



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

Symphony No. 2020: Key Insights

25 February 2021

With the start of the new year, and the glimmer of brighter days ahead as the vaccine rollout begins, KKR Partner & Head of Leveraged Credit, Chris Sheldon brings you his fourth and final piece in the 'V for Volatility' series, titled '[Symphony No. 2020](#)'.

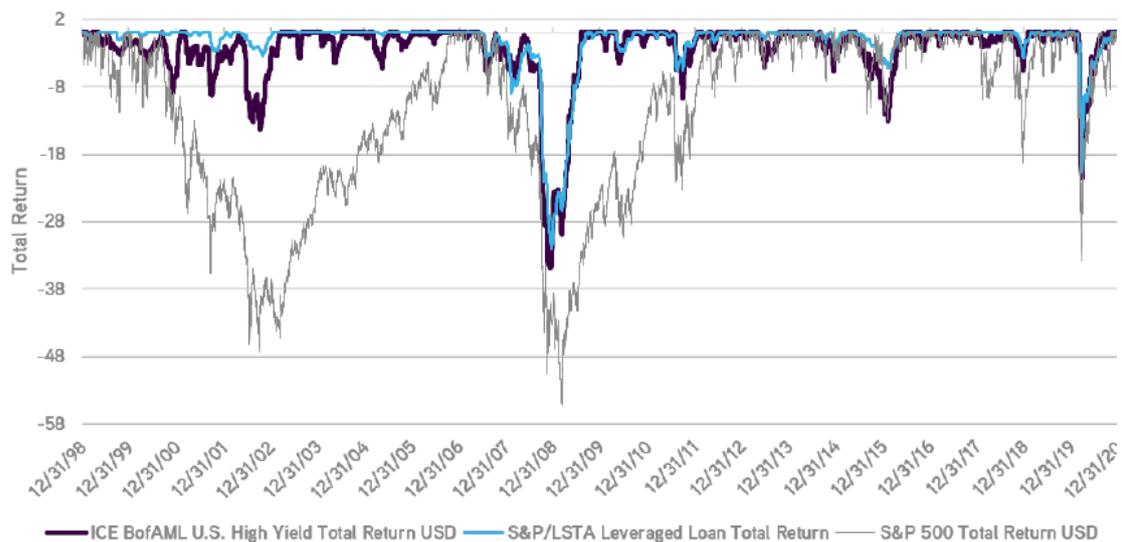
In this latest piece, Chris likens the market movements and themes of 2020 to a collection of melodic dynamics. He highlights the historical Federal stimulus, record downgrades and issuance, Fallen Angels, and the increased dispersion we saw throughout the year.

Below is a brief overview of the key insights, however, you can read the full 'Symphony No. 2020' [here](#).

The Market's Crescendo

Historically, markets have a way of navigating through crises, and as was learnt in 2008, it's important to focus only on what can be controlled. Throughout 2020, KKR Credit strived to do this as the composition of the market evolved, and thus, pivoted its investment theses and credit strategies in response.

HISTORICAL DRAWDOWNS AND RECOVERIES SINCE 1999



Source: ICE BofAML, S&P LSTA LLI, Bloomberg, and KKR Credit Analysis as of December 31, 2020

According to 'Symphony No. 2020', the fourth quarter was a combination of market themes coming to an inflection point with strong market momentum further encouraged by COVID-19 vaccine announcements.

Ultimately, the US credit markets ended 2020 on a strong note, however, Chris reflects on the following themes as part of the market's crescendo:

- High yield and leveraged loan spreads reached +1,000bps in the depths of Q1 volatility but rallied strongly in later quarters with high yield tightening back to ~390bps [1] and leveraged loans to ~450bps [2] in December 2020.
- The loan market shrank for the first time in 10 years by ~\$178.4 million [2] while the high yield market grew by 18% [1].
- Collateralised Loan Obligations ("CLO") issuance proved resilient with a strong recovery in the second half of 2020 in both the US and Europe. In the US, net loan issuance remained flat on the year, while new CLO issuance increased resulting in CLOs ownership of the loan market growing in 2020 to an estimated ~65% [2].

- The Fed was the market's conductor, with its Secondary Market Corporate Credit Facility (SMCCF) and Primary Market Corporate Credit Facility (PMCCF) spurring the transformation of the high yield market, which created an even larger asymmetry between it and the investment grade market
- In the investment grade credit market, 2020 saw a tidal wave of downgrades from investment grade to high yield, also known as Fallen Angels. At year-end, BB rated assets comprised +54% of the high yield market, of which 72% are trading above their call price, while CCC rated assets accounted for a mere 13% of the market [\[3\]](#).
- High yield issuance was 60% [\[4\]](#) higher in 2020 than in 2019, setting a new record each quarter.

The Chorus

Going into 2021, KKR remains constructive on high yield but currently views leveraged loans as more attractive on a relative value basis. As such, KKR increased its asset allocation to loans in its opportunistic credit strategies, being mindful, of course, that this market symphony can shift direction at any moment.

Chris emphasises how the level of dispersion that now exists in the credit markets has upped the ante on credit selection. While the market rally has been strong, many credits still ended the year down on a total return basis across a range of industries. As long-term credit investors, KKR sticks to the fundamental analysis across the corporate credit market, and by doing so, aims to outperform.

A closing Sonata

Looking ahead to 2021, Chris recognises that there is still a great deal of uncertainty and challenges ahead. With the continued pursuit for income and yield in a tightening and fast-moving corporate credit market, the onus, now more than ever, is on agile and creative active managers to identify unique investment opportunities across the debt and equity markets.

Read the full 'Symphony No. 2020' report [here](#).

[\[1\]](#) Source: ICE BofAML and KKR Credit Analysis as of 31 December 2020

[2] Source: S&P LCD and KKR Credit Analysis as of 31 December 2020

[3] ICE BofAML, Factset, and KKR Credit Analysis as of 31 December 2020

[4] ICE BofAML, S&P LCD, and KKR Credit Analysis as of 31 December 2020

About KKR



years of
experience



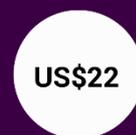
billion total assets
under management¹



billion credit assets
under management



KKR Investment
Professionals



billion invested
alongside our clients

(1) Figures as of 31 December, 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. (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.



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