



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

Video: Investment Update with Chris Sheldon

29 January 2021

Happy New Year, all! For our first email of 2021, Chris Sheldon, Partner & Head of Leveraged Credit, (pictured right) brings you a video update covering KKC's recent performance and an overview of how KKR are optimising the Fund's structure, to bring further benefits to unitholders.

Chris also provides an update on the US Credit Market and gives an overview of the KKC Portfolio.



KKC Performance Update

Since the beginning of 2020, KKR has been focused on narrowing the gap between KKC's NTA and its unit price. Strong NTA performance, consistent distributions within the target yield of 4-6% per annum net of fees and expenses, improved transparency on

NTA reporting, and more frequent, high-quality communications with investors are all key to our strategy to narrow the gap. While progress has been made on this front, KKR appreciates there is more work to be done. Accordingly, KKR is implementing its plan to optimise KKC's structure, as signalled several months ago.

KKC Structure Optimisation

Previously KKC held two fund positions: one position in the Global Credit Opportunities Fund ("GCOF") and another in the European Direct Lending fund ("EDL"). However, KKR has begun changing some of KKC's "financial plumbing" to increase its flexibility and to lower costs, particularly in relation to better economics on the liquidity facility.

The optimisation involves KKC holding the same credit assets as GCOF but holding them directly rather than through GCOF.

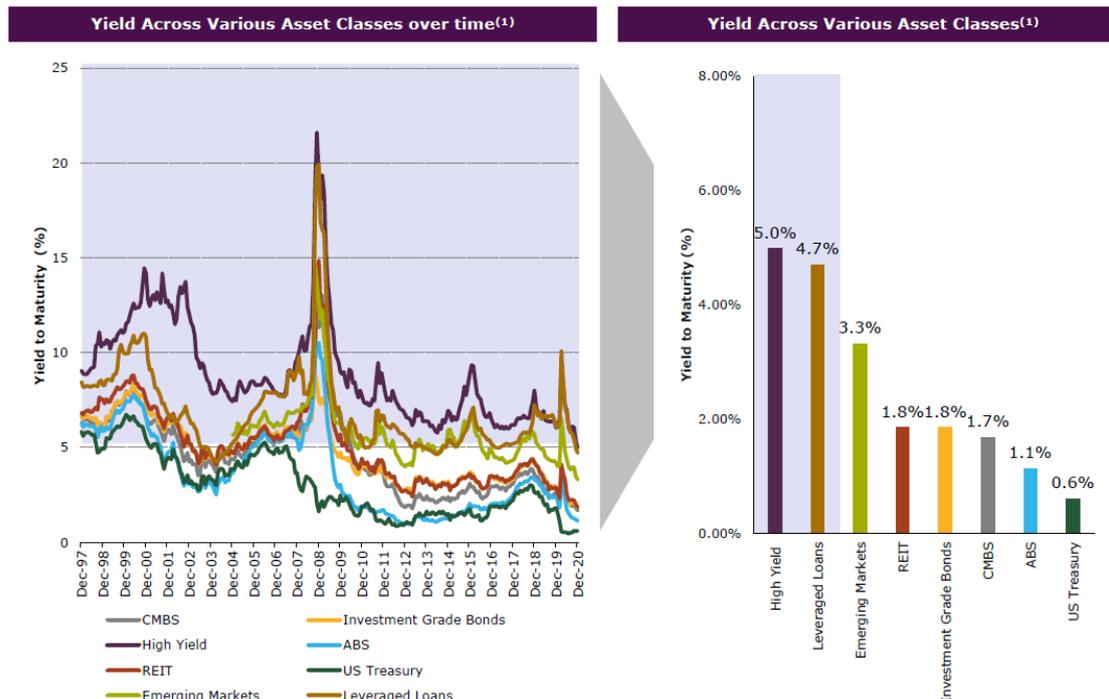
The change is taking place in two stages. 80% of the GCOF assets were moved across on 15 January 2021 and the remaining 20% are expected to be transferred in mid-April.

KKC's holding in the EDL will not be changed.

US Credit Markets

2020 was a tumultuous year and there was no shortage of headlines, particularly in the US. Sentiments about the political landscape and key events have contributed to fluctuations in the market throughout 2020.

However, since the initial March 2020 sell-off, spreads in the market have tightened. Before the COVID-19 pandemic, the broad US High Yield market's spreads were hovering around the 5-year median mark. Having peaked back in March, they have now returned to pre-COVID levels.



Source: Bloomberg, S&P and ICE Indices as of December 31, 2020. These sources have not provided its consent to the inclusion of this data in this presentation.

That said, credit looks attractive compared to other asset classes in this environment. In particular, US High Yield Bonds and Loans look attractive relative to other credit products.

KKC Portfolio Overview

We believe volatility will be the new normal in the credit market, providing further attractive entry points for an active manager, such as KKR.

Historically, GCOF has outperformed following periods of volatility. This includes the GFC, sovereign debt crisis, energy crisis and most recently the COVID pandemic.

GCOF uses its flexible mandate to take advantage of volatility and pivot the portfolio into the best risk-adjusted returns. For example, during COVID, GCOF didn't rotate into the *riskiest* trades during the height of uncertainty. Instead, it traded into the most attractive *risk-adjusted* returns which were high-quality BB credits trading at discounts due to forced sellers. As the market recovered and the Fed backstopped the market, GCOF rotated into solid companies with good liquidity in COVID-impacted sectors, such as Leisure and Consumer Discretionary.

Nimble strategies such as KKC's can opportunistically buy across assets classes and across the capital structure. The KKC portfolio composition includes both GCOF and EDL assets and is diversified across asset classes, sectors, ratings and geographies.

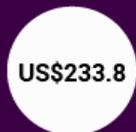
Watch the full video by Chris Sheldon, [here](#).



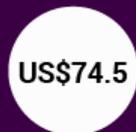
About KKR



years of
experience



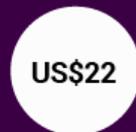
billion total assets
under management¹



billion credit assets
under management



KKR Investment
Professionals



billion invested
alongside our clients

Figures as of 30 September, 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.



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