



## 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

27 April 2020

Given the historic decline in global oil prices over the past week, the Manager believes that it is important to assess what is happening in the oil market and how it relates to the Global Credit Opportunities Fund (“GCOF”), which is managed by KKR Credit and is one of the funds that KKC has invested in [\[1\]](#). As described below, GCOF has limited exposure to the energy sector, reflecting KKR Credit’s general approach to avoiding cyclical sectors and commodity price risk.

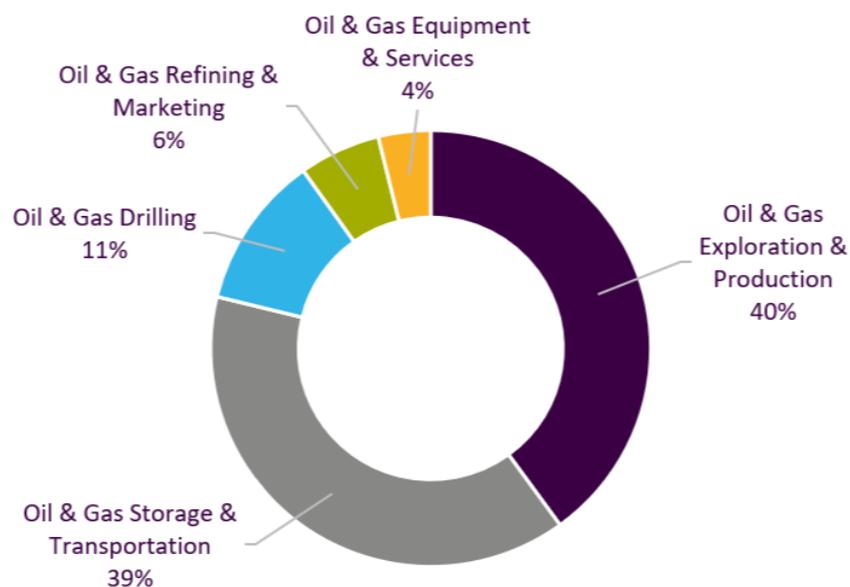
Oil markets around the world have fallen to a more than two-decade low with West Texas Intermediate (WTI), the US oil futures benchmark, moving into negative territory momentarily for the first time in history [\[2\]](#). The significant drop in prices has resulted from a combination of:

- a significant decrease in demand stemming from global lockdowns and factory closures due to COVID-19;
- smaller than necessary OPEC-led [\[3\]](#) cuts to supply; and
- concern over how storage facilities will cope with the oil glut.

The drop in price has put increased financial pressure on oil producers that have a higher cost base, namely US shale oil producers. Year-to-date (“YTD”), the S&P 500 Energy index [4] has fallen more drastically (-45%) than the S&P 500 index (-15%) [5].

The pressure on US oil producers can also be seen in the US credit markets, with the energy sectors of the US loans and high-yield bonds returning, YTD, -30% and -23% respectively [6]. As of 31 March 2020, the energy sector represented approximately 3% and ~11% of the US loans and high-yield bonds markets respectively [7]. By contrast, holdings in the energy sector comprised 3.8% of GCOF's portfolio.

The chart below shows the split of the 3.8% GCOF holding across the energy sector. There are 16 issuers in these sub-categories with the largest five accounting for almost two-thirds of GCOF's 3.8% holding.



Source: KKR Analysis as of 31 March 2020

Of these top-five holdings, only one of the issuers is directly involved with oil drilling. This holding comprises 0.4% of the GCOF portfolio. The other four largest holdings are related to midstream energy and infrastructure and gas production activities which KKR Credit believes are less directly exposed to volatile oil prices. Despite this limited exposure, KKR Credit will continue to monitor global energy demand in the short-to-medium-term.

The GCOF portfolio has traditionally held an underweight exposure to the energy sector

compared to the credit markets that the fund trades. KKR Credit believes that its advantage lies in its consistent, detailed and disciplined approach to its credit underwriting process, which is based on analysing company fundamentals (rather than commodity prices), focusing on downside protection and assessing the predictability of future cash flows.

**[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]** Source: Bloomberg as of 20 April 2020. Bloomberg has not provided its consent to the inclusion of this statement in this update.

**[3]** “OPEC” refers to the Organization of the Petroleum Exporting Countries – an intergovernmental organization of 13 oil-exporting developing nations.

**[4]** The S&P 500 Energy index comprises those companies included in the S&P 500 that are classified as members of the energy sector (pursuant to the Global Industry Classification Standard).

**[5]** Source: Bloomberg as of 21 April 2020. Bloomberg has not provided its consent to the inclusion of this data in this update.

**[6]** Source: Bloomberg as of 21 April 2020. Bloomberg has not provided its consent to the inclusion of this data in this update.

**[7]** Source: Bloomberg/FactSet as of 31 March 2020. Neither Bloomberg nor FactSet have provided their consent to the inclusion of this data in this update.

## About KKR



years of  
experience



billion total assets  
under management<sup>1</sup>



billion credit assets  
under management



KKR Investment  
Professionals



billion invested  
alongside our clients

Figures as of 31 December, 2019. 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, KKR Capstone, and other affiliates. Investments made by current and former KKR employees and KKR Capstone are

retained by those individuals personally. Includes unfunded commitments made by individuals. KKR Capstone is not an affiliate or subsidiary of KKR.



## Important Information

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