



## 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

4 May 2020

### **Bifurcation** (*Noun*)

- the division of something into two branches or parts.

*"the fish gathered at the bifurcation of the river"*

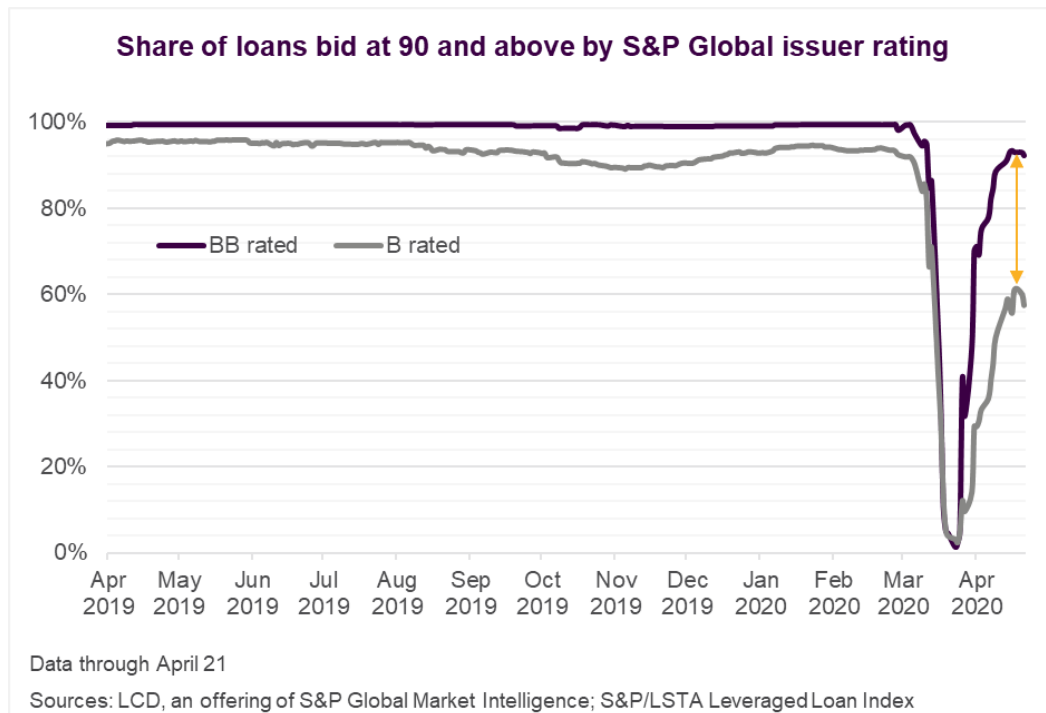
The Manager wishes to highlight a trend that it has been seeing in the US loan market where the pricing differential between B-rated and BB-rated loans [\[1\]](#) was much smaller pre-COVID-19 but has now widened. It's worth exploring this *bifurcation* and how it relates to the KKC portfolio via its investment in the Global Credit Opportunities Fund ("GCOF") [\[2\]](#).

US credit markets have bifurcated as investors have sought the relative safety of higher-rated assets. KKR believes this can create opportunities for the mispricing of assets, the value of which can be unlocked in the medium term.

As at 24 April 2020, across the US loan market, 57% of B-rated loans were priced at

90% or above, compared to 92% of BB-rated loans. This is in stark contrast to the same figures at the end of February, which had 92% of B-rated loans and 98% of BB-rated loans priced above 90% [2].

The chart below illustrates this increase in bifurcation between B-rated and BB-rated loans.



Source: S&P LCD as of 24 April 2020 [3]

The key takeaway here is that the pricing differential between B and BB loans has now widened as many investors have favoured the perceived safety of higher-rated assets.

KKR Credit has a strong track record of identifying opportunities which present themselves during market dislocations such as the one we are currently experiencing. The Manager has been repositioning the KKC portfolio to take advantage of this theme in anticipation of the pricing scenario “normalising” over the medium term.

**To read previous KKC Investment Updates please visit the KKC Australia website [HERE](#)**

**[1]** Credit ratings are statements of opinion of a relevant credit agency about the likelihood of a borrower to meet its interest and principal payment and repayment obligations when they fall due. Credit ratings are not statements of fact or recommendations to purchase, hold or sell securities. Credit ratings do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied upon as investment advice.

**[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.

**[3]** Source: S&P LCD as of 24 April 2020. S&P LCD has not provided its consent to the inclusion of this statement in this update. Ratings as rated by one of the major Rating Agencies.

## About KKR



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.

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Before making any investment decisions you should consider the Product Disclosure Statement (PDS) 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](http://www.kkcaustralia.com.au) or can be obtained by calling 1300-131-856 within Australia.

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The Manager's privacy policy is available on the KKC website [www.kkcaustralia.com.au](http://www.kkcaustralia.com.au) or by contacting the Manager as follows:

KKR Australia Investment Management Pty Ltd  
Level 42, Gateway Building  
1 Macquarie Place  
Sydney NSW 2000  
[Kapil.Kirpalani@kk.com](mailto:Kapil.Kirpalani@kk.com)  
+852 36027376

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Unit Registry - Boardroom Pty Ltd · Grosvenor Place · Level 12, 225 George Street · Sydney, NSW 2000 · Australia