



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

18 November 2022

Dear KKC Investors,

This month we want to provide an update on the European Direct Lending (“EDL”) allocation within the KKC portfolio to ensure investors are abreast of KKR’s high conviction in the underlying quality of the assets within KKC, and KKR’s confidence in the outlook for the portfolio.

The EDL strategy accounts for ~34% of KKC’s portfolio and while the strategy provides portfolio diversifying benefits, we are conscious that many of the investments may not be well understood by investors.

KKR Credit’s EDL strategy seeks to directly originate private senior secured loans. EDL is part of KKR’s Private Credit business and targets proven businesses in the upper middle market (Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of €50 million or more) operating in defensive sectors, with solid credit fundamentals and high cash flow conversion. The KKR Credit team believes this leads to better investment performance through the cycle.

The key takeaway points we would like to make to KKC investors are as follows.

1. **Credit quality remains robust**

KKR Credit recently completed the quarterly re-underwrite of the entire private credit portfolio. Specifically as it relates to KKC's EDL investments, there are no watch list credits and the majority of investments are performing in line with or ahead of expectations. Interest coverage remains strong and there are no signs of distress in the portfolio after performing stress tests for each borrower with further rate increases and EBITDA volatility.

2. **Private Credit is benefiting from a number of tailwinds**

KKR Credit believes that the market environment for private senior debt in Europe is attractive. Private equity dry powder is expected to continue driving transaction activity and the need for financing, while the Private Credit market is increasingly taking share from the public broadly syndicated market. These market dynamics are leading to an increase in the size and quality of companies being added to KKC's EDL portfolio.

3. **Accelerating secular shift from Public to Private Credit markets**

During times of market volatility the secular shift among issuers from public to private credit markets tends to accelerate and with syndicated markets effectively closed for business, many borrowers are seeking private credit solutions. Almost 50% of European loan issuance across public and private debt markets was placed privately in the first half of 2022.^[1] We believe this presents an attractive investing opportunity for upper middle market lenders like KKR who can lend to larger, more resilient borrowers.

4. **Emergence of jumbo deals**

In the last 18 months, we have seen the emergence of jumbo deals (Unitranches of more than €1 billion).^[2] KKR's EDL strategy average EBITDA has continued to grow as we believe the best risk adjusted returns are in the upper middle market. The median EBITDA across KKC's EDL investments has increased to ~US\$90m.

5. **Natural hedge against rising interest rates**

Investments within the EDL strategy are mainly floating rate private loans, which can provide a natural hedge against rising interest rates. The increasing rate environment is leading to increasing returns across the private debt market.

KKR believes that credit currently offers a more compelling risk-reward total return proposition over equities given current valuations, spread and yield levels, dollar discount and private credit's access to dry powder.

KKR Credit remains focused on deal coverage metrics and works with the portfolio risk team to assess and ensure borrowers can maintain interest coverage levels comfortably above 1.0x, under current projected and stressed scenarios.

KKR Credit also has the advantage of additional dedicated resources in workouts, restructurings, and portfolio monitoring to limit negative impact risks from the current economic volatility on the portfolio.

We look forward to keeping you updated on the portfolio.

[1] Source: Ion analytics & PitchBook LCD as at June 2022

[2] Source: PitchBook LCD as of July 21, 2022.

KEY BENEFITS AND RISKS

BENEFITS

The key benefits of investing in the Fund include:

- **Attractive Target Distribution**
- **Attractive Target Return**
- **Diversified exposure**
- **Alignment of interests with Unitholders**
- **KKR product access**
- **Highly experienced KKR Credit team**

RISKS

Key risks include:

- **Allocation risk** in relation to the Investment Strategy
- **Illiquid and long term investments** in relation to the Investment Strategy
- **Potential conflicts of interests of the Responsible Entity and the Manager and its affiliates**

- Entities within the “**Perpetual Group**” may also act in various capacities for other funds or accounts, which may conflict with the role the Responsible Entity plays with respect to the Trust.
- **Market and economic risks** in relation to an investment in the Trust
- **Currency risk** in relation to an investment in the Trust
- **Pricing risk** in relation to an investment in the Trust
- **Liquidity risk** relating to Units in the Trust in relation to an investment in the Trust
- **Operational risk** in relation to an investment in the Trust
- **High yield investments risk** in relation to debt investments
- **Credit risk** in relation to debt investments
- **Interest rate risk** in relation to debt investments
- **Bankruptcy risk** in relation to debt investments

If you are uncertain as to whether an investment in the Trust is suitable for you, please contact your stockbroker, financial adviser, accountant, lawyer or other professional adviser.

About KKR

46

years of
experience

US\$496

billion total assets
under management¹

US\$186

billion credit assets
under management

~740

KKR Investment
Professionals

US\$25

billion invested
alongside our clients²

(1) Figures as of 30 September, 2022. 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

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 (the "Manager" or "KKR") and issued by Seed Partnerships Pty Ltd ABN 32 606 230 639 AFSL 492973 on behalf of the Manager and The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235150 (the "Responsible Entity" or "TTCRESL"). TTCRESL is the responsible entity and issuer of units in the KKR Credit Income Fund ARSN 634 082 107 ("KKC" or the "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) and Target Market Determination (TMD) 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 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.

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