

KKR Credit Income Fund (ASX:KCC)

Monthly Investment Update: As of 31 March 2020

INVESTMENT UPDATE

As of 31 March 2020	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year	Inception
Net Return Based on NTA (%)	-21.93%	-19.43%	-20.29%	-	-	-	-20.29%
Distribution (%)⁽¹⁾	0.21%	0.21%	0.21%	-	-	-	0.21%
Total Net Return	-21.72%	-19.23%	-20.08%	-	-	-	-20.08%
Distribution (A\$/Unit)	0.0053	0.0053	0.0053	-	-	-	0.0053

As of 31 March 2020	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	FYTD
Net Return Based on NTA (%)	-0.42%	-0.65%	2.43%	0.75%	-21.93%				-20.29%

Past performance is no guarantee of future results and the portfolio characteristics are subject to change.

Net Tangible Assets (NTA)	A\$737,351,392	NTA Per Unit	A\$1.99
Unit Pricing	Monthly	ASX Unit Price	A\$1.55

Monthly Performance

For the month of March 2020, the KKR Credit Income Fund ("KKC or the Trust") recorded an estimated negative NTA return of -21.93% (excluding the distribution of A\$0.0053). It is important to note that this estimated negative return reflects KKC's investment in the Global Credit Opportunities Fund ("GCOF") and its estimated combined return from both February and March 2020. KKC has removed the month lag between GCOF performance and KKC NTA which was present in previous NTAs after receiving feedback from KKC investors, by using estimated figures for GCOF performance as the GCOF NAV is not issued until approximately 20 business days after month-end.

The period from 21 February 2020 to the end of March 2020 was one of the most volatile periods in the history of the US traded credit markets. The loan market was down ~14.0% over this period and the value of the high yield bond market dropped almost 15.3% over the same period⁽²⁾. These markets are fragmented however and returns differed materially across asset ratings over this period (BB rated assets decreased ~11-12%, single B rated assets decreased ~14-16% and CCC rated assets decreased ~25%)⁽³⁾. These market drops had a significant effect on the pricing of the GCOF portfolio. However, it is important to note that although this update gives market movements as a reference, GCOF is not managed to specific benchmarks. GCOF's strategy is designed to seek to take advantage of opportunities in a more concentrated manner compared to the US leveraged credit indices. For example, of the 186 issuers in GCOF, the top 10 names by weight represent ~27% of the portfolio, with the top 25 and top 50 names representing ~48% and ~70% of the portfolio respectively. In comparison, the US leveraged credit markets have over 3,000 issuers across both loans and bonds. GCOF also has a small exposure (6%) to collateralized Loan Obligations (a single security representing a pool of loans) and this sub-asset class have been slower to rebound in line with market movements towards month end.

March was a challenging month for investors in the US traded credit markets as forced sellers across the market (primarily from daily liquidity vehicles) sold assets indiscriminately where they could get a bid from trading desks. In the Manager's opinion, this resulted in some high-quality sub-investment grade assets being sold off to a greater extent than the Manager believes they should have. To be clear, KKC was not a forced seller but rather the Manager was able to position KKC to be on the other side of some of these trades. Given the price drops in the market, the Manager estimates that KKC's aggregate underlying assets as of 31 March 2020 had a weighted average yield to maturity ("YTM") of 14.7%⁽⁴⁾. The Manager believes that this yield offers an attractive return for the same companies that were yielding ~8% almost two months previously. For more information around the market and portfolio performance, Jeremiah Lane, one of KKR Credit's senior investment team members gives his view in a recently published video available on www.kkcaustralia.com.au

The European Direct Lending Fund ("EDL") made 14 additional investments during March. These purchases were in high quality credits in the European traded loan market that were bought at attractive prices in the recent dip. As of March month end, EDL had sold out of five of these names, capturing a profit for EDL. KKC has exposure (on a committed basis) to 23 EDL assets which are not yet included in the KKC portfolio charts on the following page, as they have not yet been funded by KKC.

Distribution

KKC declared its first distribution at the end of March 2020, to be paid on 14 April 2020. This first distribution was below the target annualised range of 4-6%⁽⁵⁾ for two main reasons; firstly, the dividend received (interest income) from GCOF was for the period 21 November 2019 to 31 December 2019 only. As KKC was also ramping up over the period of November 2019 to January 2020, only a portion of the assets had been invested and eligible to receive interest. Secondly, given the current market volatility, the Manager has maintained a cash balance within KKC to assist with any short-term liquidity needs. As KKC invests into two underlying commingled funds that have set distribution periods, KKC has no direct access to liquidity, therefore the Manager considered it appropriate to build this cash buffer. KKC is still targeting the distribution range of 4-6%⁽⁵⁾ on an annual basis.

(1) Distribution % calculated as the Dividend per share divided by the closing NTA of the previous month

(2) Source: Bloomberg as of 1 April. Bloomberg has not consented to the inclusion of this statement in this document

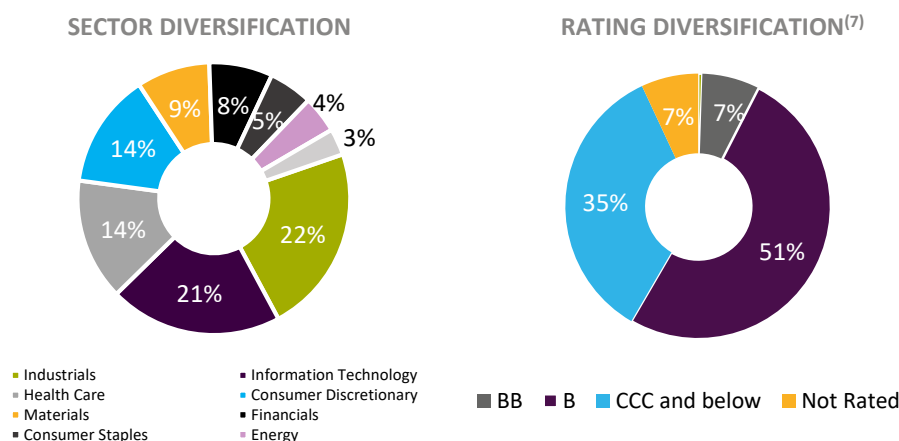
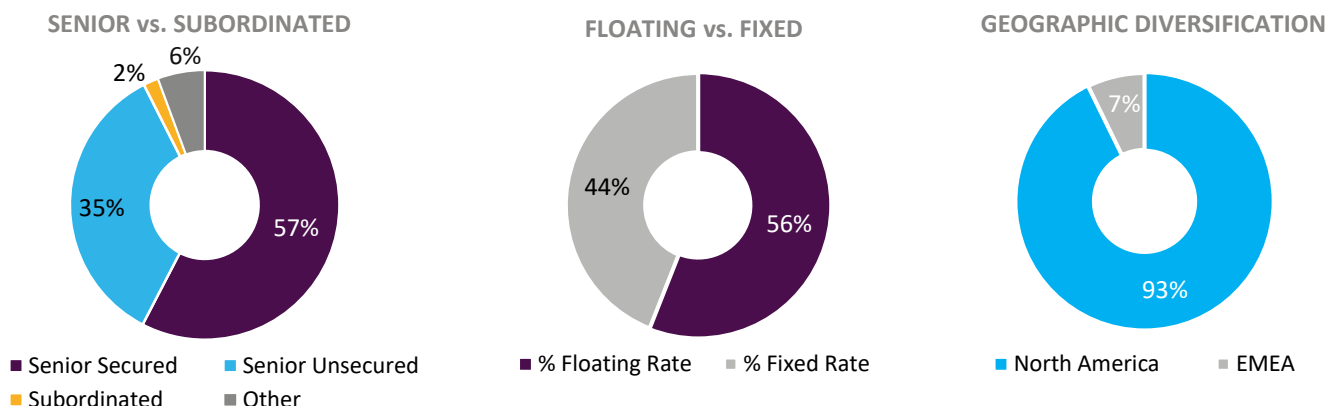
(3) Source: KKR as of 31 March 2020. Credit ratings are statements of opinion of a relevant credit agency about the likelihood of a borrower to meet its interest and principal payment and repayment obligations when they fall due. Credit ratings are not statements of fact or recommendations to purchase, 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

(4) This yield represents the views of KKR Credit as of 31 March 2020 regarding the likely current yields of investments in GCOF over a full market cycle and is subject to change. There is no guarantee that the assumptions upon which estimated current yields are based will materialise as anticipated. This YTM is inclusive of cash balances.

KKR Credit Income Fund (ASX:KCC)

Monthly Investment Update: As of 31 March 2020

PORTFOLIO CONSTRUCTION as of 31 March 2020⁽⁶⁾



OTHER PORTFOLIO DETAILS⁽⁶⁾

Top 100 Issuer Summary: % of Portfolio	
Top 10	27.1%
Top 20	42.1%
Top 25	48.0%
Top 50	69.6%
Top 100	91.4%

Number of Issuers ⁽⁶⁾	
186	

Asset Mix	
100% Traded Credit*	

Yield-to-Maturity on Underlying Assets	
14.7%	

Portfolio Duration	
1.8 years	

Top 10 Holdings Summary

Holding	Weight	Asset Type	Sector	Fixed/ Floating	Security	Seniority	Country	Currency
1	4.6%	High Yield Bonds	Information Technology	Fixed	Unsecured	Senior Unsecured	United States	USD
2	3.3%	Bank Loans	Materials	Floating	Secured	Senior Secured	United States	USD
3	3.0%	Bank Loans	Information Technology	Floating	Secured	Senior Secured	United States	USD
4	2.9%	High Yield Bonds	Information Technology	Fixed	Unsecured	Senior Unsecured	United States	USD
5	2.7%	Bank Loans	Consumer Discretionary	Floating	Secured	Senior Secured	United States	USD
6	2.3%	Bank Loans	Health Care	Floating	Secured	Senior Secured	United States	USD
7	2.2%	Bank Loans	Industrials	Floating	Secured	Senior Secured	United States	USD
8	2.2%	High Yield Bonds	Consumer Staples	Fixed	Unsecured	Senior Unsecured	Netherlands	USD
9	2.1%	Bank Loans	Industrials	Floating	Secured	Senior Secured	United States	USD
10	1.8%	High Yield Bonds	Financials	Fixed	Unsecured	Senior Unsecured	United States	USD
27.1%								

This investment update and the statistics surrounding the top 10 holdings in the KKR Credit Income Fund is provided upon request by the investor group and is not for redistribution. This material has been prepared solely for informational purposes. The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons.

*As noted above, KKC has exposure (on a committed basis) to EDL. This excludes the ~A\$157 currently invested by KKR Lending Partners Europe II (Euro) Unlevered SCSP on behalf of KKC into EDL assets. Including this, the split is ~82% Traded Credit/18% Private Credit

(5) Net of fees and expenses incurred by the Trust, but before tax, paid quarterly once the Trust has deployed the offer proceeds into the KKR Funds (expected to be by March 2020). The target distribution is only a target and may not be achieved. All investments are subject to risk which means you may lose all or a portion of the amount you invest or you may otherwise achieve distributions and returns that are lower than any target distribution or target return. Before making an investment decision, it is important to understand the risks that can affect the value of your investment. Investors should read the risks described in Section 8 of the PDS.

(6) Based on look through to KKC's underlying funds. Represents GCOF assets as of 31 March 2020.

(7) Source: KKR as of 31 March 2020. 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.

KKR Credit Income Fund (ASX:KCC)

Monthly Investment Update: As of 31 March 2020

KKC Overview

- The Trust aims to provide investors with attractive, risk-adjusted returns and access to a diversified portfolio of income generating alternative credit investments through the Trust's investment across investment funds managed by the credit investment teams of Kohlberg Kravis Roberts & Co. L.P. ("KKR").
- These funds initially comprise the Global Credit Opportunities Fund and the European Direct Lending Fund, which seek to take advantage of the attractive opportunities that KKR sees in the market. The Trust's investment objective is to provide an income stream as well as to achieve attractive long-term capital appreciation over a full market cycle.
- The Trust seeks to deliver investors with a distribution yield of 4% - 6% per annum⁽⁸⁾, paid quarterly in arrears, and a medium-term average total return of 6% - 8% per annum.⁽⁹⁾

KKR Overview

- Established in 1976, KKR is a leading global investment firm with industry-leading investment experience, in-depth industry knowledge, sophisticated processes for growing and improving businesses, and a strong culture committed to teamwork.
- As of 31 December 2019, KKR had A\$311.6 billion of assets under management, of which A\$104.4 billion sits within KKR Credit.⁽¹⁰⁾
- KKR has a global presence with offices in 20 cities across 4 continents, including Sydney, Australia.

KEY TRUST INFORMATION as of 31 March 2020

Trust Name	KKR Credit Income Fund (ARSN 634 082 107)
ASX Code	KCC
ASX Listing	21 November 2019
Market Capitalisation	A\$573.5 million as at 31 March 2020
Units on Issue	370,000,000
Investment Manager	KKR Australia Investment Management Pty Ltd (ABN 42 146 164 454)
Responsible Entity	The Trust Company (RE Services) Limited (ABN 45 003 278 831)
Management Fee	0.88% per annum of the NTA, plus net GST of 0.022% per annum of the NTA ⁽¹¹⁾
Performance Fee	Up to 5.125% of the net annualised return (inclusive of net GST, less RTIC), multiplied by the 'Adjusted NAV' with a hurdle of RBA cash rate plus 4.00% and subject to a high water mark ⁽¹¹⁾
Asset Class	Fixed Income, AUD Hedged

(8) Net of fees and expenses incurred by the Trust, but before tax, paid quarterly. The target distribution is only a target and may not be achieved.

(9) Target medium-term average total return net of fees and expenses incurred by the Trust, before tax. The distribution yield over a given period may be lower than the total return in this period to the extent that the total return includes unrealised gains. Investors should review the Risk summary set out in Section 1 and Section 8 of the PDS for important information regarding Target Total Returns and the Trust's ability to achieve them. Past performance is not indicative of future results.

(10) The KKR Credit group is comprised of KKR Credit Advisors (US) LLC, KKR Alternative Investment Management and KKR Credit Advisors (EMEA) LLP. AUM is updated quarterly in line with KKR's public filings.

(11) This is a summary only – see section 9 of the PDS for more detail.

CONTACT INFORMATION

BOARDROOM

1300-131-856 (Australia)
 +612-9290-9688 (outside Australia)
www.boardroomlimited.com.au
enquiries@boardroomlimited.com.au

KKR Credit Income Trust
www.kkcaustralia.com.au

RESEARCH



KKR Credit Income Fund (ASX:KKC)

Monthly Investment Update: As of 31 March 2020

Important Information

General

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 (“KKR”) and issued by The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235150 (“TTCRESL”). TTCRESL is the responsible entity and issuer of the KKR Credit Income Fund ARSN 634 082 107 (“Trust”). TTCRESL has appointed KKR to act as the manager of the Trust. This update is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not indicative of future performance. This information is believed to be accurate at the time of compilation and is provided in good faith. This information may contain information contributed by third parties. KKR and TTCRESL do not warrant the accuracy or completeness of any information contributed by a third party.

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 or can be obtained by calling 1300-131-856 within Australia.

None of KKR, its affiliates or its related bodies corporate, or any company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Trust or the return of an investor’s capital. This information does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of the Trust’s units.

Information in this Document

This information is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons.

This information may contain projections or other forward-looking statements and comments regarding future events, including targets or expectations regarding the Trust’s business, plans and strategies. Forward-looking statements also include prospective financial information for the Trust. Forward looking statements can generally be identified by the use of forward looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target” and other similar words that involve risks and uncertainties. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is no assurance that such events or targets will be achieved. A number of important factors could cause the Trust’s actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements, and many of these factors are beyond the control of TTCRESL and KKR. This information is not a promise or representation as to the future and past performance is not a guarantee of future performance. Statements or assumptions in this information as to future matters may prove to be incorrect and may be superseded by subsequent market events or for other reasons. You acknowledge that the circumstances may change and that this information may become outdated as a result.

You should make your own independent assessment of this information and seek your own independent professional advice in relation to the information and any action taken on the basis of the information.