

# KKR Credit Income Fund (ASX:KCC)

## Monthly Investment Update: As of 30 April 2020

### INVESTMENT UPDATE

| As of 30 April 2020                   | 1 Month | 3 Month | 6 Month | 1 Year | 3 Year | 5 Year | Inception      |
|---------------------------------------|---------|---------|---------|--------|--------|--------|----------------|
| <b>Net Return Based on NTA (%)</b>    | +2.90%  | -19.06% | -17.97% | -      | -      | -      | <b>-17.97%</b> |
| <b>Distribution (%)<sup>(1)</sup></b> | 0.00%   | +0.21%  | +0.21%  | -      | -      | -      | <b>+0.21%</b>  |
| <b>Total Net Return</b>               | +2.90%  | -18.85% | -17.77% | -      | -      | -      | <b>-17.77%</b> |
| <b>Distribution (A\$/Unit)</b>        | 0.0000  | 0.0053  | 0.0053  | -      | -      | -      | <b>0.0053</b>  |

| As of 30 April 2020                | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20  | Apr-20 | May-20 | Jun-20 | FYTD           |
|------------------------------------|--------|--------|--------|--------|---------|--------|--------|--------|----------------|
| <b>Net Return Based on NTA (%)</b> | -0.42% | -0.65% | +2.43% | +0.75% | -21.93% | +2.90% |        |        | <b>-17.97%</b> |

Past performance is not indicative of future performance and the portfolio characteristics are subject to change.

|                                  |                |                       |         |
|----------------------------------|----------------|-----------------------|---------|
| <b>Net Tangible Assets (NTA)</b> | A\$758,745,849 | <b>NTA Per Unit</b>   | A\$2.05 |
| <b>Unit Pricing</b>              | Monthly        | <b>ASX Unit Price</b> | A\$1.78 |

### Monthly Update

For the month of April 2020, the KKR Credit Income Fund (“KKC or the Trust”) recorded a positive NTA return of +2.90%.

The US loan and bond markets had a positive month, although not as strong as many in the market had hoped, with month end returns of +4.50% and +3.80% respectively<sup>2</sup>. The theme of our recent Investment Update was “Bifurcation” as we have certainly seen this in both markets. The CCC component of the market returned +4.00% in loans and just +0.54% in bonds<sup>2</sup> at month end. CCC rated assets currently make up ~40% of the assets in KKC’s portfolio<sup>3</sup>. KKR Credit believes the driver of this bifurcation is two-fold: investors have been quick to buy higher rated (BBB and BB) assets that they believed had traded down too far (KKC was one of these buyers during the recent downturn) and secondly, some managers have been slow to buy CCC assets. KKR Credit believes that the lack of buying of CCC assets could stem from a credit manager’s:

- style, which may be ratings driven and certain managers cannot buy CCC assets for their portfolios (mandated in investment guidelines), or;
- CCC limits, which may already have reached mandated allocations in their portfolios. Collateralised Loan Obligation portfolios,<sup>4</sup> which account for a large portion of the loan market, tend to have a 7.5% CCC allocation limit.

KKC has not been a forced seller of assets as KKC is not bound by limits on portfolio allocation to certain credit ratings. Rather, the Manager seeks to deploy capital to segments of the market which it believes represents the optimal risk versus reward<sup>5</sup>. To demonstrate this, the Yield to Maturity for the underlying assets in KKC was 13.7% as of 30 April<sup>6</sup> compared to the average Yield to Maturity of the broader high yield bond index of ~8.5%<sup>2</sup>.

Although the Manager has been actively buying and selling assets on behalf of KKC as it looks to reposition the portfolio, month on month changes in portfolio construction are less pronounced than over a longer time frame. Despite that, there are a few data points the Manager can share. All these movements reference the portfolio change between 31 March 2020 and 30 April 2020:

- the number of issuers in the portfolio has reduced from 186 to 175, as KKC took profits by selling higher rated BBB and BB assets;
- although the number of issuers held in the portfolio has fallen, the concentration of the top 10 holdings has decreased slightly from 27.1% to 26.8%;
- KKC’s holdings in CCC rated assets has increased from 35% to 40%. This is not a result of the Manager switching to lower quality credits but a result of continuing to hold some credits (which the Manager has strong conviction in) as they were downgraded from B- to CCC; and
- KKC’s exposure to senior assets is ~93%.

During the month, the European Direct Lending Fund (“EDL”) sold out of the majority of the 14 investments it made into European syndicated loans during March. These short-term trades generated an attractive profit for EDL. Net of these sales, KKC has exposure (on a committed basis) to 13 assets in EDL which are not yet included in the KKC portfolio charts on the following page, as they have not yet been funded by KKC. The Manager is expecting to have the final close of EDL in September 2020 and ahead of any potential capital call, the Manager can confirm that the liquidity facility to fund these capital calls in the short term is now in place. The Manager believes that KKC’s allocation to EDL will further diversify the KKC portfolio and provide greater stability to KKC’s NTA.

(1) Distribution % calculated as the distribution per unit divided by the closing NTA of the previous month.

(2) Source: Bloomberg as of 30 April. Bloomberg has not consented to the inclusion of this statement in this document.

(3) Source: KKR as of 30 April 2020. 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

(4) CLOs are single securities representing a pool of loans.

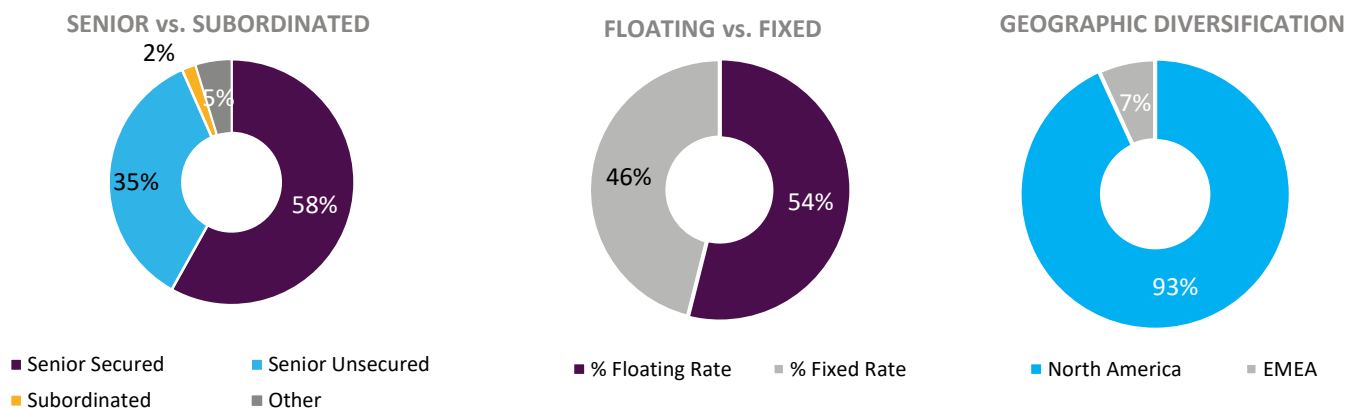
(5) Before making an investment decision in relation to KKC, it is important to understand the risks that can affect the value of your investment in KKC. Investors should read the risks described in Section 8 of the PDS.

(6) This yield represents the views of KKR Credit as of 30 April 2020 regarding the likely current yields of investments in GCOF over a full market cycle and is subject to change. There is no guarantee that the assumptions upon which estimated current yields are based will materialise as anticipated. This YTM is inclusive of cash balances.

# KKR Credit Income Fund (ASX:KKC)

## Monthly Investment Update: As of 30 April 2020

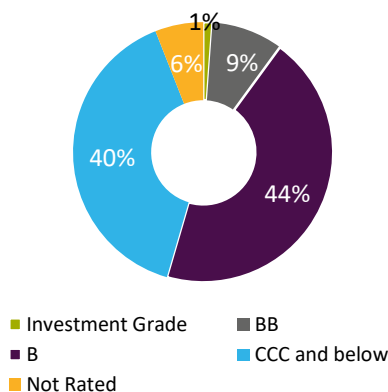
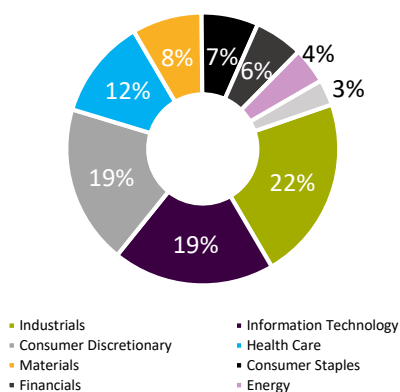
### PORTFOLIO CONSTRUCTION as of 30 April 2020<sup>(7)</sup>



### SECTOR DIVERSIFICATION

### RATING DIVERSIFICATION<sup>(8)</sup>

### OTHER PORTFOLIO DETAILS<sup>(7)</sup>



**Top 100 Issuer Summary:  
% of Portfolio**

|         |       |
|---------|-------|
| Top 10  | 26.8% |
| Top 20  | 41.3% |
| Top 25  | 47.3% |
| Top 50  | 68.9% |
| Top 100 | 91.6% |

|  |                     |
|--|---------------------|
| Number of Issuers <sup>(7)</sup>       | 175                 |
| Asset Mix                              | 100% Traded Credit* |
| Yield-to-Maturity on Underlying Assets | 13.7%               |
| Portfolio Duration                     | 1.7                 |
| Average Price                          | 85.6                |

### Top 10 Holdings Summary

| Holding      | Weight | Asset Type | Sector                 | Fixed/<br>Floating | Security         | Seniority  | Country       | Currency |
|--------------|--------|------------|------------------------|--------------------|------------------|------------|---------------|----------|
| 1            | 4.3%   | Bond       | Information Technology | Fixed              | Senior Unsecured | Unsecured  | United States | USD      |
| 2            | 3.3%   | Loan       | Materials              | Floating           | Senior Secured   | First Lien | United States | USD      |
| 3            | 2.9%   | Loan       | Information Technology | Floating           | Senior Secured   | First Lien | United States | USD      |
| 4            | 2.9%   | Bond       | Consumer Discretionary | Fixed              | Senior Secured   | First Lien | United States | USD      |
| 5            | 2.8%   | Bond       | Information Technology | Fixed              | Senior Unsecured | Unsecured  | United States | USD      |
| 6            | 2.3%   | Bond       | Health Care            | Fixed              | Senior Unsecured | Unsecured  | United States | USD      |
| 7            | 2.2%   | Bond       | Industrials            | Fixed              | Senior Secured   | First Lien | United States | USD      |
| 8            | 2.2%   | Bond       | Consumer Staples       | Fixed              | Senior Unsecured | Unsecured  | Netherlands   | USD      |
| 9            | 2.1%   | Bond       | Industrials            | Fixed              | Senior Unsecured | Unsecured  | United States | USD      |
| 10           | 1.8%   | Bond       | Financials             | Fixed              | Senior Unsecured | First Lien | United States | USD      |
| <b>26.8%</b> |        |            |                        |                    |                  |            |               |          |

This investment update and the statistics surrounding the top 10 holdings in the KKR Credit Income Fund is provided solely for informational purposes. The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons.

\*As noted above, KKC has exposure (on a committed basis) to EDL. This excludes the ~A\$117 currently invested by KKR Lending Partners Europe II (Euro) Unlevered SCSP on behalf of KKC into EDL assets. Including this, the split is ~85% Traded Credit/15% Private Credit.

(7) Based on look through to KKC's underlying funds. Represents GCOF assets as of 30 April 2020.  
 (8) Source: KKR as of 30 April 2020. 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.

# KKR Credit Income Fund (ASX:KCC)

Monthly Investment Update: As of 30 April 2020

## KKC Overview

- The Trust aims to provide investors with attractive, risk-adjusted returns and access to a diversified portfolio of income generating alternative credit investments through the Trust’s investment across investment funds managed by the credit investment teams of Kohlberg Kravis Roberts & Co. L.P. (“KKR”).
- These funds initially comprise the Global Credit Opportunities Fund and the European Direct Lending Fund, which seek to take advantage of the attractive opportunities that KKR sees in the market. The Trust’s investment objective is to provide an income stream as well as to achieve attractive long-term capital appreciation over a full market cycle.
- The Trust seeks to deliver investors with a distribution yield of 4% - 6% per annum<sup>(9)</sup>, paid quarterly in arrears, and a medium-term average total return of 6% - 8% per annum.<sup>(10)</sup>

## KKR Overview

- Established in 1976, KKR is a leading global investment firm with industry-leading investment experience, in-depth industry knowledge, sophisticated processes for growing and improving businesses, and a strong culture committed to teamwork.
- As of 31 March 2020, KKR had A\$336.5 billion of assets under management, of which A\$110.5 billion sits within KKR Credit.<sup>(11)</sup>
- KKR has a global presence with offices in 20 cities across 4 continents, including Sydney, Australia.

## KEY TRUST INFORMATION as at 30 April 2020

|                              |  |
|------------------------------|--|
| <b>Trust Name</b>            | KKR Credit Income Fund (ARSN 634 082 107)  |
| <b>ASX Code</b>              | KCC  |
| <b>ASX Listing</b>           | 21 November 2019   |
| <b>Market Capitalisation</b> | A\$658.6 million   |
| <b>Units on Issue</b>        | 370,000,000  |
| <b>Investment Manager</b>    | KKR Australia Investment Management Pty Ltd (ABN 42 146 164 454)   |
| <b>Responsible Entity</b>    | The Trust Company (RE Services) Limited (ABN 45 003 278 831)   |
| <b>Management Fee</b>        | 0.88% per annum of the NTA, plus net GST of 0.022% per annum of the NTA <sup>(12)</sup>  |
| <b>Performance Fee</b>       | Up to 5.125% of the net annualised return (inclusive of net GST, less RTIC), multiplied by the ‘Adjusted NAV’ with a hurdle of RBA cash rate plus 4.00% and subject to a high water mark <sup>(12)</sup> |
| <b>Asset Class</b>           | Fixed Income, AUD Hedged   |

(9) Net of fees and expenses incurred by the Trust, but before tax, paid quarterly. The target distribution is only a target and may not be achieved.

(10) Target medium-term average total return net of fees and expenses incurred by the Trust, before tax. The distribution yield over a given period may be lower than the total return in this period to the extent that the total return includes unrealised gains. Investors should review the Risk summary set out in Section 1 and Section 8 of the PDS for important information regarding Target Total Returns and the Trust’s ability to achieve them. Past performance is not indicative of future results.

(11) The KKR Credit group is comprised of KKR Credit Advisors (US) LLC, KKR Alternative Investment Management and KKR Credit Advisors (EMEA) LLP. AUM is updated quarterly in line with KKR’s public filings.

(12) This is a summary only – see section 9 of the PDS for more detail.

## CONTACT INFORMATION

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**KKR Credit Income Trust**  
[www.kkcaustralia.com.au](http://www.kkcaustralia.com.au)

## RESEARCH



# KKR Credit Income Fund (ASX:KCC)

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### Important Information

#### General

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 ("KKR") and issued by The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235150 ("TTCRESL"). TTCRESL is the responsible entity and issuer of the KKR Credit Income Fund ARSN 634 082 107 ("Trust"). TTCRESL has appointed KKR to act as the manager of the Trust. This update is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not indicative of future performance. This information is believed to be accurate at the time of compilation and is provided in good faith. This information may contain information contributed by third parties. KKR and TTCRESL do not warrant the accuracy or completeness of any information contributed by a third party.

Before making any investment decisions you should consider the Product Disclosure Statement (PDS) for the Trust issued by TTCRESL and the Trust's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (ASX), which are available at [www.kkcaustralia.com.au](http://www.kkcaustralia.com.au) or can be obtained by calling 1300-131-856 within Australia.

None of KKR, its affiliates or its related bodies corporate, or any company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Trust or the return of an investor's capital. This information does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of the Trust's units.

#### Information in this Document

This information is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons.

This information may contain projections or other forward-looking statements and comments regarding future events, including targets or expectations regarding the Trust's business, plans and strategies. Forward-looking statements also include prospective financial information for the Trust. Forward looking statements can generally be identified by the use of forward looking words such as, "expect", "anticipate", "likely", "intend", "should", "could", "may", "predict", "plan", "propose", "will", "believe", "forecast", "estimate", "target" and other similar words that involve risks and uncertainties. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is no assurance that such events or targets will be achieved. A number of important factors could cause the Trust's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements, and many of these factors are beyond the control of TTCRESL and KKR. This information is not a promise or representation as to the future and past performance is not a guarantee of future performance. Statements or assumptions in this information as to future matters may prove to be incorrect and may be superseded by subsequent market events or for other reasons. You acknowledge that the circumstances may change and that this information may become outdated as a result.

You should make your own independent assessment of this information and seek your own independent professional advice in relation to the information and any action taken on the basis of the information.