

Video Transcript

In conversation

HSBC's Annabel Spring talks investing with Henry Kravis

Filmed on 15 May 2024

Annabel Spring

Welcome everyone. I'm Annabel Spring, CEO of Global Private Banking and Wealth for HSBC. And I'm joined today by Henry Kravis, the Co-Founder and the Co-Executive Chairman of KKR.

So, Henry, you've had an amazing journey. You co-founded with your two partners KKR in the 1970s. You were a pioneer in the leveraged buyout space, and now you're a behemoth in private equity.

If you were to go back to the '70s and look at where you've come, would you ever have imagined the success of this journey and the ongoing evolution of the firm?

Henry Kravis

Well, it's very funny. First of all, I'd like to say that we're in the first inning of a nine-inning baseball game at this point. And I've been saying that for many years because that's sort of how I feel. I look back, and we started the firm with a total of \$120,000. That was it. And I put up \$10,000. George Roberts, my first cousin, he put up \$10,000, and Jerry Kohlberg, who was 19 years older than both of us, put up \$100,000. So we started the firm with \$120,000, and I guess we got lucky. And, you know, a little hard work, and here we are today. And so, no, I didn't know where we'd be. All I could think of was just stay in business five years and hopefully we can get there.

One of the first things, though, that I want to talk to you about, because to me it is the DNA of KKR, and it is the most important thing. That's our culture.

And we wanted a culture where everybody at the firm participated in everything we did, whether you worked on a transaction or you didn't work on a transaction, or whether it was your idea or somebody else's idea. It didn't matter; we could bring everybody along together, and everyone would help each other so that anybody giving us capital, they got the whole firm. They didn't just get one person at the firm who they knew.

We're 48 years into this journey, and the culture is exactly the same that we started with in 1976.

Annabel

So that's an amazing journey. One of the things that intrigued me is you've extended that culture not only to the partners and to the members of your firm, but also to some of the employees in the firms that you've acquired. Just talk a little bit about the rationale and the benefits of that.

Henry

So about 10 years ago, we came up with this idea of really spreading the ownership much further than, say, the top 25 executives in a company. We wanted everyone in any company that we were involved in to become an owner, in effect. And so this has been great. We today have over 100,000 employees that have benefited by this. And over 40 companies that we've put this in. We hope to have this in every company we're involved in around the world.

Annabel

So it used to be that private equity was for institutions, for family offices and for the ultra high net worth. And now private capital is a little bit more accessible. Do you want to just talk a little bit about the changes in the structure of the offerings?

Henry

Well, it's an interesting question, and you're right, for a long time it was just institutions. And then it became some ultra-high-net-worth people and a few family offices. Today, many family offices and the ultra-high-net-worth person is investing in the alternatives space.

But why shouldn't the individual investor have the same opportunity that an ultra-high-net-worth person does? Or, more importantly, than an institutional investor?

What we're offering is the opportunity to have an open-ended investment to participate along the same lines as an institutional investor. We've been able to set up products in the four main areas that we are involved in. One is private equity, two is real estate, three is infrastructure, and four is credit.

I'm not saying they should go into all their portfolio; that's not the right thing to do.

Annabel

Diversification is important.

Henry

Diversification is very important. But if you just look at the returns versus bonds and stocks over a long period of time, the alternatives space has beaten it over a long period of time.

Yes, there'll be some years where stocks may do better than private equity, or that bonds may actually do better than that. You can't look at it in a one-year period. You really have to look at over a 5-to-10-year period when you're thinking about it.

Annabel

And I agree, it can be a really interesting part of the diversification of an individual investor's portfolio to have access in a really convenient way to those alternative products, which previously, you know, individual investors were not able to do.

So, Henry, the world feels a little bit uncertain right now. So we've got rates that are higher for longer, even though inflation seems to be coming down. We've got elections in at least half the world. But as we look at the dynamic at the moment, our theme for our clients is put your cash to work. How do you think about that?

Henry

Oh, I couldn't agree more. Too many people are focused on the still photo as opposed to the movie. They're focused on where we are today versus where is there opportunity somewhere down the road.

So you have to anticipate, I think, that, yes, inflation will probably stay higher longer than what most people think. That doesn't mean there isn't opportunity. There's opportunity all over the world. And you have to create your own opportunity – and to think about this: we're not stockpickers, that's not what we do. If you're investing in private equity, you're making an investment for the long term. So, yes, I'm in total agreement with you, putting cash to work is good. You can't just be sitting on the sidelines, put your cash under the mattress, that's not going to earn any money for you.

Annabel

So stay invested, stay diversified, and if possible and appropriate, a portion in alternatives.

Henry

Absolutely.

Annabel

Let's just touch briefly on geography and diversification in geography. Where in the world is interesting to you at the moment to invest?

Henry

There are two countries in particular that we're very high on. One is Japan and one is India. Asia, we think, is the future in general. Now, it took a long time to break into Japan because Japan was a closed society that has opened up now. They really want new, innovative ideas. Companies have much better governance today than they had before. India, on the other hand, is the beneficiary in many ways of very good government. They put in very good infrastructure now – it's not finished yet, but that is going a long way. And a number of companies are saying, I want to open operations in India because they've got a well-educated workforce, a large workforce, obviously. So we see India as real opportunity today.

Annabel

So you look at everything through the lens of opportunity?

Henry

Yes.

Annabel

Many of our clients are founders like you or business people like you, and one thing that you are famous for and you've done brilliantly is start as a partnership. Those three guys with \$120,000.

And then you've taken the firm public. And then you've turned the firm into a corporation, and now you've become Co-Executive Chairman and have put in place two Co-CEOs. Can you talk a little bit about that process, how you thought about it, and what are the elements that have made that, from the outside at least, that succession so smooth?

Henry

I love this question, because I am so proud of, one, how George and I were able to handle this.

Joe Bae and Scott Nuttall came into the firm together. They are closest friends. Joe had done a phenomenal job of building up Asia for us. Scott, on the other hand, was incredibly creative, helped set up our credit business, which today is our largest

business, helped set up our capital markets business. He's a very good investor, as is Joe, a great investor. And the fact that they lived our culture 1,000%, that was the most important thing to George and me. We did not want to lose that culture and value system that we have at KKR. We lose that, we lose our DNA, in my view.

And so they became chief operating officers. And then about two and a half years ago, we said to them, well, it's time for you to become the Co-CEOs.

And George and I kidded them and said, okay, now we can go start our own firm. They didn't think that was very funny. And so, we said, no we're just kidding you. And they said, well, we don't want you going anywhere, we want to work with you. And so here we had two people that respected the formation of KKR, respected what George and I could bring to to to the party, and really wanted to work with us.

And we said, but you're the CEOs now, and you'll figure it out. We're going to help you, but you're the CEOs. I'm probably busier today than I've ever been, even though I'm now Co-Executive Chairman, because I'm doing different things.

So we're working really well, and it's seamless.

Annabel

You're really to be congratulated. It's a wonderful story, a wonderful journey that is not nearly done yet. Thank you so much, Henry, really appreciate the time.

Henry

Thank you, Annabel. Appreciate it.