



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: Video Interview with Portfolio Manager

23 February 2023

Dear KKC Investor,

In the first of a new trio of Livewire Expert Insights, Jeremiah Lane shares his views on the credit market's performance so far in 2023 and why he thinks credit looks appealing over equities at the moment.

Watch the video [here](#), or read the summary below.



2023 credit markets so far

Jeremiah argues that even though yields have fallen slightly, they remain at attractive levels which reflect the uncertainty in markets. The yields on offer in the bond market are top decile when looking across the last ten years and Jeremiah believes they offer enough excess return to defend investors from additional economic uncertainty during 2023.

The effect of rate increases on valuations

The interest rates increases last year were a persistent headwind for the market. Jeremiah attributes the high yield market sell off to the rate hikes – as people were continuously playing catch up. In terms of loans, given they have much less interest rate sensitivity embedded in the product, the response was more muted. However, KKR did see pressure on loan prices that stemmed from the collateralised loan obligation (CLO) market, as throughout 2022 banks took losses in government bond books and investment grade bond books, and therefore less capital was allocated to new CLOs. As less capital was being allocated, banks began to charge more, and in turn loan prices fell to cover the higher cost of funding.

How is KKR preparing portfolios in anticipation of a potential recession?

KKR believes there is an elevated possibility of US recession. Given the strong employment figures, the market is now expecting more rate increases, which is a

headwind that will weigh on corporate earnings. However, Jeremiah argues the economy is ultimately still strong, and there would have to be a lot of weakening to put the market into a recession. There is an opportunity for The Federal Reserve to ‘thread the needle’, Jeremiah says.

Why will credit have a better year than equities?

KKR thinks it may be a very attractive time to invest in credit, as there's a lot more yield available in credit today than there has been for a long time. Jeremiah argues the opportunity to earn current income and appreciation in the year or two ahead, may not be available in equities. The extent The Federal Reserve maintains a normalised funds rate over the next five or 10 years, there is an opportunity to have persistent and substantially higher yields than what KKR has seen since the financial crisis.

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

46

years of
experience

US\$504

billion total assets
under management¹

US\$194

billion credit assets
under management

~750

KKR Investment
Professionals

US\$25

billion invested
alongside our clients²

(1) Figures as of 30 September, 2022. 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.

Important Information

General

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