



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

14 April 2022

Dear KKC Investor,

This month we are pleased to share some macroeconomic and credit specific insights drawn from two recent KKR publications: Our INSIGHTS Global Macro Trends State of Play report by Henry H. McVey, Head of Global Macro & Asset Allocation and the team, and our March Market in Review presentation from the KKR Credit team.



Key points from the Global Macro Trends State of Play report include:

The Russia/Ukraine war has many implications, none greater than the human tragedy that is unfolding. The adverse human element of war will, unfortunately, only be exacerbated by knock-on economic realities and as fiduciaries, KKR

This means real rates (the interest rate adjusted to remove the effects of inflation to reflect the real cost of funds to the borrower and the real yield to the lender or investor) will likely lag this cycle.

is compelled to look deeply into what the implications are for all our constituencies, including our portfolio companies, our limited partners, and our employees.

With uncertainty remaining high, the war is expected to accelerate the structural shifts in the global economic system that began with the pandemic. This cycle started with 'sticky' inflation (the undesirable combination of stubbornly high inflation and stagnant growth) that is both broad-based and accelerating. The Russia/Ukraine war as well as the recent surge in Omicron cases in China should only intensify this headwind in the near-term.

The surging inflation that began in 2021 is occurring at a time when central banks will lag to tighten financial conditions.

The Ukraine/Russia situation also has the potential to reinforce populism, geopolitical rivalry, institutional distrust and political tumult: all recent trends that have significant long-term economic implications.

Against this backdrop, KKR strongly advocates for capital allocators to prioritise inflation protection and pricing power by overweighting collateral-based cash flows, including infrastructure, Asset-Based Finance and Real Estate.

KKR expects Opportunistic strategies across both liquid and private Credit such as KKC's portfolio to perform well in this new macroeconomic environment.

Click [here](#) to read the report.

KKR Credit March Market in Review

As of March 31, 2022

Our KKR Credit March Market in Review presentation highlights:

- A hawkish Fed narrative and a developing conflict in Ukraine produced sharply higher rates in March, a spike in commodity prices, and lower and then eventually higher prices for high yield bonds and loans.
- March also produced the 2nd most significant spread tightening of the last 15 months, negligible new-issue volume, and an eventual stalling of 1Q22 's most significant stretch of retail outflows on record (1Q -\$25.3bn).

- Leveraged loans managed to produce modest gains in March (+0.11%) and significantly outperformed the balance of fixed income as a hawkish Fed and geopolitical tensions produced a sharp recalibration of interest rate expectations.

As a fundamental focused credit manager with deep resources to analyse credits, KKR Credit is open to examining companies the market may be shunning, and we believe from our analysis that there has been an indiscriminate rally in up markets and a “flight to quality” in down markets.

We continue to look at credit opportunities through a critical fundamental lens and feel well positioned to take advantage of continued volatility and spread dispersion as we still see dislocated situations that can offer strong risk adjusted return potential.

Click [here](#) to read the presentation.

About KKR



years of experience



billion total assets under management¹



billion credit assets under management



KKR Investment Professionals



billion invested alongside our clients²

(1) Figures as of 31 December 2021. 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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