natural gas liquids, and natural gas. Commodity price may be measured using a common volumetric equivalent where one barrel of oil equivalent, or BOE, is determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or natural gas liquids. The price per BOE is provided to show the aggregate of all price inputs for the various investments over a common volumetric equivalent although the valuations for specific investments may use price inputs specific to the asset for purposes of our valuations. The discounted cash flows include forecasted production of liquids (oil, condensate, and natural gas liquids) and natural gas with a forecasted revenue ratio of approximately 85% liquids and 15% natural gas.

(9) KKR measures CMBS investments on the basis of the fair value of the financial liabilities of the CMBS vehicle. See Note 2 "Summary of Significant Accounting Policies."

(10) Includes one Infrastructure investment for $204.1 million that was valued using a discounted cash flow analysis. The significant inputs used included the weighted average cost of capital 7.9% and the enterprise value/LTM EBITDA Exit Multiple 12.0x.

The table above excludes equity method investments in the amount of $571.6 million, comprised primarily of interests in real estate joint ventures, which were valued using Level III value methodologies which are generally the same as those shown for real estate investments.

In the table above, certain private equity investments may be valued at cost for a period of time after an acquisition as the best indicator of fair value. In addition, certain valuations of private equity investments may be entirely or partially derived by reference to observable valuation measures for a pending or consummated transaction.

The various unobservable inputs used to determine the Level III valuations may have similar or diverging impacts on valuation. Significant increases and decreases in these inputs in isolation and interrelationships between those inputs could result in significantly higher or lower fair value measurements as noted in the table above.

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6. FAIR VALUE OPTION

The following table summarizes the financial instruments for which the fair value option has been elected:

	June 30, 2017	December 31, 2016
Assets		
Private Equity	$576,936	$96,721
Credit	2,804,341	1,392,525
Investments of Consolidated CFEs	15,286,680	13,950,897
Real Assets	331,410	247,376
Equity Method	779,152	791,418
Other	387,040	240,343
Total	$20,165,559	$16,719,280
Liabilities		
Debt Obligations of Consolidated CFEs	$14,740,575	$13,858,288
Total	$14,740,575	$13,858,288

The following tables present the realized and net change in unrealized gains (losses) on financial instruments on which the fair value option was elected for the three and six months ended, June 30, 2017 and 2016, respectively:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Assets						
Private Equity	$689	$40,133	$40,822	$—	$846	$846
Credit	(169,500)	28,968	(140,532)	10,213	3,603	13,816
Investments of Consolidated CFEs	(3,777)	15,064	11,287	(183,816)	287,866	104,050
Real Assets	30	40,822	40,852	—	5,355	5,355
Equity Method	626	(23,408)	(22,782)	—	(7,804)	(7,804)
Other	(3,346)	(4,471)	(7,817)	—	(8,495)	(8,495)
Total	$(175,278)	$97,108	$(78,170)	$(173,603)	$281,371	$107,768
Liabilities						
Debt Obligations of Consolidated CFEs	35,621	(43,915)	(8,294)	102,542	(179,707)	(77,165)
Total	$35,621	$(43,915)	$(8,294)	$102,542	$(179,707)	$(77,165)

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Assets						
Private Equity	$689	$40,495	$41,184	$—	$(2,298)	$(2,298)
Credit	(408,598)	84,838	(323,760)	5,017	(42,038)	(37,021)
Investments of Consolidated CFEs	(4,880)	28,047	23,167	(220,805)	507,050	286,245

Real Assets	(186)	47,610	47,424	—	10,595	10,595
Equity Method	626	(3,046)	(2,420)	(1,991)	(101,097)	(103,088)
Other	(22,145)	12,810	(9,335)	(1,816)	(18,997)	(20,813)
Total	$(434,494)	$210,754	$(223,740)	$(219,595)	$353,215	$133,620
Liabilities						
Debt Obligations of Consolidated CFEs	40,446	(54,973)	(14,527)	102,542	(447,163)	(344,621)
Total	$40,446	$(54,973)	$(14,527)	$102,542	$(447,163)	$(344,621)

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7. NET INCOME (LOSS) ATTRIBUTABLE TO KKR & CO. L.P. PER COMMON UNIT

For the three and six months ended June 30, 2017 and 2016, basic and diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit were calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	$405,646	$93,890	$664,989	$(236,049)
Basic Net Income (Loss) Per Common Unit				
Weighted Average Common Units Outstanding - Basic	466,170,025	448,221,538	459,967,395	449,241,840
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Basic	$ 0.87	$ 0.21	$ 1.45	$ (0.53)
Diluted Net Income (Loss) Per Common Unit				
Weighted Average Common Units Outstanding - Basic	466,170,025	448,221,538	459,967,395	449,241,840
Weighted Average Unvested Common Units and Other Exchangeable Securities	35,007,398	33,588,074	38,975,899	—
Weighted Average Common Units Outstanding - Diluted	501,177,423	481,809,612	498,943,294	449,241,840
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Diluted	$ 0.81	$ 0.19	$ 1.33	