



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 Investee Case Study: European Direct Lending (EDL)

30 September 2021

Dear KKC Investor

This month, we would like to provide KKC investors with additional insight into which industries and sub-sectors KKC's portfolio has exposure. In addition to this, we have provided a case study for one of the European Direct Lending investments to give investors further detail on how KKC accesses private lending opportunities.

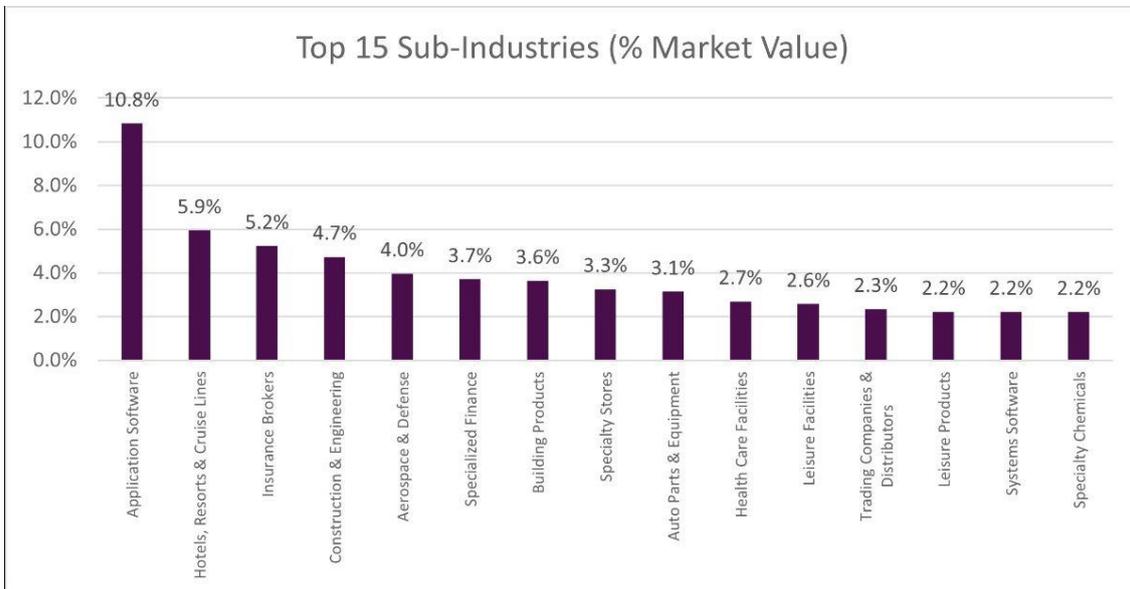
In light of recent developments with The Evergrande Group, we would also like to highlight to investors that KKC does not have any exposure to the company, or to China.

We look forward to keeping you updated on the KKC portfolio.

Portfolio Insights

KKC's strategy is performing in line with expectations. The level of assets rated "Below CCC" in the current portfolio is very low at ~0.24% of market value. Assets are generally rated "Below CCC" if the rating agencies believe there to be a high risk of potential default or the asset is already in default.

In terms of sub-sector exposure, the underlying strategies in KKC currently cover 58 sub-industries, illustrating a diversified portfolio. To see the larger of these, the top 15 sub-industries (58.7% of market value of portfolio) have been shown below:



Two key sub-sectors are Application Software and Insurance brokers. The Manager favours these businesses due to the re-occurring nature and predictability of their cashflows. Application Software is software typically used by an end-user so habits are quickly formed around the use of this software, making it more difficult for businesses to switch providers (e.g. accounting or pay-roll software). Therefore, the cashflows are “sticky”.

The second largest exposure is to Hotels, Resorts and Cruise Lines, one of the most Covid-impacted sectors. The investment team analysed the businesses in this sector, with a particular focus on their services/customers and asset bases, and determined that the discount that some of these securities traded at, presented an attractive risk-adjusted opportunity given the re-opening of travel and tourism globally.

European Direct Lending (EDL) Case Study

Loan Summary

Borrower: Parques Reunidos
Country Headquarters: Spain
Date of Investment: May 2020
Security Type: First Lien Senior Secured Loan
Spread: Euribor+7.50%
Original Issue Discount: 7% (i.e. price paid was 93%)
Currency: EUR

Company Overview

- Parques Reunidos (“PQR”) is a leading Spanish operator of recreational parks such as attraction parks, water parks and animal parks. PQR is a leading player globally by number of visitors.
- PQR had EBITDA of ~A\$316m as of December 2019 and operates 60+ parks across 12 countries.
- The company was acquired by a consortium of EQT, GBL and Alba in 2019 for a €2.0 billion enterprise value, having previously been listed on the Madrid Stock Exchange.

Summary of Initial Investment Thesis

KKR’s Traded Credit team had been invested in PQR debt issued in the syndicated market since 2007 and had therefore monitored the performance of the business closely for many years. This allowed for an efficient credit underwrite of the investment in May 2020 which offered an attractive risk/reward profile.

KKC’s investment in PQR was part of a wider KKR Credit investment in a €200.0 million Term Loan B facility which was raised in May 2020 to ensure adequate liquidity through COVID disruptions. KKR was the lead lender and believed in the PQR story because of its extensive understanding of the business through its holdings in other parts of the credit business, PQR’s large asset base acting as a collateral for the loan, and the businesses ability to reduce costs to a minimum quickly during lockdown and park closures.

The deal was originated by KKR and was priced at Euribor+750bps with a 7.0% Original Issue Discount (OID).

Investment Outcome for KKC

KKC exited the investment fully in April 2021, when the position traded close to par and the investment team identified other opportunities offering greater relative value. KKC enjoyed an IRR of 22.3% and a gross multiple of 1.12x for this trade.

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, 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. (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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KKR Australia Investment Management Pty Ltd
Level 42, Gateway Building
1 Macquarie Place
Sydney NSW 2000
Kapil.Kirpalani@kkc.com

+852 36027376

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