



KKR CREDIT INCOME FUND (ASX: KKC)

The KKR Credit Income Fund aims to provide Australian and New Zealand investors with attractive, risk-adjusted returns and access to a diversified portfolio of income generating alternative credit investments

KKC December Manager Insights

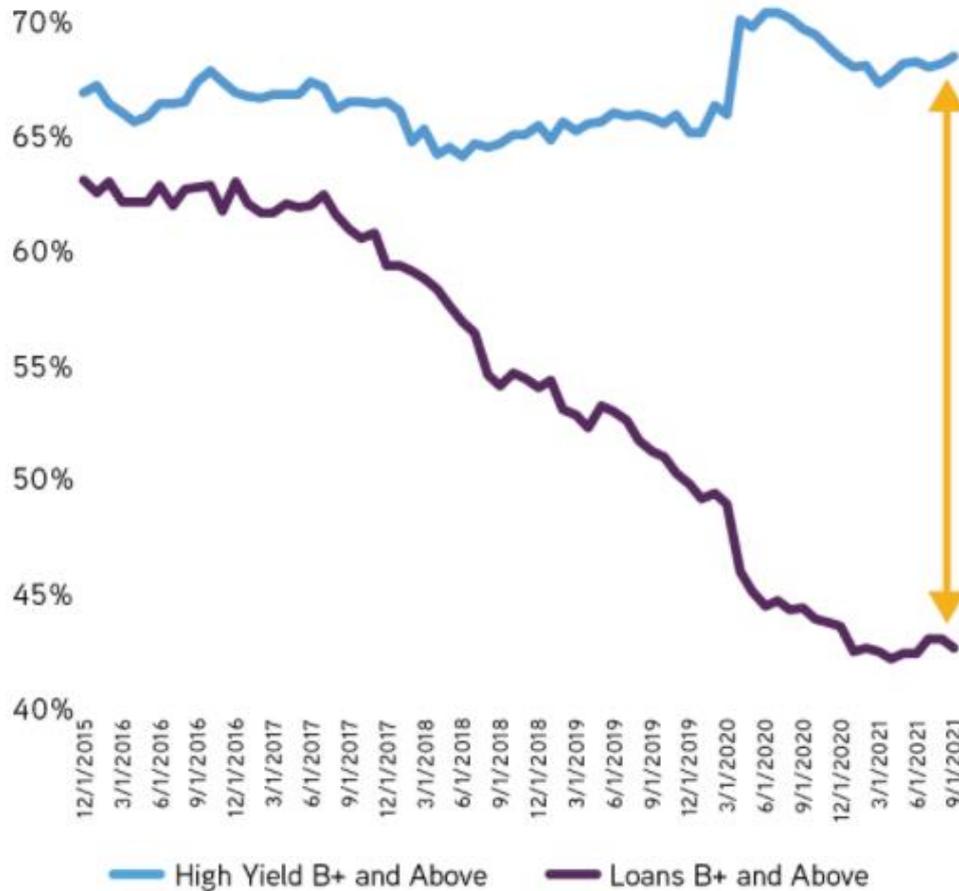
13 December 2021

Dear KKC Investor,

In this month's Manager Insights, we reflect on the previous year and discuss the market silos that have been created due to structural constraints across market participants. This is an interesting market dynamic which Chris Sheldon, KKR's Head of Leveraged Credit, discusses in his most recent quarterly update. A link to the full update is available below.

One of the biggest key takeaways of this market is the fact that the composition of the credit market has been drastically evolving, for the last 15 years, and we are now starting to see the effects of market silos taking form through greater constraints and overall less flexibility in investment mandates. We have noted that market constituents have become hyper focused on specific segments or sectors of the market as opposed to viewing the market holistically, which has created these market silos. We believe this pattern will persist which could give rise to even more imposed investment restrictions for managers, soliciting possible exuberance in specific market sectors, and or potential dislocation if and when the market moves in the opposite direction (see Figure below).

Credit Markets: B+ and Above



Source: KKR Credit Analysis, ICE BofAML, and S&P LSTA as of September 30, 2021.

As market silos become wider and deeper, we believe that the level of connectivity and co-ordination across scaled players becomes a true differentiator in the credit markets. Scale has always mattered in this industry, but connectivity as the backbone of a scaled organization is much rarer. We have seen it firsthand as KKR Credit has grown and how our collaborative culture and integrated strategies have enabled us to act quickly and execute across an increasingly crowded field.

A great demonstration of this is through the market's growing competitive landscape, both in the broadly syndicated market and middle market direct lending; being a counterparty's first call is crucial.

Take the syndicated market for example, dealers no longer sit on excess inventory as part of prudent balance sheet risk management post GFC so when matching up buyers

and sellers, dealers are most likely to call and transact with their most frequent customers. Another demonstration of this is the ability to drive outcomes by proactively pitching a capital solution and creating your own issuance. For us, this comes through the connectivity of our knowledge across an expansive rolodex of publicly traded credits, as well as capital solutions providers across our credit platform.

As lenders to privately placed direct lending deals, investors in syndicated loans, and as an arranger, we are in the global markets every day. In fact, the symbiosis between our leveraged credit, private credit, and capital markets platforms are so integrated that many deals we have seen over the last eighteen months have been borne out of one strategy — but then morphed into another as large deals that came down the syndicated route ended up being structured in a hybrid model.

As the market continues to shift and re-formulate its composition, we want to emphasize that we truly believe connectivity amongst scale, agility, and credit fundamentals will be a differentiator. If we take a step back, it is hard to imagine that this is the market that we are in given the widespread disruption we all experienced as a society over the last twenty plus months. That should not be ignored. As credit investors we are constantly arming our portfolio against the potential downside risk. We continue to be prudent risk managers searching for pockets of idiosyncratic and opportunistic risk/ reward opportunities.

We believe KKC is well positioned to benefit from the structural constraints across market constituents driving market silos. KKC's flexible mandate and the connected, holistic approach of the KKR Credit Investment team allow KKC to pivot between sectors and markets to drive value in the underlying portfolio. In the peak of Covid dislocation during H1 2020 for example, this was evidenced by KKC's ability to pivot into investment grade credit which provided a greater risk adjusted return in the dislocated market conditions.

Thank you to our investors for your continued trust and support. As always, we welcome your feedback and are grateful for the opportunity to discuss our market views with you. We look forward to keeping you updated on KKC in 2022.

Click here to read [Chris Sheldon's Quarterly Update – Credit Royale](#).

About KKR



(1) Figures as of 30 September 2021. Represents assets managed by KKR or its strategic partners (on a proportionate basis) as to which KKR is entitled to receive a fee or carried interest (either currently or upon deployment of capital) and proprietary general partner capital. (2) Includes investments/commitments made by KKR's balance sheet, KKR employees and other affiliates. Investments made by current and former KKR employees are retained by those individuals personally; includes unfunded commitments made by individuals.



Important Information

General

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Information in this update

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