



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

The Odyssey: Key Insights

15 December 2020

As the world reaches the end of 2020, an extraordinary year with many unanticipated twists, this update brings you insights from KKR's Partner & Head of Leveraged Credit, Chris Sheldon's latest thought piece called ['The Odyssey'](#), which is the third in his 'V for Volatility' series.

Chris (pictured right) reflects on the market's fragile state, the resulting opportunities, and KKR Credit's response. He concludes with his thoughts about the coming year and what it holds for the credit market.

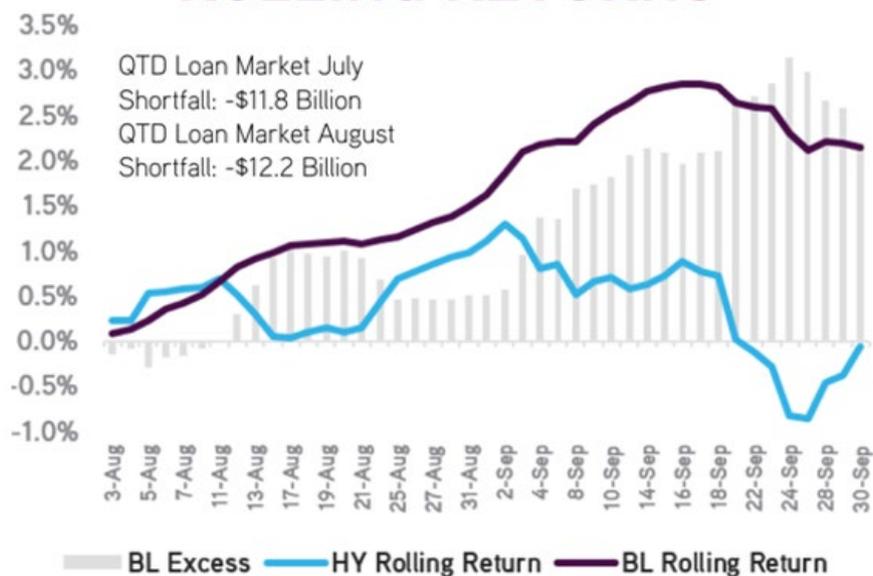


As highlighted last quarter in [The Twilight Zone](#), the market now exists in a unique middle-ground state – a place Chris refers to as No Man's Land – where there is a delicate balance of structural fragility overlaid with strong, technical tailwinds. KKR

believes there are a number of factors that have persisted in the market contributing to the insatiable pursuit for yield, income, and corporate credit.

As a result, in the quarter through to September, primary loan issuance rebounded off four-year lows. However, there continued to be more appetite than the market could supply, which led to a rally in prices. High-yield issuers placed US\$126 billion, which is the second-highest quarter on record, right behind the second quarter of 2020. With funding rates still at record lows and the capital markets wide open for business, KKR continues to see borrowers transition from bridging their COVID-19 liquidity gaps to extending out their maturities at attractive costs.

ROLLING RETURNS



Source: ICE BofAML, S&P LCD, and KKR Credit Analysis as of September 30, 2020

Fragile Market

It is important not to discount the perception of the market's strength or weakness: investors have seen how the market can move like the wind, which is abundantly evident in today's environment where the shift in headlines can drive the market up or down. However, in bouts of volatility throughout the year, KKR witnessed that dealer inventory remains flat, volume remains thin, and when forced selling occurs – dealers are often not stepping in. The market is still fragile.

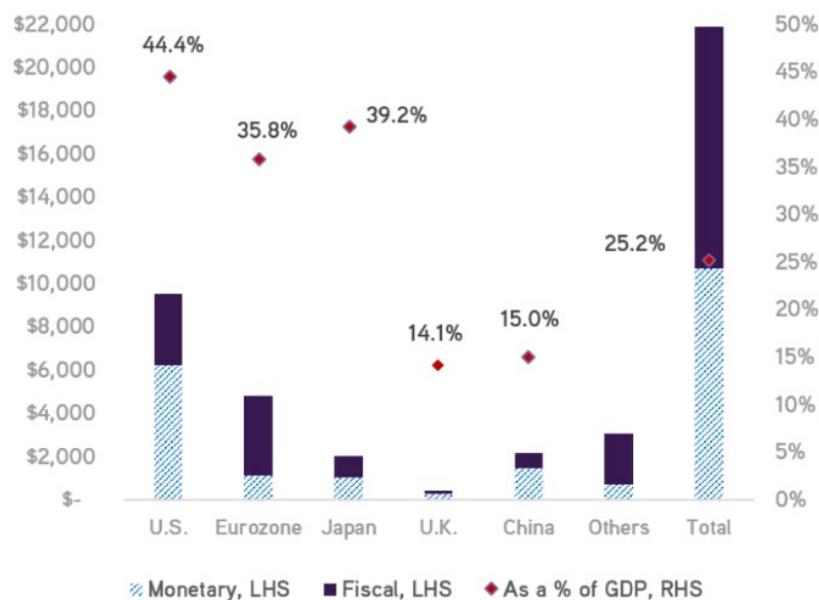
Overall, KKR believes there will be a sustained fundamental long-term technical demand for yield and observes the bifurcation between perceived risk assets and non-risk assets that has been the subject of past Investor Updates.

KKR Credit platform response

KKR has used the market's rebound to reassess its portfolio construction and monetise specific trade themes in order to be in a position to be prudent with cash balances going into the fourth quarter and beyond. Across its Credit platform, KKR continues to take advantage of leaning into volatility and seeking out attractive idiosyncratic risk that the market may not fully understand.

This market Odyssey illustrates the point that the journey is not linear.

GLOBAL MONETARY AND FISCAL STIMULUS TO FIGHT COVID-19



Source: Cornerstone and KKR Global Macro Asset Allocation Analysis as of July 31, 2020

What does 2021 hold?

Looking ahead to 2021, KKR believes that while the breadth of global stimulus in response to the pandemic has been staggering, the house view is that there is likely more to come which lends itself well to risk assets. However, KKR does believe there

will be long-term implications to the US Federal Reserve's backstop and, as a result, a longer tail for these effects to surface. The tide is shifting and the growing number of credit issuers will present more opportunities.

Looking forward, KKR believes there will be second and third derivative effects of the dislocation which may not be overly obvious today but will present opportunities for investors such as KKR that have deep analysis and underwriting capability.

Overall, KKR views the current environment as an attractive one to translate thematic macro views into executable micro level investments across the capital structure and across asset classes that KKR invests into.

KKR has deployed in excess of US\$40 billion gross globally year to date across all of KKR funds and mandates and that is in large part due to KKR's truly unique culture where everyone works together. This is a special characteristic of the KKR platform as it enables the firm to tap into global connectivity across its many strategies and deliver fulsome capital solutions to investors, shareholders and portfolio companies. KKR believes this is what continues to differentiate it from its peers.

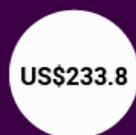
KKR looks forward to closing out the 2020 chapter with you and commencing a prosperous 2021 together.

You can read the full article by Chris Sheldon [here](#).

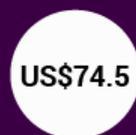
About KKR



years of
experience



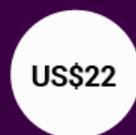
billion total assets
under management¹



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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