Issuer Name

KKR

Security Name

KKR Credit Income Fund

Security Recommendation

Subscribe

Security Risk

High

Issuer Outlook

Improving	**Stable**	Deteriorating

Key Characteristics

Product Type	Listed Investment Trust	**Sub-Asset Class**	Credit
Issue Size*	$200 - $750 million	**Manager**	KKR Australia Inv. Mgmt. Pty Ltd
Net Asset Value	$2.50	**Administrator**	JP Morgan
Fixed/Floating	Floating	**Responsible Entity**	The Trust Company (RE Services) Ltd
Payment Frequency	Quarterly	**Custodian**	JP Morgan
Target Distribution	4.0-6.0% p.a. (net of fees & expenses)	**Unit Registrar**	Boardroom Pty Limited
Franking Credits Incl.	No	**Offer Opens****	23 September 2019
ASX Listed	Yes (ASX Code: KKC)	**Offer Closes****	6 November 2019
Convertible	No	**Allotment Date**	18 November 2019
GICS Sector	Not Applicable	**Commences Trading on ASX**	21 November 2019
Asset Class	Fixed Income	**First Payment Date**	February 2020

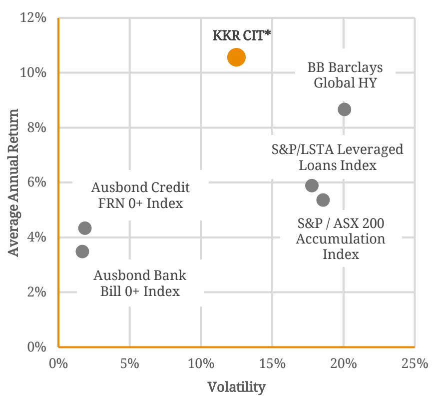
* Issue size excludes Oversubscriptions of up to $75 million. ** Dates are varied based on application mechanism (Cornerstone, Broker Firm & General Offer). Broadly, earliest and latest dates are shown, but we advise investors to check details.

Summary

The KKR Credit Income Fund ('the Trust', 'CIT') is a listed income trust (LIT) designed to provide investors with access to high income generating credit investment ideas globally through KKR Credit's product suite (ASX Code: KKC). The trust will incorporate a blend of KKR's existing leveraged credit and private credit capabilities through the firm's Global Credit Opportunities Fund (GCOF) and European Direct Lending (EDL) strategies. Through the trust, investors will gain exposure to KKR's $67.1 billion credit platform and a strategy highly diversified across geography, sector and credit quality. The KKR Credit team consists of 120 dedicated investment professionals around the world who are supported by KKR's global network of 425 investment professionals, utilising a "One Firm Approach" that allows KKR to leverage the best insights from across the firm to benefit its clients.

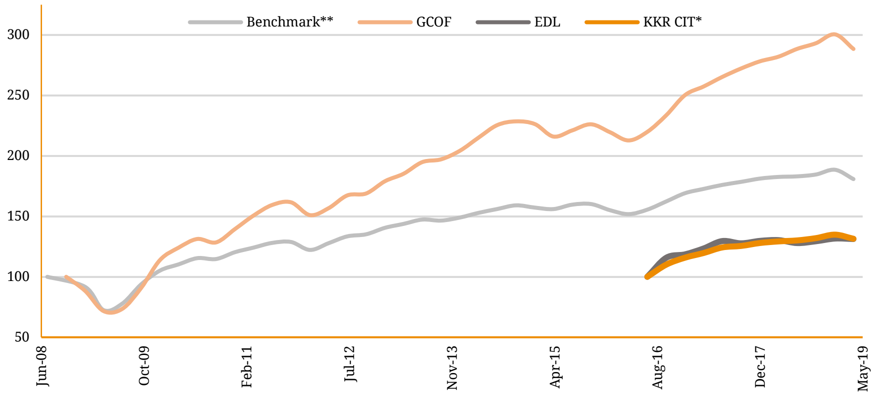
The investment objective of the trust is to provide stable income with a target distribution of 4-6% p.a. net of fees and expenses, payable quarterly and a medium-average total return of 6-8% p.a net of fees and expenses. The trust aims to provide investors with attractive, risk-adjusted returns and access to a diversified portfolio of income generating alternative credit investments through existing KKR funds. As all investments are made outside of Australia, the manager intends to hedge currency risk back to AUD. We also note that although neither the GCOF and EDL strategies employ leverage for investment, it is used for cash management purposes.

Figure 1: ~10Y Risk & Return



* KKR CIT based on 60% GCOF & 40% EDL contributions

Figure 2: KKR Strategy Performance



** Benchmark based on 50% Barclays High Yield Index & 50% S&P LSTA Index

Security Recommendation - Subscribe *as at 18 September 2019*

This product is best recommended for investors looking to generate an attractive level of income from a diversified portfolio of public debt and private loans that should exhibit a low correlation to traditional asset classes, making it a suitable diversifier to retail investor income portfolios, which are typically biased towards domestically sourced, equity-based and/or hybrid income streams. Our basis for recommendation on the KKR CIT is a blend of both subjective and objective analysis of the underlying portfolio and the manager's background, experience, analytical capability and proven track record in managing various private debt strategies.

A Listed Investment Trust (LIT) structure derives unit holder returns from two sources: distributions and capital returns from the underlying portfolio and share price movements which drive the prevailing premium/discount to Net Tangible Assets (NTA). The latter is a function of market and manager sentiment but also reflects liquidity and structural features of the trust. Price movements away from NTA would, in our opinion, be more speculative and not a function of asset fundamentals or financial risk management. The former is of course subject to risks, however the investment manager's successful implementation of its portfolio strategy and risk framework have been in existence since 2004.

The Trust boasts a unique return profile that leverages KKR's across Private Debt and traded credit strategies, that in combination generate high cash coupons, whilst providing opportunity for upside and downside capture throughout the market cycle that will enable the LIT to meet its investment objectives if executed successfully. Portfolio risk is actively managed through a highly diversified strategy at an asset, strategy and geography level. We are of the firm belief that for asset managers to consistently produce superior risk-adjusted returns they must either have a unique investment strategy, access to specialist products and/or have a competitive advantage. In this case, we believe that KKR possesses all these traits and has assembled a highly experienced and talented team with deep industry relationships to execute upon the strategy and generate outsized returns relative to volatility.

Broadly, a new wave of accommodative monetary easing has dampened yields across the globe and has left investors with fewer available and stable income-generating opportunities without incurring an increased degree of risk.

The RBA's recent rate cuts (mid 2019) has arguably extended the later stages of the current credit cycle which poses a risk to all asset classes, but given the KKR CIT's high level of diversification, reduced correlation with traditional fixed income instruments and KKR's experience in successfully navigating similar strategies through market downturns, we are confident in the abilities of KKR moving forward. We note that the illiquid nature of the EDL strategy within the trust means that it should be considered as a medium to long-term investment by investors. However, this risk is partially mitigated by KKR's proactive approach to credit and portfolio risk management, in addition to a higher weighted level of traded credit within the portfolio.

Overall, the KKR CIT is led by a highly experienced team and supported by one of the most highly respected private-markets asset managers around the Globe in KKR. The alternative lending space is becoming an increasingly popular sub-asset class due to its attractive and steady income levels and strong risk-adjusted returns. Furthermore, the opportunistic credit strategy will enhance the underlying liquidity profile of the LIT whilst offering downside protection to support capital preservation.

For all the above reasons, we recommend investors **Subscribe** to the KKR Credit Income Trust.

Positive / Negative Risk Factors

What factors would change the Recommendation UP

- KKR is a global alternative investments firm with over $199 billion in assets under management with a network comprising over 425 investment professionals across private and public markets spanning across four continents in 20 cities around the globe. The firm has extensive knowledge across credit, private equity, real estate and infrastructure, with the 22 most senior KKR Credit professionals having average of 20 years' experience.

- The KKR Credit platform was incepted in 2004 and consists of Leveraged Credit, Private Credit and Special Situations strategies. The firm has experience managing through economic cycles, with a senior leadership team that has been working together for the past 10 years with an average of 20 years' experience.

- KKR is able to utilise its global network of professional relationships developed through its Private Equity industry teams and "One-Firm" approach to source, originate and underwrite transactions on favourable terms for the firm through robust deal flow.

- The dual-fund structure of the trust offers diversification across strategies, geographies, industries across ~150 credit issuers within the total portfolio. The firm has strong risk management and internal controls in place at a firm-wide and industry-wide level, with ~90% of the combined funds comprised of senior debt, which minimises downside risk.

- KKR places a strong emphasis on capital preservation. This is exemplified by the Firm's investment history relating to leveraged and 'covenant-lite' loans where KKR has the resources and ability to enforce covenant breeches. Often KKR elects to act swiftly to ensure maximum value is recovered from the investment rather than waive covenants.

- KKR has a successful history of issuing and managing listed vehicles in developed markets such as the US. This gives investors a level of confidence in the operational and structural risk management of the product. This is further supported by KKR's strong governance framework.

What factors would change the Recommendation DOWN

- Given the unit price of the LIT is determined in a public market (ASX), the value of the product will be more sensitive to news flow and other announcements relative to KKR's wholesale offerings.

- Deterioration in credit quality (or issuer defaults in a worst-case scenario) can lead to capital losses for investors. However, we believe this risk is partially mitigated given the firms strong track record, experience in managing active credit strategies and strong risk management framework.

- While we are content with the internal controls within the Leveraged Credit, Private Credit and broader KKR Credit investment platform, operational risk is always a threat to portfolio performance. This includes the failure of internal procedures and human error or misjudgement.

- The private nature of the EDL strategy gives rise to a significant portion of the fund being invested in illiquid assets that may make exiting these positions for their held value difficult in some circumstances. However, we believe this risk is partially offset by the funds senior position in the capital structure for these investments.

- A lower interest rate environment would dampen yields across various debt instruments employed and there may be a risk that the target net distribution of 4.0-6.0% p.a. will not be met. We note this is a remote possibility currently and supported by the fact that loans within the portfolio are supported by 'floors' in reference rates that are built into funding instruments.

Issuer Outlook - Stable *as at 18 September 2019*

Investment Objectives, Strategy & Performance

The KKR Credit Income Trust (CIT) is a listed investment trust (LIT) designed to provide investors with access to KKR's income generating global credit investments, which seeks to capitalise on attractive opportunities that KKR identifies in the market. The Trust aims to provide Unitholders with a stable income stream in addition to achieving long-term capital appreciation over a full market cycle through its highly diversified credit investment portfolio. The Trust has a target distribution of 4-6% per annum and average target total return of 6-8% (net of fees and expenses) through the combination of the Global Credit Opportunities Fund (GCOF) and European Direct Lending (EDL) strategies. By blending together these strategies, the CIT is estimated to be comprised of fixed income securities that are; geographically diversified across Europe (54%) and North America (46%), invested in senior positions within the capital structure (86% Senior vs 14% Subordinated) and are primarily floating rate in nature (72%), as opposed to fixed (28%).

As these two strategies are fundamentally distinct and vary significantly from one another, we have elected to separate our analysis for each below.

Global Credit Opportunities Fund

The GCOF strategy was incepted in May 2008 and is KKR's flagship strategy in traded credit, offering a conviction-based strategy that invests across a diversified portfolio of fixed income securities and financial instruments, with over 90% of the fund invested in US domiciled companies. The Strategy currently has $2.3 billion in AUM, with GCOF currently comprising ~$1.2 billion of this. GCOF is anticipated to comprise 50-60% of the CIT and has a target unlevered return of 8-10% (AUD). The fund invests in various types of fixed income securities and strategies, including Leveraged Loans, High Yield Bonds, Opportunistic Credit, Collateralised Loan Obligation's (CLO's) and Revolving Credit.

Given the macroeconomic and political uncertainty currently around the world, dislocations have emerged in various geographic credit markets, resulting in heightened volatility and incremental buying opportunities for the fund. Furthermore, the GCOF investment team members are assigned specific sectors and are asset class indifferent, investing across all levels of the capital structure as ideas are generated across the KKR platform. This has resulted in a 12.2% composite gross return since inception for the fund, outperforming its benchmark (50% BAML HY Master II and 50% S&P LSTA) in each year since inception. Although we do note that this outperformance has occurred during a period of market recovery post-GFC and do exercise some caution on the trust's ability to preserve capital during periods of financial stress. However, GCOF has consistently ranked in the first quartile for performance amongst peers over the past seven years, highlighting the investment teams' skills and expertise relative to peers.

Furthermore, the fund's focus on risk-adjusted returns and diversification has seen it exhibit 121% 'up capture' in strong market months since inception, whilst also delivering outperformance in market down months with 65% 'down capture' since inception, ensuring capital preservation whilst capturing alpha in both market downturns and market booms – reflective of lower duration risk through strong asset selection and dynamic asset allocation.

European Direct Lending

The EDL strategy seeks to generate income through investments solely originated from the senior debt of European companies. It provides investors with a high coupon investment option with a focus on diversification to minimize downside risks and deliver superior risk-adjusted returns. The EDL strategy is expected to have an allocation between 40% and 50% following the trust's initial ramp up period.

The EDL's team investment philosophy focuses on upper-middle market borrowers, investing in first lien senior secured and second lien investments in companies which are strongly positioned within stable industries. KKR is able to achieve favourable terms with borrowers through offering customised financing that allows its investment teams to tailor covenants and arrange flexible terms whilst offering a long-term partnership with companies as opposed to a more transaction-based relationship. This not only benefits investors through the generation of attractive returns, but also provides investors and the firm with additional protections if a negative credit event occurs. Recently, KKR's EDL strategy has begun to evolve towards larger borrowers (EBITDA >50m) due to the combination of stronger credit fundamentals and the ability of KKR to achieve more attractive terms given there is less competition from lenders in this segment of the market, giving the firm a considerable competitive advantage in this space.

KKR has successfully run it's EDL strategy through the KKR Lending Partners Europe I (KLPE I) fund since its inception in

2015. The fund has currently committed 92% of its initial capital raised through 28 positions (19 of which are current) with an average position size of ~EUR 23-25 million. As of 31 March 2019, KLPE I portfolio companies had a weighted average EBITDA of EUR 60 million at a weighted average all-in yield of 8.4% (includes upfront discount and PIK positions). This has resulted in KLPE I recording a gross IRR of 13.4% on fully realised positions (unlevered and in USD) - the equivalent to 1.15x gross multiple of investment since the fund's vintage year in 2015. This is in comparison to a 3.3% USD (levered) gross IRR of the fund's benchmark – CS Western European Loan Index.

Liquidity, Operational & Financial Risk Management

KKR employs an integrated approach to risk management by utilising a multi-faceted approach that is supported by ongoing monitoring and re-underwriting of the portfolio to ensure capital preservation. The firm's fundamental credit investment philosophy is followed by investment teams when conducting credit underwriting with rigorous financial analysis. Its investment teams are supported by portfolio and risk management technology functions.

Monitoring the firm's Private Credit portfolio is the Portfolio Monitoring Unit (PMU) which consists of 9 credit analysts and is headed by a Director, Johnny Mullins. The PMU is responsible for the ongoing monitoring and unbiased assessment of ~135 credits with the objectives of ensuring consistent, comparable analysis across portfolios and systems to enhance governance, risk management and data quality. This is achieved through the PMU taking a proactive approach to the existing private credit portfolio through a "high-touch" model which has the PMU interacting with company management and sponsors on a monthly basis in addition to standardised internal reporting. We also note that the PMU works closely with origination teams who remain heavily involved throughout the deal process and are the primary relationship owner with the portfolio company or sponsor.

The KKR Credit Portfolio Management Committee (PMC) is comprised of nine senior members across Leveraged Credit, Private Credit and Special Situations. The PMC works in unison with the PMU and is responsible for reviewing the performance of portfolio's in addition to monitoring portfolio-level risks and exposures. On top of this, the PMC will typically collaborate with the Private Credit Investment team on a quarterly basis to re-underwrite each credit within the portfolio. After each Investment Committee meeting, colour and risk grades are assigned to each investment and are reviewed at each quarterly PMC meeting thereafter. Colour grades indicates the performance of a credit versus the investment thesis/plan laid out by the credit analyst when the idea was pitched to the investment committee. Risk grades are synonymous with their name, with a higher number grade indicating a higher potential for capital loss, thus providing an indication of the inherent risk of the asset. The risk management program for GCOF involves the appropriate trading, sizing, diversification and hedging of positions based upon the position's risk/reward profile, liquidity, price performance, correlation and technical attributes of the different types of investments involved.

In addition to the PMC and PMU, there is a central risk team that consists of four Risk Managers and five IT staff who support the risk function of the business and sit within the investment team. The risk team maintains dual reporting lines to both portfolio managers and the KKR Market Risk committee and utilises a wide array of risk management tools that enables real-time discussions between portfolio managers, analysts and traders. This is enabled by the firm's proprietary technology system "CreditQB" which captures portfolio composition, financial data and commentary in a single system in conjunction with several external systems.

Furthermore, the independent Risk & Analytics team has implemented MSCI's RiskMetrics RiskManager to strengthen risk monitoring. RiskManager provides market exposures and sensitivities across a broad range of instruments using multiple Value at Risk (VaR) methodologies and stress-testing, which will then be discussed in weekly meeting between the Risk & Analytics team and portfolio managers.

The Liquidity Risk of the KKR CIT is limited as a result of its listed nature that allows it to be actively traded on the ASX. From an underlying perspective, liquidity risk largely relates to the ability of the portfolio managers to enter and exit positions to capitalise on investment opportunities efficiently and divest deteriorating credits promptly. However, due to the dual-fund structure of the trust its underlying liquidity profile is hard to quantify with accuracy. Whilst the GCOF is primarily comprised of liquid securities that are actively traded in secondary markets, the trust's EDL portfolio is made up of illiquid assets that may be difficult to dispose of for fair value due to the inherent characteristics of the private credit market.

Operating Risk is defined by the Basel Committee on Banking Supervision (BCBS) as "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events". As such, operational risk captures business continuity plans, environmental risk, crisis management, process systems and operations risk, people related risks, health and safety, and information technology risks. This includes errors in internal controls, hedging policies and other operational aspects of the KKR CIT and/or underlying portfolio. The internal controls are overseen by a variety of governance functions (see next section), whilst hedging and interest rate derivatives functions could pose a risk to portfolio returns. Whilst FX risk is minimal to the GCOF as the majority of investments being made are in US domiciled companies, this does pose a larger risk the EDL component of the trust. However, FX risk is actively managed and tracked by the EDL portfolio managers in conjunction with KKR Credit's Treasury team to hedge currency risk back to the base currency of each fund sleeve (USD, EUR or GBP).

Governance, Asset Stewardship & Internal Controls

KKR is a large, global alternative assets manager with investment professionals and offices spread across the globe. As such, firm-wide governance is crucial to ensure internal controls are established and maintained. Importantly, these functions are independent of the portfolio construction process and comprise dedicated committees providing continual oversight.

The firm maintains a dedicated Risk and Operations Committee who provide direct oversight over the trust's mandates. The committee meets on a quarterly basis and is accountable for mitigating investment, operational and process risks. Asset

Stewardship and Internal control functions of the trust are handled by a dedicated Operations and Finance team who cooperate with the Responsible Entity and Administrator of the Trust.

At a product level, the KKR CIT is a closed-ended listed investment trust (LIT) domiciled in Australia (issued by KKR Australia Investment Management Pty Ltd) with a single class of units on issue. The LIT is registered with ASIC as a Managed Investment Scheme, and The Trust Company (RE Services) Limited is the Responsibility Entity (RE) acting in the best interest of holders. KKR Australia Investment Management Pty Ltd is the Manager of the trust as well as the Investment Manager. The Product Disclosure Statement (PDS), Trust Deed and Investment Management Agreement (IMA) are key documents governing the KKR CIT.

Quantitative Analysis

In quantitatively evaluating the future performance of this strategy, we have adopted the CreditMetrics framework, a proven methodology created by JPMorgan in 1997 which was later purchased by MSCI in 1999. We note that the portfolio is subject to two broad overarching risks, namely credit and liquidity, but the latter is challenging to model with conviction, especially in a market where publicly-available transactional data is limited. For this reason, our focus will be solely on credit risk for analytical purposes.

The CreditMetrics model attempts to model credit migrations (i.e. improvements or deteriorations in the credit quality of an asset), which will directly impact the valuation of KKR CIT (through Net Asset Value). Based on estimated fair value yield curves, we can revalue each individual holding for each derived credit rating. Although KKR has a robust track record in avoiding defaults, our analysis places no limit on adverse credit migration to model a possible worse-case scenario for investors. We note that this approach is therefore more applicable to broader public asset classes and takes no implicit assumption of KKR's capability and longstanding track record in avoiding defaults.

We model the probability of mark-to-market losses from Moody's historical data known as transition rates (Table 1 below). Specifically, this data represents long-term statistics (1981-2018) regarding the probability of an issuer being upgraded or downgraded from its current credit rating over a certain period. Additional commentary and modelling of different transition rates can be found in Appendix 3, which examines the impact of distressed (2009) and benign (2018) economic conditions.

Despite the recommended investment horizon being 3-6 years, we apply a one-year credit migration outlook for our quantitative framework to limit the uncertainty of variables. For each rating band and for the majority of the population, an instrument's credit rating is likely to remain static over this timeframe with some probability (>10%) of a one-notch upgrade or downgrade. Note that the probability of a credit rating downgrade will typically exceed the probability of an equivalent rating upgrade, highlighting that credit migrations are negatively skewed. Our analysis builds on the principles behind Merton's structural credit model to randomly generate a series of credit ratings in one year's time. The core assumption is that asset (firm) returns are normally distributed and that the value of an issuer in one year is determined by the credit rating (or default) of the company at that time.

Table 1. Moody's Global Corporate 1-Yr Credit Rating Transition Rates and Average Recovery Rates[1]

Current Rating	1-Yr Forward Transition							
	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	91.11%	8.18%	0.61%	0.07%	0.02%	0.00%	0.00%	0.00%
AA	0.84%	89.62%	8.95%	0.44%	0.06%	0.04%	0.02%	0.02%
A	0.05%	2.59%	91.14%	5.51%	0.50%	0.11%	0.04%	0.06%
BBB	0.03%	0.15%	4.29%	90.58%	3.90%	0.71%	0.16%	0.19%
BB	0.01%	0.04%	0.45%	6.74%	83.28%	7.67%	0.77%	1.05%
B	0.01%	0.03%	0.15%	0.49%	5.37%	82.53%	7.32%	4.10%
CCC	0.00%	0.02%	0.02%	0.09%	0.39%	7.63%	79.82%	12.03%

[1]Average transition rates from 1981-2018
Source: BondAdviser, Moody's

As mentioned, the KKR CIT consists of two different "sleeves" being GCOF and EDL. Given the unique nature of each of the sleeves, our methodology was applied individually across the two sets of portfolio assets, before aggregating the weighted contributions to determine KKR CIT performance (Figure 3). We assume there is no FX impact, (noting this is mostly mitigated by KKR themselves through hedging on a 3-month forward basis). Any equity or predominantly equity-like asset (~<3% of GCOF) have been ignored for the purposes of this analysis.

We simulate 10,000 scenarios where each portfolio asset has an end credit rating defined by the transition probabilities in each of the two sleeves. Mapping valuation changes to these hypothetical credit rating states, we derive a probability distribution of portfolio valuations for each sleeve (Figures 4-5). The revaluation overlay allows us to estimate (unrealised) credit loss over a one-year horizon and illustrates the valuation impact of adverse credit migrations across all two sleeves of the KKR CIT and the portfolio in total.

As illustrated, portfolio exposure remains largely grounded at current levels with a small skew to the downside reflecting the natural characteristics of credit investing. Given the portfolio is entirely comprised of non-investment-grade assets, our estimated credit loss is very manageable with a mean loss of ~3.68% and with portfolio value-at-risk (at a 1% VaR probability) of a ~7.20% loss. This largely reflects the lower credit quality of individual assets and the explicit inability for loan assets to be revalued upwards. The punitive historical recovery rates of secured asset class (~49% in default) and senior unsecured (~38% in default), support our ultimate assessment of the KKR CIT's approach, given KKR can explore restructuring strategies that banks cannot due to regulatory constraints.

The quantitative framework defines the forward-looking risk score for our overall product assessment of the KKR CIT. This is consistent with the BondAdviser Fund Research Methodology and overlays an objective evaluation to our recommendation. On the basis of our analysis, we assign the KKR CIT a risk score of ‘B’ which also equates to a weighted-average credit rating of the portfolio at the end of a one-year period.

Figure 3. Indicative KKR CIT Credit Migration Impact – Combined Portfolio (GCOF 60%, EDL 40%)

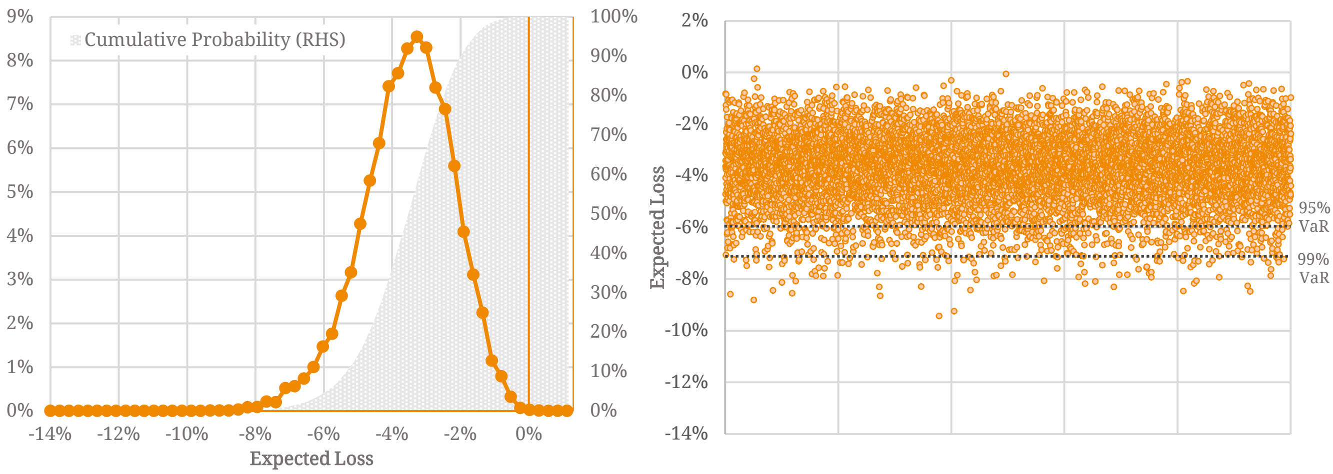


Figure 4. GCOF Sleeve - Credit Migration Impact (LHS) & Simulation (RHS)

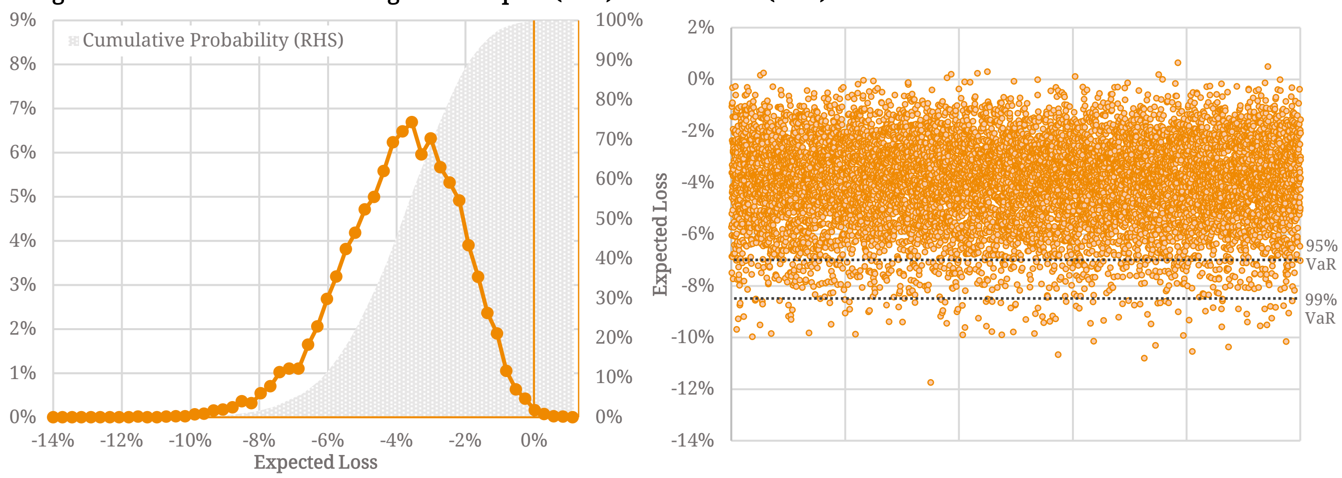
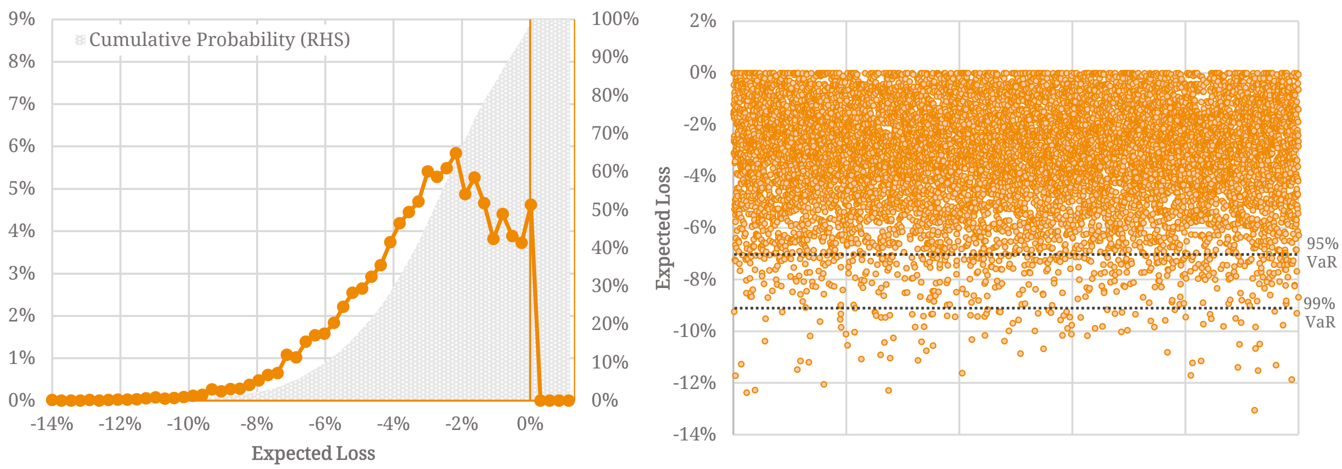


Figure 5. EDL Sleeve - Credit Migration Impact (LHS) & Simulation (RHS)



The indicative KKR Credit Income Trust, has a mean loss of ~3.68% (as mentioned above), median loss of ~3.60% and displays a largely symmetrical distribution (γ_s = -0.4) given the upward interaction of the bi-modal EDL sleeve (40% weighting) with the negatively skewed GCOF sleeve (60% weighting).

For the GCOF sleeve, standalone portfolio value-at-risk (at a 1% VaR probability) is ~8.51%, mean loss is ~4.01%, median loss is of ~3.89% and has a small negative skew (γ_s = -0.5). This is a function of the positive revaluation upside from migration upwards in underlying bonds held in GCOF.

For the EDL sleeve, standalone portfolio value-at-risk (at a 1% VaR probability) is ~9.10%, mean loss is ~3.19%, median loss is of ~2.91% and has a negative skew (γ_s = -0.8). This is a function of the underlying direct loans having no revaluation upside in the case of positive migration. The distribution is more bi-modal (less smooth), given the smaller number of underlying assets, which results in fewer possible simulated outcomes.

Whilst only GCOF holds high yield bonds, both strategies contain loans, albeit in different forms (direct lending of EDL, compared to CLOs and tradable leveraged loans). Loans are generally held to maturity by the lender and are independently priced but often have less price volatility than would otherwise occur with more traded fixed-income instruments such as bonds. Credit migration risk will typically not impact marked loan profitability in the absence of default. Capital regulations are relatively immaterial (compared to banks) for equity-funded non-bank lenders such as KKR. As a result, the primary quantitative downside risk to a non-bank portfolio is the expected loss (product of the probability of default and the loss given default).

Downwards revaluation of a loan asset will directly impact the NAV, this decision can be subjective and binary which makes it difficult to model with respect to credit risk. We have assumed loans are fully drawn, which exacerbates the expected loss, if loans are not fully drawn. Furthermore, we assume there is no migration upwards (for loan assets) and that loan assets are priced at par unless impaired or in default. Although arbitrary, impairment for the purposes of modelling direct loans (EDL) is defined as a migration to CCC level. In this scenario, a higher interpolated CCC-spread discounts future cash flows to calculate a predicted impaired value which marks at a discount to par. Tradable loans (GCOF) are impaired for any level of negative migration, reflecting the higher discount rate implied by a greater probability of default, this is not dissimilar to the expected market reaction, where expected loss is marked-to-market.

We note that this risk assessment does not account for the previously mentioned expertise of KKR team in avoiding defaults and instead assumes that assets would be held to default. In reality, covered issuers are actively researched and followed and subjected to many levels of scrutiny and oversight. We expect that, in-line with demonstrated history, assets would be managed prior to such an event occurring.

Another key assumption in our testing is the complete exclusion of income in the transition scenarios, which would more than compensate for the (unrealised) market value losses from adverse credit ratings changes within the KKR CIT.

Considering all of the above and in particular our conservativeness in assuming no pre-emptive actions are taken before a default and for no coupon income, we remain comfortable with the KKR CIT and on management's ability to avoid significant credit losses whilst delivering the targeted income levels.

Investment Process & Portfolio Construction

Global Credit Opportunities Fund

GCOF is designed to be flexible and take advantage of credit market dislocations, benefiting from a broad mandate to invest in concentrated positions with favourable risk-adjusted return profiles. The fund is diversified across asset types, themes, geography, industries and comprises of 60-80 core issuers, with an average core position size of 1.5-4.0%. Liquidity is a key area of focus for the fund, with most assets in GCOF liquid in nature with access to an active secondary market. The portfolio has a cash allocation range of 0-30% that allow it to take advantage of dislocations in the market that present investment opportunities.

The fund's opportunistic credit strategy is centred around six key investment themes. The two most heavily weighted strategies are Event Driven and Dislocation/Relative Value themes. Event Driven refers to the portfolio's position in securities with near term catalysts that are expected to appreciate in price, whilst Dislocation positions refer to higher-yielding investments resulting from market fluctuations away from the mean. The fund also places a medium-weighting on Proprietary Sourcing and Stressed Credits, whilst Structured Product Investment and Illiquidity Premium strategies are typically assigned the lowest-weightings.

GCOF current portfolio comprises of High Yield (48%), Loans (46%) and Structured Products (6%) securities. Across the capital structure, senior secured (54%) and senior unsecured (37%) make up the bulk of the portfolio, whilst subordinated (4%), other (4%) and mezzanine (2%) tranches also make up a marginal portion.

The investment process is administered by KKR's Global Leveraged Credit platform where the Opportunistic Credit strategy is one of five strategies. The Global Leveraged Credit investment team consists of 35 dedicated investment professionals who are aligned by industry with each credit analyst responsible for up to 40 companies. All new investment ideas are presented by analysts through a memo consisting of 10-15 pages with proprietary financial models, due diligence review and recommendation to the Investment Committee (IC). The IC is made up of the three members of the Global Leveraged Credit team's senior leadership which will then undergo deep due diligence on the credit and will only make an investment when they determine that KKR has a competitive advantage via its sourcing, analysis or diligence findings.

European Direct Lending

A defining feature of KKR's EDL team is the firm's size and resources in the European private credit space. Only four European focused direct lending funds were able to raise over €1.0 billion in 2018 whilst the firm's global Direct Lending platform currently has ~€4.0 billion in capital to deploy in EDL deals. This is a distinct competitive advantage of KKR and is integral to the firm's ability to source attractive deals in the European market through being the Sole/lead lender to large borrowers (>€50m EBITDA).

Subsequentially, a central focus of KKR's EDL team is seeking to be the sole or lead lender in a majority of its deals due to the belief that greater control result in more favourable structures and economics which is crucial for capital preservation in downside scenarios. KKR's balance sheet capital market capabilities allow it to provide total solutions and control larger portions of deals. Deals sourced from private equity sponsors comprise 94% of the portfolio (6% non-PE) with 50% structured as Senior Secured term loans and a further 34% structured at 'Stretch' Senior term loans (where leverage is > 4.5x) with the remaining 16% structured as second lien.

The investment process is overseen by the global Direct Lending platform, one of three strategies sitting within Alternative Credit. The European Private Credit investment team is made up of roughly 25 members with a diverse range of backgrounds including direct lending, distressed investing, leveraged credit, law, restructuring and forensic accounting. The EDL team applies a 'Private Equity style' due diligence standard that involves rigorous financial analysis of the company in conjunction with a deep market analysis in which the company operates. The EDL investment committee is made up four members who on average possess ~20 years' experience who have screened ~1/3 of deals coming through the firm's origination pipeline since 2015. Through leveraging the firm's "One-Firm" culture a wide sourcing funnel creates ample flow that enables the investment committee to be highly selective in the opportunities it pursues. As a result, of the 1/3 of deals screened by the IC, only 13% meet its rigorous standards for an overall investment rate of 4%. Furthermore, even deals that receive the approval of the IC may fail if its final terms are unattractive, KKR didn't back the winning sponsor, or the winning sponsor chooses a different financing option.

Portfolio Management

Active portfolio management is a critical component of KKR's investment strategy which utilises fundamental and relative value analysis when investing across capital structures and asset classes in conjunction with the opportunistic management of the portfolio. KKR is a firm believer that active portfolio management is an integral driver of generating strong risk-adjusted return due to the dynamic nature of markets and a company's credit quality and/or operating conditions.

KKR seeks to differentiate itself through the firm's ability to execute a rigorous portfolio management process to source, undertake due diligence and monitor investments at varying levels of complexities. Risk management is a firm-wide focus of KKR, and this is reflected by the European Private Credit team's Portfolio Monitoring Unit (PMU). The PMU is comprised of a distinct team of ten credit analysts who are responsible for ongoing credit monitoring and unbiased assessment. The PMU is supported by the KKR Credit Portfolio Management Committee (PMC) which consists of nine senior members across Leveraged Credit, Private Credit and Special Situations. The PMC collaborates with respective investments teams to review the portfolio's performance and to monitor the portfolio-level risks and exposures, in addition to the quarterly re-underwriting of each credit.

Appendix 1: Target Portfolio Overview (as at 31 March 2019)

KKR CIT Portfolio Composition

Geographical	North America	Europe
	44%	56%
Capital Structure	Senior	Subordinated
	86%	14%
Interest Rate	Floating	Fixed
	72%	28%

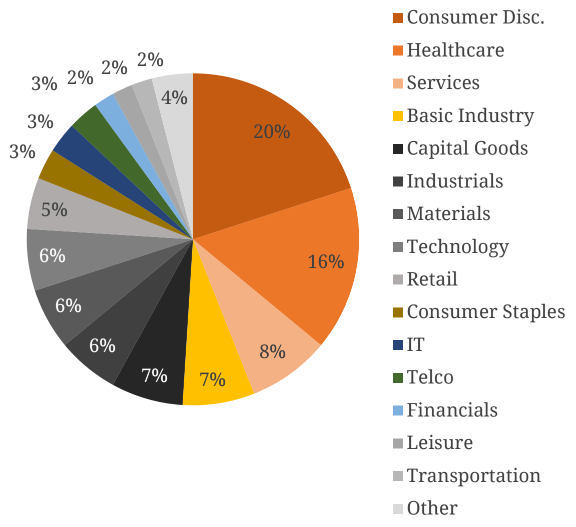
GCOF Composition

Geographical	US	Europe	Other
	87%	3%	10%
Asset Class	Loan	High Yield	Other
	46%	48%	6%
Capital Structure	Senior	Subordinated	Mezzanine & Other
	91%	4%	6%

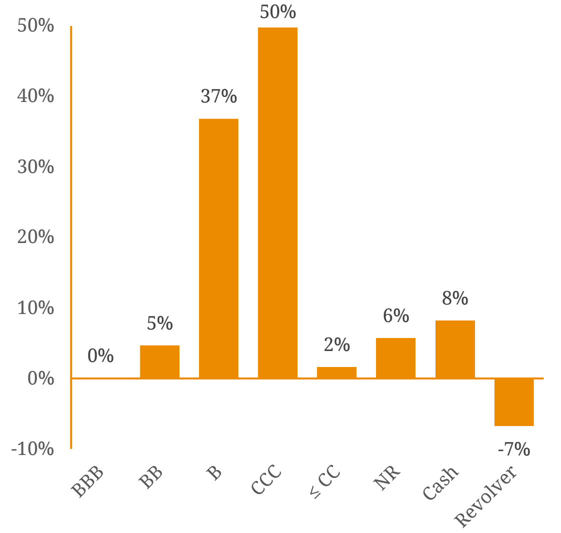
EDL Composition

Geographical	Western Europe	Europe (Other)	US	Other
	55%	40%	4%	1%
Capital Structure	Senior	Stretch Senior	Second Lien	
	50%	34%	16%	
KKR Role	Sole	Lead	Co-Lead	Participant
	60%	25%	13%	2%

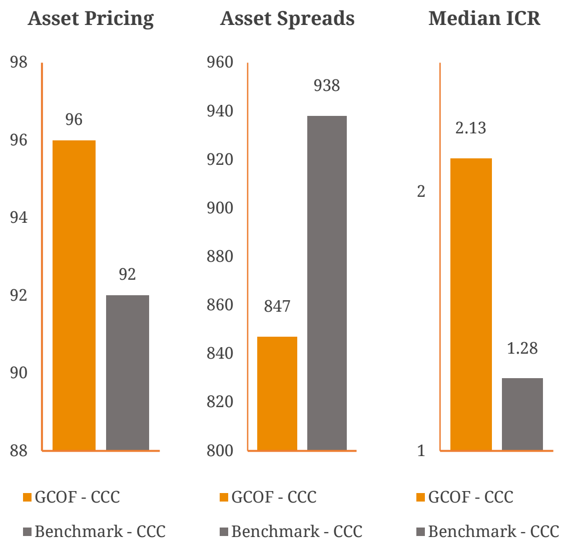
Sector Diversification



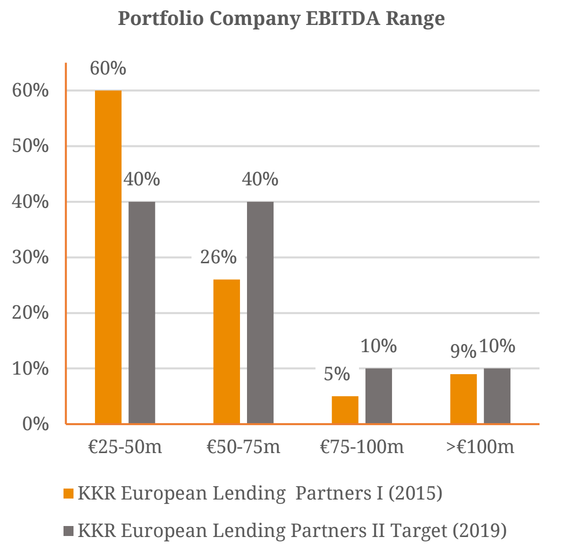
GCOF Rating Distribution



GCOF CCC's v Benchmark CCC's



LTM EBITDA of KPLEH / EDL



All sources: BondAdviser, KKR

Appendix 2: About KKR

Founded in 1976, Kohlberg Kravis Roberts is an international investment firm with $195 billion in assets under management, managed by more than 450 investment professionals across 20 offices. Initially founded as a private equity firm specialising in leveraged buyouts, KKR has expanded into credit, real estate, infrastructure and hedge funds. The firm has maintained a presence in Australia for over a decade, having commenced activity in the Australian market in 2006. KKR opened its Sydney office the following year in tandem with Hong Kong and Tokyo as part of a shift towards Asia-Pacific markets. The Australian team has since grown to 20 staff across credit, private equity and real estate. With a strong conviction for growth in Australian exposure, KKRs domestic capital pool has grown more than fivefold since 2014, sourced largely from domestic superannuation funds, family offices, endowments, asset managers and government entities. Additionally, the firm has sourced ~A$0.9 billion capital from external offices in order to fund Australian investments. Recently KKR has proposed a Listed Investment Trust (LIT) in Australia with the intention of investing concurrently with existing KKR funds. Initially the Trust would be funded predominantly by high yield investments, with an ensuing transition into European direct lending ideally within four years.

Figure 6. Australian Capital Deployment Breakdown

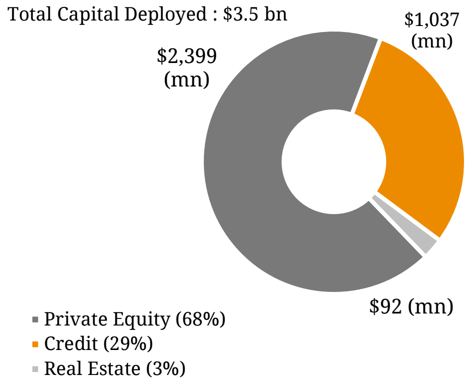


Figure 7. Global AUM Breakdown

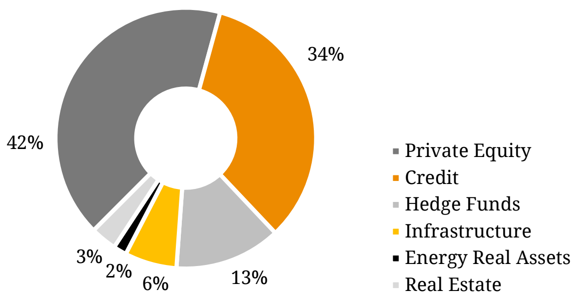
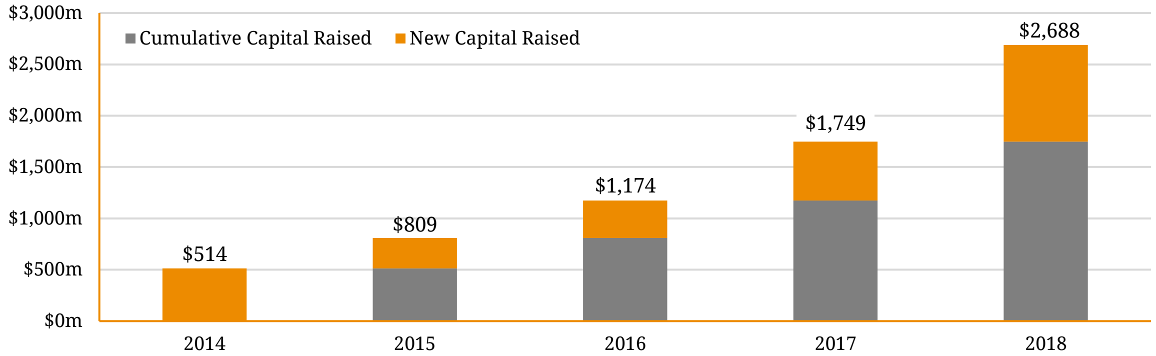


Figure 8. Australian Capital Raised



KKR Senior Executives

Frances Lim, Managing Director, Sydney

Frances Joined KKR in 2011 and is a member of the Global Macro and Asset Allocation team. Prior to joining KKR, she was a vice president at Morgan Stanley Investment Management as a co-portfolio manager of the MSIF Absolute Return Currency Fund. Additionally, Frances was a member of Morgan Stanley's Global Macro and Asset Allocation team, focussing on global macro trends and top-down analysis. Previously, Frances had worked as an equity strategist at Morgan Stanley Equity Research. Frances holds an MBA from NYU's Stern School of Business.

Chris Sheldon, Head of Leveraged Credit and Portfolio Manager, San Francisco

Chris joined KKR in 2004 and currently serves as the Head of US Leveraged Credit and is a portfolio manager for a KKR's leveraged credit and private credit funds. Additionally, Chris is a member of the US Leveraged Credit Investment Committee, Global Private Credit Investment Committee and KKR Credit Portfolio Management Committee. Chris is a co-portfolio manager of the KKR Credit Income Trust and will be responsible for the Global Credit Opportunities Fund. Prior to joining KKR, Chris was a vice president and senior investment analyst with Wells Fargo's high yield securities group. Chris holds a B.A. from Denison University.

Matthieu Boulanger, European Direct Lending Portfolio Manager, London

Matthieu recently joined KKR in 2017 and is a portfolio manager for KKR's private credit funds and accounts. Matthieu is also a member of the Global Private Credit Investment Committee and KKR Credit Portfolio Management Committee. Matthieu is a co-portfolio manager of the KKR Credit Income Trust and will be responsible for the European Direct Lending strategy. Prior to joining KKR, Matthieu was a managing director of HPS Investment Partners, where he focused primarily of private credit strategies in the U.S. and Europe. Matthieu has also held various roles in Citigroup's global special situations group and in the infrastructure and energy finance group. Matthieu holds a B.A. in Finance and Economics from the University of Paris IX (Dauphine) and a MSc in Economics from the London School of Economics.

Jeremiah Lane, US Leveraged Credit Portfolio Manager, San Francisco

Jeremiah joined KKR in 2005 and is a portfolio manager for the firm's leveraged credit funds and portfolios in addition to be a member of the US Leveraged Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Jeremiah worked as an associate in the Investment Banking division of J.P Morgan Chase in the Technology, Media and Telecom team. Jeremiah hold an A.B. with honours in History from Harvard University.

Appendix 3: Further Quantitative Analysis

In addition to the credit migration impact using long term average transition probabilities (as displayed in Figure 3 and again here, Figure 9 for reference), we have also modelled the estimated credit migration impact based on different economic conditions. The process is identical, however single-year (as compared to multiple year averages) transition probabilities have been utilised (Tables 3 to 4). This allows for testing across benign and stressed economic conditions. We have kept recovery rates uniform throughout our modelling; this is to account for the large variation of single-year recovery rates. Additionally, single-year recovery rates can be spurious if they are unreflective of broader economic conditions (i.e. a recovery of zero in a single year has more drag compared against its impact over the long-term).

Figure 9. Long Term Average Transition Rates Credit Migration Impact – (GCOF 60%, EDL 40%)

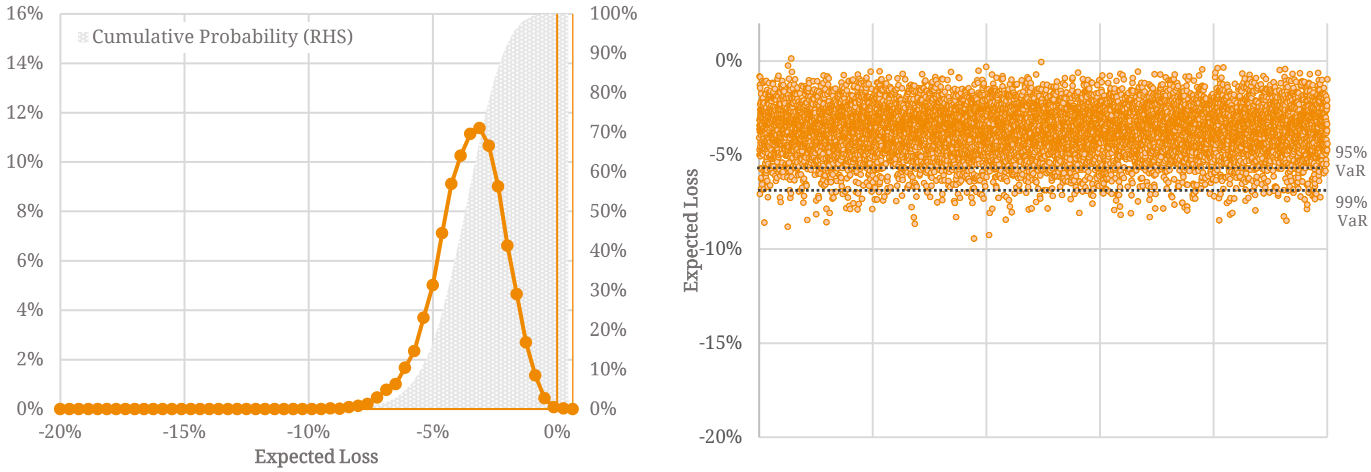


Figure 10. 2009 Transition Rates Credit Migration Impact – (GCOF 60%, EDL 40%)

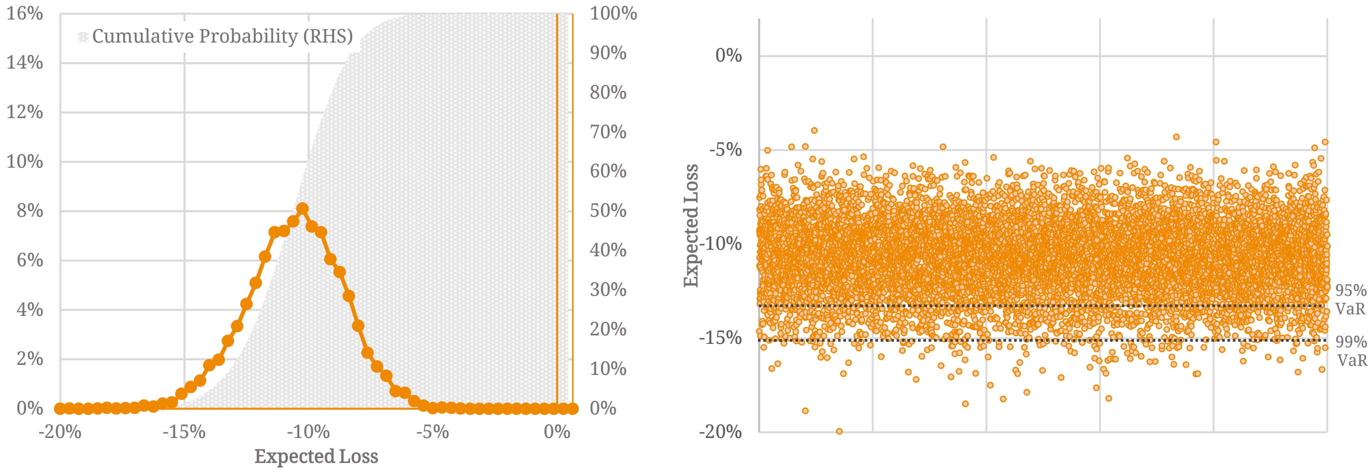
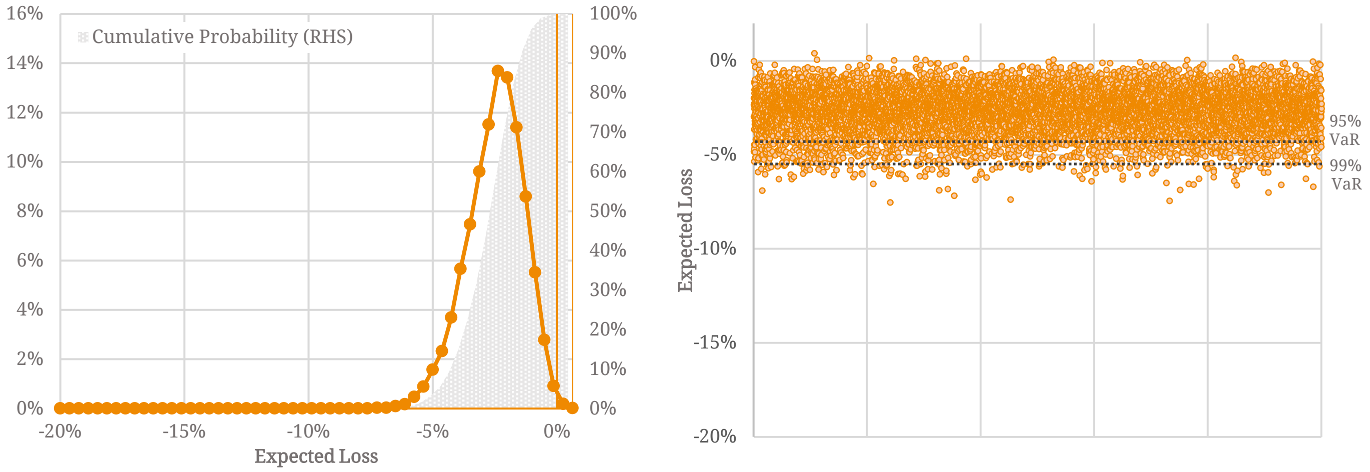


Figure 11. 2018 Transition Rates Credit Migration Impact – (GCOF 60%, EDL 40%)



By using 2009 single-year transition rates, we test the portfolio against a proxy for distressed markets where downgrades and jump-to-default are significantly more frequent than the long-term average. We note the significant assumptions and limitations in doing such. Punitive migration probabilities result in a total portfolio value-at-risk (at a 1% VaR probability) of ~15.3%, mean loss is ~10.7%, median loss is ~10.7% and displays a near symmetrical distribution (γs = -0.2).

By using 2018 single-year transition rates, we test the portfolio against a proxy for benign markets, where downgrades and jump-to-default were less frequent than the long-term average. Soft migration probabilities result in a total portfolio value-at-risk (at a 1% VaR probability) of ~5.5%, mean loss is ~2.7%, median loss is ~2.6% and has a slight negative skew (γs = -0.5).

For reference, using the average from 1981-2018, the portfolio has a total portfolio value-at-risk (at a 1% VAR probability) of ~7.2% loss, mean loss is ~3.7% (as mentioned above), median loss is ~3.6% and displays a largely symmetrical distribution (γ_s = -0.4).

Again, we note this modelling excludes expected income and explicitly assumes all assets are held to default. Given KRR's strong track record we would expect assets to be managed before a worst-case outcome (as modelled here) occurs.

Table 2. Long-Term Average Transition Rates[1]

FROM/TO:	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	91.11%	8.18%	0.61%	0.07%	0.02%	0.00%	0.00%	0.00%
AA	0.84%	89.62%	8.95%	0.44%	0.06%	0.04%	0.02%	0.02%
A	0.05%	2.59%	91.14%	5.51%	0.50%	0.11%	0.04%	0.06%
BBB	0.03%	0.15%	4.29%	90.58%	3.90%	0.71%	0.16%	0.19%
BB	0.01%	0.04%	0.45%	6.74%	83.28%	7.67%	0.77%	1.05%
B	0.01%	0.03%	0.15%	0.49%	5.37%	82.53%	7.32%	4.10%
CCC	0.00%	0.02%	0.02%	0.09%	0.39%	7.63%	79.82%	12.03%

[1] Moody's average transition rates from 1981-2018.

Table 3. Single Year (2009) Transition Rates[2]

FROM/TO:	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	62.42%	37.58%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	70.98%	27.57%	1.27%	0.18%	0.00%	0.00%	0.00%
A	0.00%	0.26%	80.20%	17.91%	0.62%	0.75%	0.00%	0.26%
BBB	0.00%	0.17%	1.74%	85.38%	9.58%	1.57%	0.17%	1.38%
BB	0.00%	0.00%	0.00%	5.27%	71.54%	18.18%	1.45%	3.56%
B	0.00%	0.00%	0.00%	0.03%	3.84%	68.35%	18.21%	9.58%
CCC	0.00%	0.00%	0.00%	0.00%	0.00%	9.32%	52.06%	38.62%

[2] Moody's single-year transition rates for 2009.

Table 4. Single Year (2018) Transition Rates[3]

FROM/TO:	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	92.45%	7.54%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	93.80%	6.20%	0.00%	0.00%	0.00%	0.00%	0.00%
A	0.00%	4.99%	89.43%	5.46%	0.12%	0.00%	0.00%	0.00%
BBB	0.00%	0.00%	6.47%	90.90%	2.53%	0.00%	0.11%	0.00%
BB	0.00%	0.00%	0.00%	11.47%	79.04%	8.89%	0.59%	0.00%
B	0.00%	0.00%	0.00%	0.00%	11.59%	77.71%	9.48%	1.23%
CCC	0.00%	0.00%	0.00%	0.00%	0.43%	13.67%	75.08%	10.83%

[3] Moody's single-year transition rates for 2018.

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- **Buy** - Over the next 12 months, the analyst expects the security to outperform the current yield due to credit spread tightening or favourable movements in the underlying yield curve.
- **Hold** - Over the next 12 months, the analyst expects the security to provide stable returns broadly in line with the current yield but with little credit spread tightening.
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