



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

24 June 2020

In this update, the Manager discusses the recent announcements by the US Federal Reserve (“the Fed”) regarding its bond buying programmes:

- the Primary Market Corporate Credit Facility (“PMCCF”); and
- the Secondary Market Corporate Credit Facility (“SMCCF”), together, the “CCF Programme”.

As investors are aware, KKC has indirect exposure to bonds through its investment in the Global Credit Opportunities Fund (“GCOF”).

Why is the Fed establishing the PMCCF and the SMCCF?

The PMCCF will provide a funding backstop for corporate debt to “Eligible Issuers” (see below) so that they are better able to maintain business operations and capacity during the period of dislocation related to COVID-19. The SMCCF will support market liquidity for corporate debt by purchasing individual corporate bonds of Eligible Issuers and exchange-traded funds (ETFs) in the secondary market. The total size of the CCF Programme will be up to ~AUD \$1.1 trillion [\[1\]](#).

How will the SMCCF initially conduct bond purchases?

The SMCCF will initially purchase corporate bonds to create a corporate bond portfolio that tracks a broad market index developed for the SMCCF (Broad Market Index). The index will be recalculated at least every 4-5 weeks, and the list of bonds that are eligible for purchase will be refreshed frequently to add or remove those bonds that newly meet or no longer meet the eligibility requirements.

What is an Eligible Issuer/Asset?

- Bonds trading in the secondary market
- Bonds created or organised by the US or under laws of the US
- Bonds must be rated investment grade (e.g. rated BBB-/Baa3 or above) as of 22 March 2020 and still rated at least BB-/Ba3 on the date of purchase [\[2\]](#)
- Issuers cannot be an insured depository institution or depository institution holding company
- Bonds must have a remaining maturity of no more than 5 years

How will this impact assets held by GCOF?

Although GCOF has been purchasing some higher quality bonds that are "Eligible Assets" (as defined above) under the Fed's repurchasing program, the majority of GCOF's assets are rated as sub-investment grade (rated BB+ or below)^[2] and would not be classified as Eligible Assets.

One of GCOF's current trading approaches is a "bond convexity trade", which involves GCOF investing in a selection of higher quality (BB/BB+)^[2] assets that KKR Credit believes have short-term price appreciation potential. These higher quality sub-investment grade assets have benefited the most from the Fed's CCF Programme.

What are the short, medium and longer term effects of these programmes[\[3\]](#)?

The CCF programme has an end-date of 30 September 2020. KKR Credit believes that the short-term impacts have been immediate and obvious, with the high yield markets becoming tighter following the Fed's announcement of the programme. The medium and longer-term impacts are less obvious as it will depend on whether the Fed extends the programme. KKR Credit views the programme as being a shorter-term catalyst on bond price movements for now.

The Manager looks forward to keeping KKC unitholders updated on KKC's underlying portfolio positioning.

To read previous KKC Investment Updates please visit the KKC Australia website [HERE](#)

[1] Figures converted from U.S. dollars based on an exchange rate of 1 USD to 1.46 AUD at 22 June 2020.

[2] 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.

[3] 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.

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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