



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 Investment Update

10 June 2020

This week the Manager discusses one of the underlying funds which KKC is invested in, the Global Credit Opportunities Fund (“GCOF” or “The Fund”) and its portfolio, strategy and recent fund flows.

KKC seeks to provide unitholders with exposure to global traded credit and European private credit through KKC’s investments in two KKR managed funds: GCOF and the European Direct Lending Fund II (“EDL”). Currently, KKC is 100% invested into GCOF but the Manager intends to redeploy up to 50% of the portfolio into EDL over time [\[1\]](#).

When was GCOF launched?

GCOF is KKR’s commingled fund and opened for investments in January 2015. GCOF primarily invests in fixed income securities and financial instruments such as high yield bonds, loans and other securities. As of 31 May 2020, GCOF is invested in, and holds, 234 positions across 173 distinct issuers.

Can you provide more detail on GCOF’s positions and issuers in which it has an interest?

The assets which GCOF has invested in to date have been across a range of industries such as software, materials, food and beverage, consumer services and many others. KKR Credit has purchased the majority of these assets on behalf of GCOF via the KKR Credit trading desk in the secondary market or participated in the new issuance.

As of 31 May 2020, the largest position in GCOF comprises 4.45% of its portfolio and the top 10, 25, and 50 issuers make up 26.12%, 47.17% and 69.36% of the Fund's overall market value, respectively. GCOF is a relatively concentrated portfolio compared to the broader high yield credit market that has over 1,000 issuers. As of 31 May 2020, 92% of the GCOF portfolio is "Senior" in the capital structure of the underlying issuers, the average price of GCOF's assets is 90.3%, a discount that lends itself to return for the Fund, and the average time to maturity is just under 5 years.

Does KKR Credit evaluate each security individually?

Yes, KKR applies its fundamental credit analysis investment philosophy which is based on business analysis, capital structure analysis, valuation analysis and robust research and data systems. The KKR U.S. Credit Leveraged Credit Investment Committee which is responsible for GCOF's investment strategy requires a detailed written credit assessment for each potential investment. Individual security analysis or "bottom-up" security based credit analysis incorporates industry analysts' views on industry trends and the Manager's views on the economy. The U.S. Leveraged Credit Investment Committee is comprised of Chris Sheldon (Partner), Jeremiah Lane (Partner) and John Reed (Partner).

Is KKC the only investor in GCOF?

No, KKC sits alongside other institutional investors (such as pension funds and insurance companies) and KKR's Balance Sheet. KKC receives a pro-rata share of all distributions alongside the other investors within GCOF's distributing share class.

Did GCOF experience significant redemptions driven by COVID-19?

No, the fund has had net positive subscriptions year to date.

Where did GCOF put capital to work during the period of market volatility?

During the period of heightened market volatility, KKR Credit made ~US\$209m (AU\$301m) [\[2\]](#) of gross purchases from 21 February to 31 March 2020. GCOF's purchases were across a variety of sectors with the largest being Leisure, Energy and

Technology & Electronics. The Manager believes GCOF was able to buy high quality assets as forced sellers sought liquidity and sold assets to GCOF at attractive purchase prices.

How has the GCOF portfolio evolved since the beginning of the year?

The growth of the broader bond market has provided opportunities to increase GCOF's exposure to the high quality, well-traded portion of the asset class (through YTD 2020 one of KKR Credit's key areas of focus was growing GCOF's BB bond exposure). Additionally, GCOF's overall BB exposure grew from 6.8% to 9.4% over the same time period. [\[3\]](#)

Additionally, KKR Credit has been carefully evaluating GCOF's exposure to sectors impacted by COVID-19, while maintaining GCOF's aforementioned focus on individual security selection. For example, GCOF reduced its exposure to healthcare from 13.9% as of 31 December 2019 to 8.1% as of 31 May 2020.

The Manager looks forward to keeping KKC unitholders updated on KKC's underlying portfolio positioning.

To read previous KKC Investment Updates please visit the KKC Australia website

[HERE](#)

[\[1\]](#) Before making an investment decision in relation to KKC, it is important to understand the risks that can affect the value of your investment in KKC. Investors should read the risks described in Section 8 of the PDS.

[\[2\]](#) 1 USD = 1.43842 AUD, 9 June 2020

[\[3\]](#) Credit ratings are statements of opinion of a relevant credit agency about the likelihood of a borrower to meet its interest and principal payment and repayment obligations when they fall due. Credit ratings are not statements of fact or recommendations to purchase, hold or sell securities. Credit ratings do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied upon as investment advice.

About KKR

44+

years of
experience

US\$207

billion total assets
under management¹

US\$68

billion credit assets
under management

470+

KKR Investment
Professionals

US\$19

billion invested
alongside our clients

Figures as of 31 March, 2020. 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. 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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