KKR

CREDIT INCOME FUND

KKC Investment Update

5 June 2024

Dear KKC Investor,

In this month's Manager Insights, KKR provides commentary on the traded credit market conditions, and how we are capitalizing on the opportunities within the market. In summary, although headline spreads in high yield markets appear tight, there is significant market dispersion, particularly in lower rated credits. Further, all-in yields are high setting the foundation for strong total returns / income while also acting as a buffer against negative price moves under a spread-widening scenario. This environment is very attractive for active credit strategies such as KKC where the investment team doesn't require the entire market to be cheap, only a handful of securities that offer downside protection and durability of cash flow.

1. Are we seeing froth & exuberance in the market?

- The past 18-months has been a strong juxtaposition against the sell-off and investor experience in 2022. The U.S. and European economies have proven to be much more resilient than expected, corporate fundamentals have broadly held up, and the Fed pause in rate hikes in the back half of 2023. Additionally, syndicated capital markets have recently thawed and issuance has picked up.
- These developments have caused a notable shift in investor sentiment and we have begun to see client inflows back into the asset class. This all contextualizes the fact that while we have seen strong performance in the sub-investment

grade space, the pickup in performance has been supported by better than expected earning and economic data alongside a likely peak in the Fed funds rate.

- We continue to believe there are really attractive opportunities within broader traded credit markets and headline spread levels for HY markets do not tell the full story.
- Higher dispersion under the surface of the HY market does not suggest indiscriminate index buying. This environment is actually very attractive for active credit-pickers as valuations vary substantially within cohorts (charts 5a. and 5b.)

2. Is the dynamic of spread tightening in smaller issuers a sign of overexuberance?

- In the loan market, we see spread tightening for larger and smaller issuers alike. If anything, we saw a blip of widening in middle market loans while larger issuers saw continued spread compression. In HY, the YTD tightening in smaller issuance and YTD widening in larger issuance have both been driven by more idiosyncratic risks within those respective issuers versus any observed trend.
- The wide range of outcomes driven from these idiosyncratic reasons in both larger and smaller cohorts further supports our thesis that we are currently in an attractive market for credit-pickers, one that emphasizes downside protection & durability of cash flow. Additionally, this emphasizes that this market is conducive for strategies that can be liquidity providers to step in & capitalize on any idiosyncratic reason for issuers who experience spread widening and forced selling from other market participants.

3. Most importantly: From the team’s standpoint, how do you currently assess whether tighter HY spreads still adequately compensate for (potential) illiquidity? Is the sub-IG traded credit market too expensive?

- We think headline spreads in credit do not tell a complete story. While spreads are tight, all-in yields are high setting the foundation for strong total returns / income while also acting as a buffer against negative price moves under a spread-widening scenario. Additionally, it is important to consider entry price from a return potential perspective. We are seeing a portion of that market that is still trading below par which offers upside price convexity and strong runway for return potential. To contextualize this framework - US HY spreads are screening in the 93rd percentile over a 5-year horizon but yields and price are much more attractive, screening in the 30th and 37th percentile respectively. (chart 4).

- Another dynamic impacting our view on valuations is what is driving headline spreads to be at this level and relative composition of the market. A key trend within the HY market is the improving quality, specifically around the increased percentage the market that is rated BB. BB bonds now make up nearly 50% of the HY market, replacing both B and CCC rated credits as a share of the broader market and is another reason that drives the headline spread tighter. As such, we would expect a continuation of the long-term trend of lower baseline spreads.

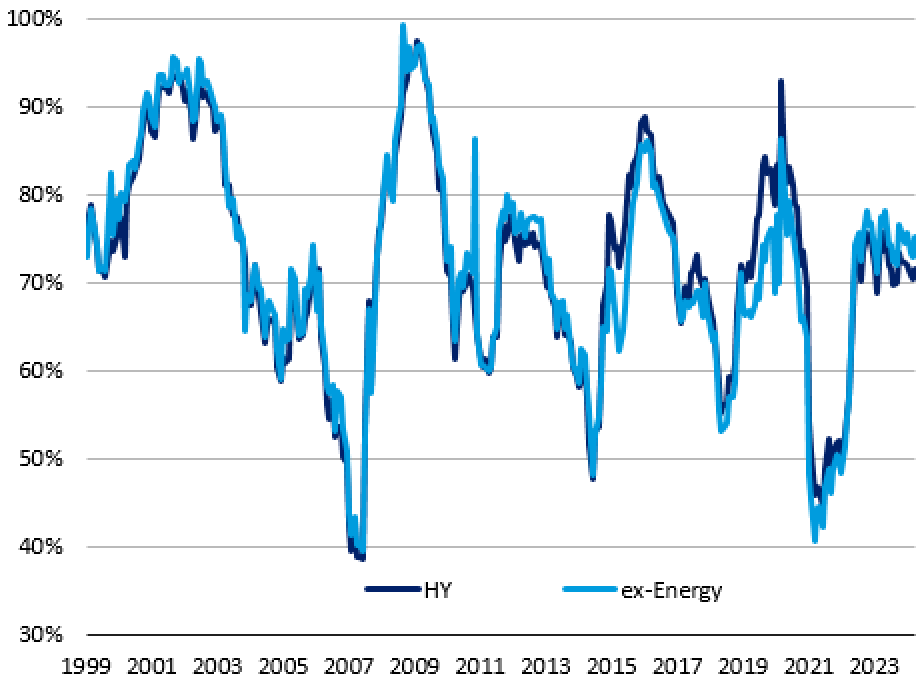
Additional Charts:

4. How are we capitalizing on the opportunities within the market?

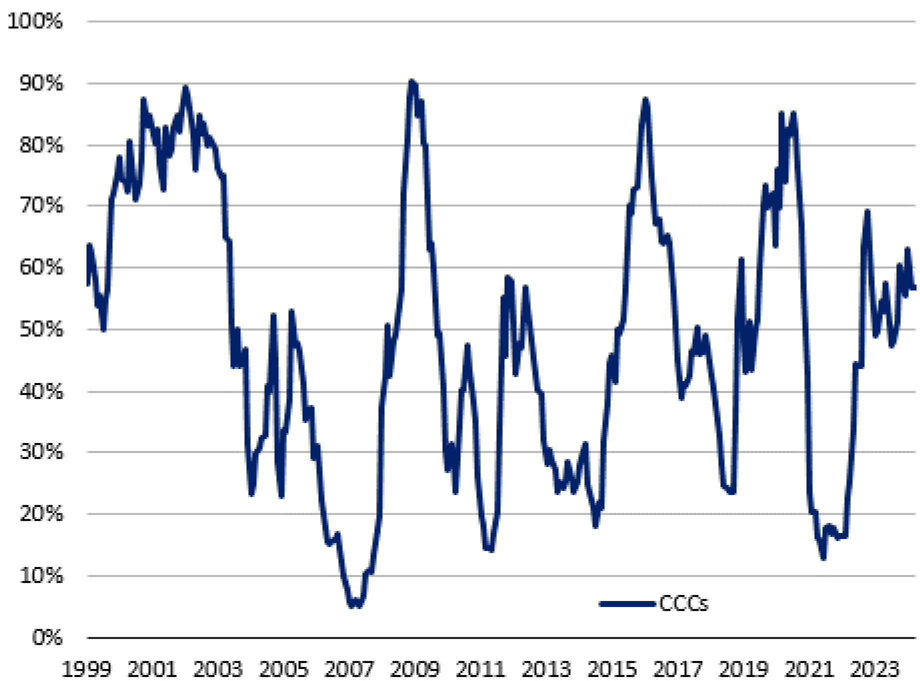
Theme Bucket	Investment Rationale / Outlook	Issuer Examples
Short Duration / Near Term Catalysts	+ Creates defensive, shorter dated profile across funds + Ability to play offense with issuers to proactively address upcoming maturities + High upside stemming from early take outs + Receive capital back at par to deploy into a discounted market	NCL Norwegian Cruise Line, American Airlines, ClubCorp
New Issuance	+ Expect new issuance in 1H 2024 to likely come at a premium and offer attractive economics + Ability to drive terms and receive outsized allocations on attractively priced new issuance, which can take several flavors (hung deals, regular way issuance, amend & extends)	Varsity Brands, TIBCO, Viking, west
Select 2nd Lien Loans	+ Purchasing diversified basket of 2nd lien loans in high quality issuers where we have already played in separate parts of the capital structure + Acting as a liquidity provider in assets that offer attractive yield and price convexity	Bettcher, amentum, FCG Flow Control Group
Basket of High Quality Loans & High Yield Bonds	+ Purchasing high quality credit paper with stable, simple business models + High-single-digit cash yield to generate income and allow us to redeploy, playing offense in an opportunistic market scenario	Life Time, Callaway, Chart, Playa
CLO Liabilities	+ Investing in BBB-rated portion of CLO stack with the opportunity to earn low-teen returns in higher quality paper + Selecting structures that predominantly invest in names that KKR actively monitors	Oaktree, BainCapital, Neuberger Berman, Ares

5. Headlines spreads don't tell the full story. While index spreads are tight, there is significant dispersion under the surface:

a. Proportion of face value in the DM USD HY index marked outside +/-100bps of overall index level

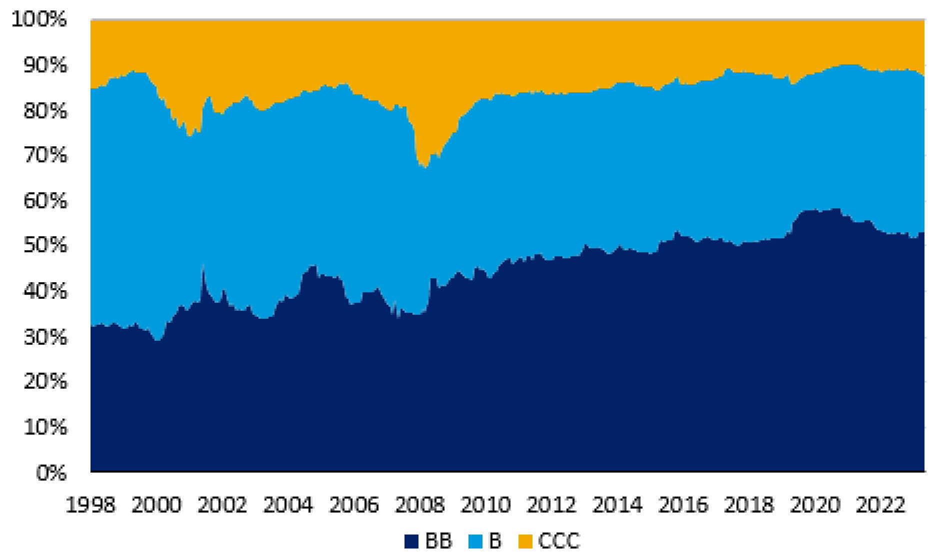


b. In CCCs, proportion of face value marked outside +/-400bps of that rating's subindex level



6. Further, index constituent quality has continuously improved with BB rated issuers now making up nearly 50% of the index:

a. Index composition by issuer quality



KEY BENEFITS AND RISKS

BENEFITS:

The key benefits of investing in the Fund include:

- Attractive Target Distribution
- Attractive Target Return
- Diversified exposure
- Alignment of interests with Unitholders
- KKR product access
- Highly experienced KKR Credit team

RISKS

Key risks include:

- Allocation risk in relation to the Investment Strategy
- Illiquid and long term investments in relation to the Investment Strategy
- Potential conflicts of interests of the Responsible Entity and the Manager and its affiliates

- Entities within the “Perpetual Group” may also act in various capacities for other funds or accounts, which may conflict with the role the Responsible Entity plays with respect to the Trust.
- Market and economic risks in relation to an investment in the Trust
- Currency risk in relation to an investment in the Trust
- Pricing risk in relation to an investment in the Trust
- Liquidity risk relating to Units in the Trust in relation to an investment in the Trust
- Operational risk in relation to an investment in the Trust
- High yield investments risk in relation to debt investments
- Credit risk in relation to debt investments
- Interest rate risk in relation to debt investments
- Bankruptcy risk in relation to debt investments

If you are uncertain as to whether an investment in the Trust is suitable for you, please contact your stockbroker, financial adviser, accountant, lawyer or other professional adviser.

About KKR

48	US$553	US$219	700+	US$25
years of experience	billion total assets under management[1]	billion credit assets under management	KKR Investment Professionals	billion invested alongside our clients[2]

(1) Figures as of 30 December, 2023. 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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