



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 May 2020

This week the Manager discusses one of the underlying funds which KKC unitholders will have indirect exposure to, the European Direct Lending Fund (“EDL”) and its portfolio, recent trading activities and estimated time for final close.

KKC seeks to provide unitholders with exposure to global traded credit and European private credit through KKC’s investments in the Global Credit Opportunities Fund (“GCOF”) and EDL. Currently, KKC is 100% invested into GCOF but this will evolve to a roughly 50/50 split between both funds over time.

Has EDL begun investing?

Yes, EDL opened for investments in May 2019. To date, EDL has invested in and continues to hold nine originated direct lending assets. It is anticipated that EDL will aim to increase its holding to 35-40 of these types of originated direct lending assets over the next 2-3 years. EDL also invested in 14 European syndicated loans and has sold out of 10 of these as of 30 April 2020, bringing the net issuer exposure to 13 (nine originated assets together with net four syndicated loans).

Can you provide more detail on these investments?

The originated direct lending assets which EDL has invested in to date have been across a range of sectors such as insurance, chemicals, software, distributors, discount retail and financials. KKR Credit has been the sole or lead lender to the borrower in the majority of cases. EDL may receive additional returns due to the Original Issue Discount (“OID”) on some of these loans. A loan has an OID when it is issued at discount to its maturity value.

The April Monthly Investment Update mentioned that EDL had invested in European syndicated loans also. Can you tell us more?

As set out in the “Monthly Investor Update as of 30 April 2020” (released to the ASX on 22 May 2020), EDL has sold out of the majority (10) of the 14 investments it had made into European syndicated loans during the market volatility of March 2020. The investments totalled ~A\$176 million across 14 different European syndicated loans in the secondary market at an average price of ~83%. Approximately three weeks later, EDL had sold the majority of these assets at an average price of ~93%, realising a ~1.1x multiple of return in this short space of time. All gains from this sale went directly to EDL^[1].

Will KKC be the only investor in EDL?

No, KKC will sit alongside other institutional investors (such as pension funds and insurance companies) and KKR’s Balance Sheet. KKC will receive a pro-rata share of all EDL distributions alongside the other investors.

Why has the EDL final close date moved to September 2020?

KKR Credit initially expected that fundraising for EDL would be complete by May 2020, but COVID-19 has delayed some investors who were in the final stages of due diligence with a view to making a commitment to the fund. KKR Credit has extended the final close date to accommodate these investors and anticipates that the final close of EDL will now be in September 2020.

Does this mean that KKC will not receive any income generated by EDL before September?

No, KKC and other EDL investors will be entitled to their pro-rata share of net interest and gains accrued since the inception of EDL. EDL has not called capital yet from investors so it has been using a liquidity facility to finance its purchases to date.

When will capital be called from KKC to fund these purchases?

After the final close of EDL, EDL will make capital calls to investors, including KKC. As KKC’s capital is currently 100% invested in GCOF, KKC may utilise its own liquidity facility to bridge the capital calls made by EDL, having regard to the capital KKC can redeem at the

relevant time from GCOF (which has a quarterly redemption cycle).

Is KKC's current investment in EDL captured in KKC's NTA?

No, not yet. As EDL has not had its final close and the extent of the investor base is not yet known, KKC's precise proportional holdings cannot yet be calculated. Once EDL issues a capital call to KKC, KKC's investment in EDL will be reflected in the NTA of KKC^[2]. As at 31 March 2020, EDL had a positive NAV as income and realised gains received up to that point were in excess of any unrealised mark to market valuation decreases on the underlying assets within EDL.

The Manager looks forward to keeping KKC unitholders updated on EDL's new private credit investments. Following the final close of EDL in September, the Manager will be able to confirm KKC's allocation to the existing assets within EDL.

To read previous KKC Investment Updates please visit the KKC Australia website

[HERE](#)

^[1] For illustrative purposes only. The specific assets identified are not representative of all securities purchased or sold by KKC or the underlying funds, and it should not be assumed that the investment in the assets identified was or will be profitable. Past performance is not indicative of future performance.

^[2] 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.

About KKR

44+

years of
experience

US\$207

billion total assets
under management¹

US\$68

billion credit assets
under management

470+

KKR Investment
Professionals

US\$19

billion invested
alongside our clients

Figures as of 31 March, 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. 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

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