

KKR Credit Income Fund (ASX:KKC)

Monthly Investment Update: As of 30 June 2020



Net Tangible Assets (NTA)	A\$826,576,700	NTA Per Unit	A\$2.24
Unit Pricing	Monthly	ASX Unit Price	A\$1.82

FUND PERFORMANCE

As of 30 June 2020	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year	Inception
Net Return Based on NTA (%)	+1.99%	+12.10%	-9.68%	-	-	-	-10.64%
Distribution (%)⁽¹⁾	+1.14%	+1.14%	+1.35%	-	-	-	+1.35%
Total Net Return	+3.13%	+13.24%	-8.33%				-9.29%
Distribution (A\$/Unit)	0.0250	0.0250	0.0302	-	-	-	0.0302

As of 30 June 2020	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	FYTD
Month-end Net Return Based on NTA (%)	-0.42%	-0.65%	+2.43%	+0.75%	-21.93%	+2.90%	+6.82%	+1.99%	-10.64%

Past performance is not indicative of future performance and the portfolio characteristics are subject to change.

MONTHLY UPDATE

For the month of June 2020, the KKR Credit Income Fund (“KKC” or the “Trust”) recorded a month-end NTA return of +1.99%.

June saw an initial recovery in US high yield bonds (“HYB”) and loans as well as positive momentum for equities until a decline in performance for most of the second half of June. US HYBs gained +0.92% in June whereas US loans gained +1.22% for the month². The momentum in market pricing reflected what was happening in the US in relation to an uptick in new Covid cases, particularly in the sunbelt states towards the end of the month.

June was a record month for HYB new issuance with ~USD\$61bn (~AUD\$89bn) of new deals coming to the market. The Manager has seen that yields have widened out since the outset of the pandemic with borrowers paying an additional premium to lenders at new issue (up +130bps from new issue in February 2020). KKC, through its investment in the Global Credit Opportunities Fund (“GCOF”) partook in several of these higher quality new issues as GCOF shifts its focus towards bonds over loans. Two recent investment themes are:

- Reverse Enquiry. The Manager continues to see value in the primary markets, particularly in syndicated markets where the Manager can approach lenders with potential capital solutions; and
- Bond Convexity Trade. The Manager seeks out higher quality BB HYBs³ with shorter-term price appreciation potential.

The average price of KKC’s portfolio has increased to 92.4%, up from 90.3% as of the end of last month which has been positive for KKC’s NTA⁴. This increase has largely been driven by the increase in CCC prices³ in the market as discussed in the 8th July KKC Investor Update.

The Yield to Maturity for the underlying assets in KKC (which is inversely impacted by increase in price), stood at 10.4% as of 30 June⁵. The current yield of the underlying assets in the portfolio was 7.3% as at month end.

Some month to month changes in the portfolio are described below. All these movements reference the portfolio change between 31 May 2020 and 30 June 2020:⁶

- the number of issuers in the portfolio increased from 173 to 192 as GCOF increased its investment in new issues, particularly on the bond side;
- the concentration of the top 10 holdings decreased from 26.1% to 24.6%;
- Consumer Discretionary remains the largest sector at 24%, followed by Industrials at 24% and IT at 18%;
- KKC’s holdings in CCC rated assets³ decreased from 37% to 34% as KKC added more higher quality primary to the portfolio; and
- KKC’s exposure to senior assets reduced slightly from 92% to 90%.

The European Direct Lending Fund (“EDL”) added three new deals to its portfolio in June; a UK Online Automotive Retailer, a Spanish Leisure Park Operator with a global portfolio of assets and a US Software business. Pro-forma for these new investments, the European Direct Lending Fund is ~24% net deployed across 12 privately originated assets. The Manager is pleased with the rate of deployment to date. EDL did not sell or have any assets repaid during the month.

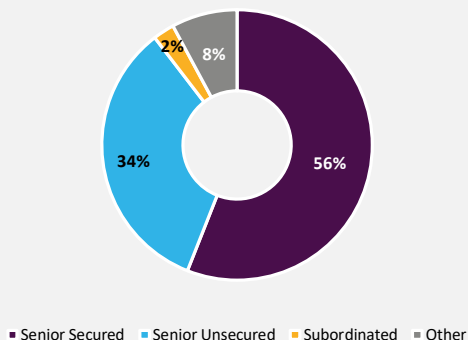
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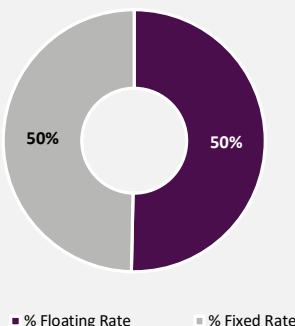


PORTFOLIO CONSTRUCTION⁽⁶⁾

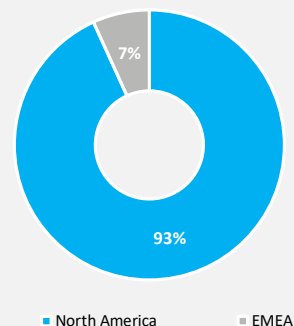
SENIOR vs. SUBORDINATED



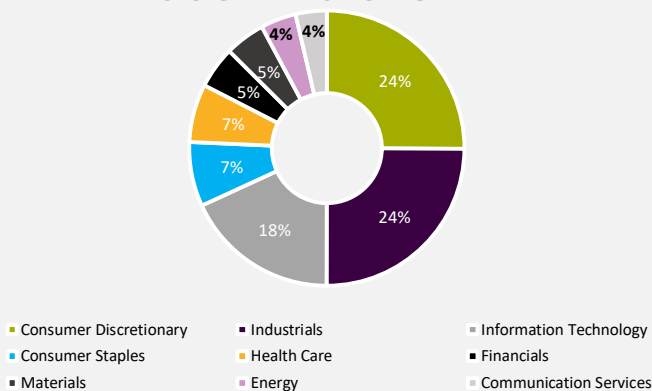
FLOATING vs. FIXED



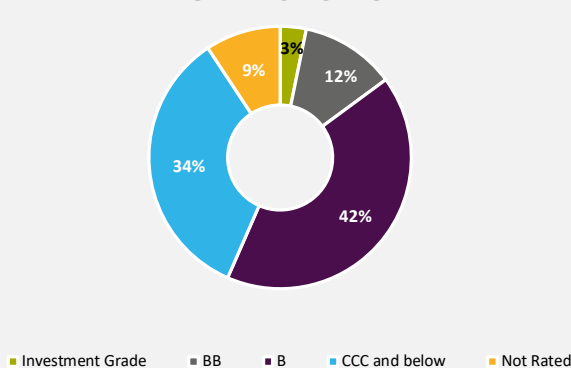
GEOGRAPHIC DIVERSIFICATION



SECTOR DIVERSIFICATION



RATING DIVERSIFICATION⁽⁵⁾



OTHER PORTFOLIO DETAILS⁽⁶⁾

Number of Issuers ⁽⁶⁾	Asset Mix	Yield-to-Maturity on Underlying Assets	Portfolio Duration	Average Price	Current Yield
192	100% Traded Credit*	10.4%	1.8	92.4	7.3%

TOP 100 ISSUER SUMMARY: % OF PORTFOLIO

Top 10	Top 20	Top 25	Top 50	Top 100
24.6%	38.7%	44.6%	65.7%	89.0%

TOP 10 HOLDINGS

Holding	Weight	Asset Type	Sector	Fixed/Floating	Security	Seniority	Country	Currency
1	4.1%	Bond	Information Technology	Fixed	Senior Unsecured	Unsecured	United States	USD
2	3.2%	Bond	Consumer Discretionary	Fixed	Senior Secured	First Lien	United States	USD
3	3.0%	Loan	Materials	Floating	Senior Secured	First Lien	United States	USD
4	2.6%	Bond	Information Technology	Fixed	Senior Unsecured	Unsecured	United States	USD
5	2.6%	Loan	Consumer Staples	Floating	Senior Secured	First Lien	United States	USD
6	2.0%	Bond	Industrials	Fixed	Senior Secured	First Lien	United States	USD
7	2.0%	Bond	Industrials	Fixed	Senior Unsecured	Unsecured	United States	USD
8	1.8%	Loan	Information Technology	Floating	Senior Secured	First Lien	United States	USD
9	1.7%	Bond	Consumer Discretionary	Fixed	Senior Unsecured	Unsecured	United States	USD
10	1.7%	Bond	Consumer Discretionary	Fixed	Senior Secured	First Lien	Luxembourg	EUR
24.6%								

*As noted above, KKC has exposure (on a committed basis) to EDL. This excludes the ~A\$126 currently invested by KKR Lending Partners Europe II (Euro) Unlevered SCSp on behalf of KKC into EDL assets. Including this, the split is ~85% Traded Credit/15% Private Credit (measured as the unfunded EDL exposure as a % of KKC NTA). This investment update and the statistics surrounding the top 10 holdings in the KKR Credit Income Fund is provided 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.

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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⁽⁷⁾, paid quarterly in arrears, and a medium-term average total return of 6% - 8% per annum⁽⁸⁾.

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 March 2020, KKR had A\$336.5 billion of assets under management, of which A\$110.5 billion sits within KKR Credit.⁽⁹⁾
- KKR has a global presence with offices in 20 cities across 4 continents, including Sydney, Australia.

KEY TRUST INFORMATION AS AT 30 JUNE 2020

Trust Name	KKR Credit Income Fund (ARSN 634 082 107)
ASX Code	KKC
ASX Listing	21 November 2019
Market Capitalisation	A\$670.5 million
Units On Issue	369,402,358
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 ⁽¹⁰⁾
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 watermark ⁽¹⁰⁾
Asset Class	Fixed Income, AUD Hedged

CONTACT INFORMATION

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RESEARCH

Bond Advisors

Independent
 Investment Research

Zenith
 Investment Partners

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FOOTNOTES

- (1) Distribution % calculated as the distribution per unit divided by the closing NTA of the previous month.
- (2) Source: Bloomberg as of 30 June 2020. Bloomberg has not consented to the inclusion of this statement in this document.
- (3) Source: KKR as of 30 June 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) Past performance is not indicative of future performance. 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.
- (5) This yield represents the views of KKR Credit as of 30 June 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.
- (6) Based on look through to KKC's underlying funds. Represents GCOF assets as of 30 June 2020.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) This is a summary only – see section 9 of the PDS for more detail.

Important Information

GENERAL

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 ("KKR" or "The Manager") 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. For more information please refer to www.kkcaustralia.com.au