



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

13 May 2020

Diving deeper into a theme highlighted last week, in this update, the Manager would like to address the bifurcation of assets within the US loan market across different rating groups^[1] and how it has fostered a fertile environment of opportunities in sub-investment grade credit.

With April data now available, the US loan market as a whole is down 8.4% over March and April 2020, compared to the end of February 2020^[2]. The data shows that CCC rated assets have not had the same level of return “bounce” that the market has seen in both BB and B rated assets^[2]. This is demonstrated in the chart below. A hypothetical investment in the market on 1st March 2020 in BB and B rated loans would have been worth 93.9% and 91.2%, respectively, as at 30th April 2020 after these assets recovered some of their value throughout April 2020. CCC returns, however, decreased and then plateaued over the same period and the same investment in CCC rated loans was only worth 80.9% as at the end of April^{[1],[2],[3]}.



The returns shown are for the market's different rating groupings and exclude any hypothetical trading costs or bid/ask spreads. Source: S&P Global Market Intelligence as of 30 April 2020. S&P Global Market Intelligence has not consented to the inclusion of this chart in this update.

The Manager believes the driver of this bifurcation is two-fold: investors have been quick to buy “high quality” (BBB and BB) assets that they believed had traded down too far (KCC was one of these buyers) and secondly, some managers have been slow to buy CCC assets.

The unwillingness to buy CCC assets could stem from a credit manager's:

- **Style**, which may be ratings driven and therefore they cannot buy CCC assets for their portfolios (mandated in investment guidelines), or;
- **CCC limits**, which may already be too high in their portfolios. Generally speaking, Collateralised Loan Obligations (CLO) portfolios tend to have a 7.5% CCC limit^[4].

KCC has not been a forced seller of CCC assets as the Manager is not bound by limits on portfolio allocation to certain credit ratings. Rather, the Manager seeks to deploy capital to segments of the market which it believes represents the optimal risk versus reward^[5].

The Manager believes this bifurcated landscape is an ideal hunting ground for opportunities in sub-investment grade credit.

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] Source: S&P LCD as of 30 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.

[3] For illustrative purposes only. The specific assets identified are not representative of all of the 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.

[4] CLOs are single securities representing a pool of loans.

[5] 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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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.

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KKR Australia Investment Management Pty Ltd
Level 42, Gateway Building
1 Macquarie Place
Sydney NSW 2000
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