Date of call: July 3, 2014

Call participants: Mike Michelson, Jason Carss, Dan McLaughlin and Tom Ruggels

Purpose: For KKR to provide oral responses to Gary's letter of June 12, 2014 regarding SEC reviews and fees

Question 1. What was the date of your most recent review by the SEC?

Answer: KKR has had one "routine" exam by the SEC, which was completed in September 2013. The exam covered activities in years 2011 and 2012.

Question 2. Were there any findings or recommendations as a result of this review? If yes, please explain.

Answer: At the conclusion of the review, the SEC issued a "comment letter" which focused on 3 areas:

1. Allocation of Expenses
2. Capstone
3. Senior Advisors

The SEC concluded that certain "strategy expenses" including senior advisor fees, research fees and broken deal expenses should have been allocated differently among investment vehicles. The focus was on allocation of expenses during the period 2009 – 2011, there were no issues relative to allocations in 2012 and after. The SEC determined that, in aggregate, approximately $[redacted] million of expenses that were allocated to KKR funds, should not have been allocated to the funds. As a result, KKR gave LPs fee credits totaling $[redacted] million, the WSIB's share of that credit was approximately $[redacted] thousand.

[redacted]

Relative of Capstone, the comment letter focused on two areas. The first was a disclosure point. The SEC said in its PPMs, KKR should provide more disclosure about what KKR does to support Capstone. This includes cash subsidies, short-term loans and administrative services that KKR has provided to Capstone over time. KKR has agreed to make these additional disclosures.

The second point relates to fees Capstone receives from vendors as a result of its procurement program in which Capstone aggregates the purchasing power of KKR's portfolio companies in order to receive volume discounts. The program is executed by Coretrust, a company owned by HCA (a KKR portfolio company). Coretrust receives fees from vendors to participate in the program, and a portion of these fees were paid to Capstone. While Capstone did disclose the receipt of these fees to the portfolio companies, KKR did not disclose them to the fund LPs. KKR felt there was no need to disclose them as the fees all went to Capstone and none to KKR. However, as a result of the finding, Capstone agreed to "give these fees up" to the LPs, and WSIB's share of this credit was approximately $[redacted]thousand.

Lastly, the comment letter recommended that KKR increase its disclosures about the use of senior advisors, including how they are compensated. KKR will be making these additional disclosures in the future.

Question 3. What types of fees does your firm charge to portfolio companies and how are limited partner offsets applied?

Answer: KKR receives various fees from portfolio companies, including transaction fees in connection with the purchase of a company (and sometimes in connection of the sale of a company), monitoring fees (including directors' fees) and in certain cases receives breakup fees in connection with unconsummated transactions. These fees are first used to reimburse KKR for any un-recouped broken deal expenses and the net amount received is split either 80/20 or 100/0 (depending on the fund terms and the LP's election), with the 80% or 100% being offset against the LPs management fee.

In KKR's older funds, directors' fees went directly to the individuals and were not subject to fee sharing. However, in all more recent funds, director's fees are shared with LPs the same as other monitoring fees.

Capstone fees are not subject to fee offsets, as Capstone is owned by its employees (not by KKR). Fees earned by KKR Capital Markets (KCM) in connection with underwritings and financings are also not shared, but are disclosed to the LPs. KKR has an arrangement with a consulting firm called RPM which it uses (similar to Capstone) only on oil and gas investments. Fees paid to RPM are also not shared with the LPs.

Question 4. How does your firm allocate transaction, monitoring and similar fees when more than one fund or a co-investment vehicle is invested?

Answer: Fees received by KKR are allocated across participating funds relative to the equity ownership percentage of each fund to KKR's total equity. The fees allocated to a particular fund are then shared with LPs according to the terms of the LP agreement and the LPs election. In the case of co-investment, the share of fees allocated to the co-investment is paid either to KKR or to the co-investor, depending on the terms of the agreement negotiated with the co-investor. Typically, since the co-investment is charged no fee or carry, the co-investor's share of fees will be allocated to KKR, and those fees will not be subject to sharing with the LPs.

Question 5. How does your firm charge for its operational resources and services?

Answer: Capstone fees are charged directly to portfolio companies and are not subject to fee sharing arrangements with LPs as Capstone is owned by its employees and not by KKR. In the same way, the companies would be charged directly for any outside consulting services utilized from firms such as Bain or McKinsey

Question 6. How does your firm use and charge for advisors?

Answer: KKR has a number of Senior Advisors/Industry Advisors that are utilized in connection with certain transactions related to that advisor's area of expertise. These advisors receive a combination of cash compensation, a portion of the carry and equity in the public company (KKR). The portion of the cash compensation that can be directly attributable to a deal based on hours worked is charged to the portfolio company. Other time not allocated to a specific company is paid by KKR.

Question 7. Does your firm charge its funds for back office services?

Answer: The cost of employees' salaries & benefits and the cost of facilities, such as rent and furnishings are paid by KKR and are not allocated to the funds. Travel expenses related to the management of the fund are charged to the fund or to a specific portfolio company. Most outside consulting fees are paid either by the fund or by specific portfolio companies. Other cost directly related to fund operations or management are paid by the funds.