



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

Investment Update

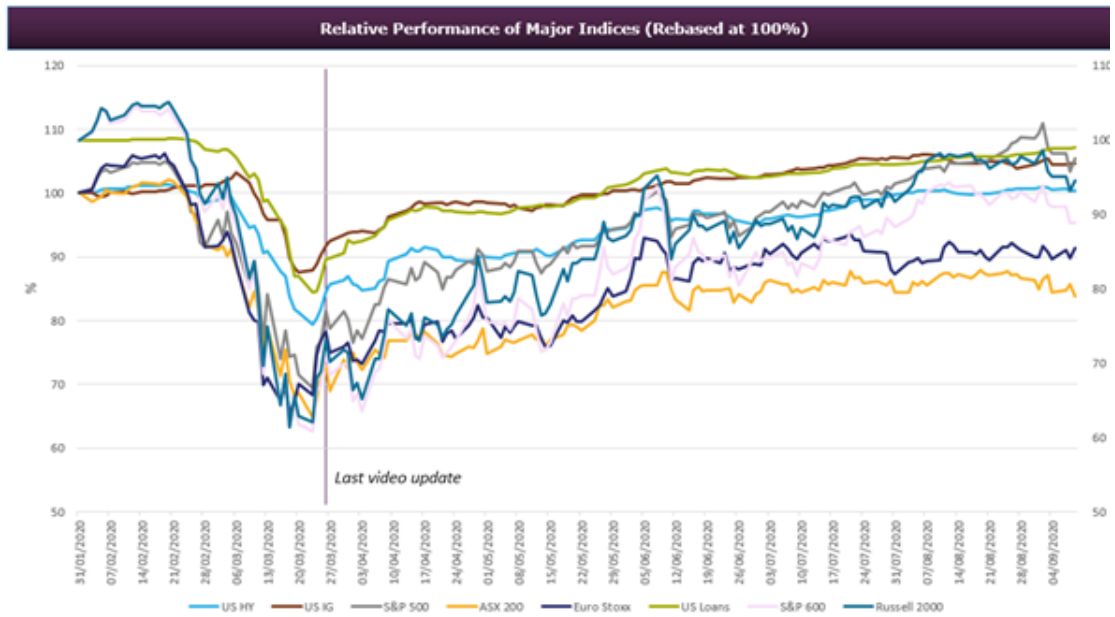
1 October 2020

Following on from the investment update video on 18 September 2020, the Manager would like to expand on some of the key themes that were explored including a market update and portfolio position and performance.

Non-Uniform Market Recovery

Most major markets for risk assets have seen positive performance since the COVID induced lows of March 2020; however, that positive performance has not been uniform. A flight to perceived quality has helped expedite certain markets such as gold (now trading at decade high levels) and US investment grade (market is up ~4% since the end of January). US loans and bond indices are also now trading back in the mid 90's, up from an average of 80% back in March. However, KKR notes that not all assets within the credit markets move in tandem and this bifurcation presented opportunities both for the period immediately following the March lows and for the months ahead of us now.

Graph 1 - Major Markets Have Rebounded since the Lows of late March 2020^[1]



KKC Portfolio Performance

In terms of defaults, the Global Credit Opportunities Fund (“GCOF”) is currently outperforming the broader US credit markets which have experienced an increase in credit defaults from ~300bps to ~400bps [2].

KKC’s exposure to defaulting assets, through its investment in GCOF, was just 39bps as a percentage of the market value of its portfolio (as of 31 August 2020). It is worth noting that any price mark-downs as a result of assets defaulting or being restructured are already factored into the latest NTA estimate [3].

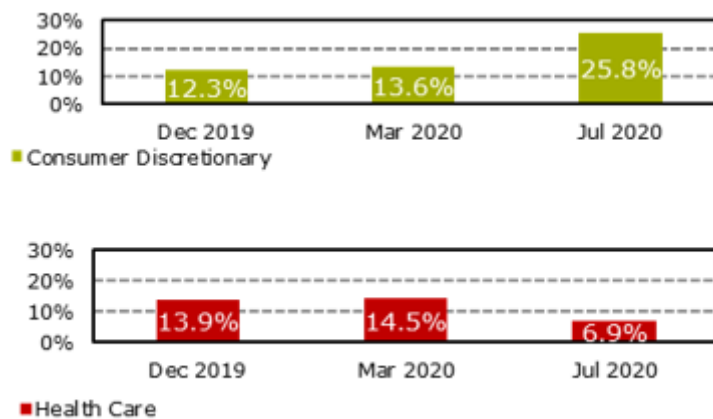
While KKR is disappointed by the impact of the cost in re-setting the hedging policy as a result of market volatility, the performance of the underlying assets is now back in positive territory.

KKC Portfolio Positioning

KKC, through the GCOF portfolio, has been designed with upside potential but with downside protection [3]. It comprises a balanced mix of loans and high yield bonds. There has been significant change in the portfolio through the COVID-linked sell off and recovery with shifting between different investing themes as the market opportunity changed. KKR has reduced GCOF’s exposure to areas like Healthcare and has been focusing on investments in Consumer Discretionary and Consumer Staples. It is

important to note that KKR, using its credit analysis capability, believes that specific companies within these sectors offer compelling risk for reward as opposed to the sector more broadly.

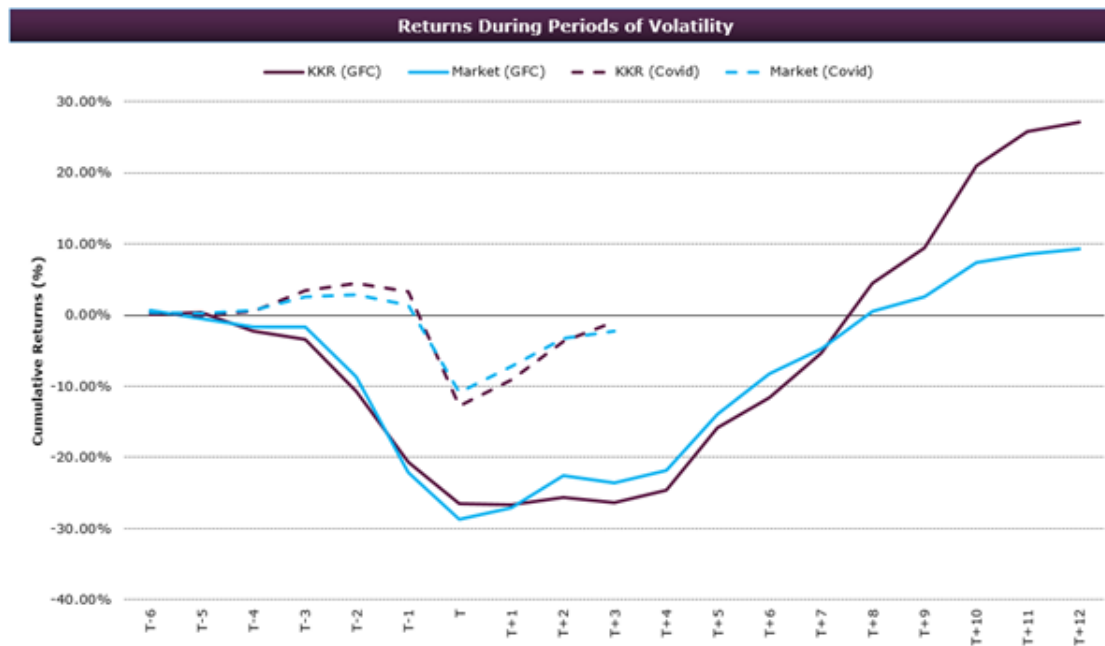
Graphs 2 and 3 - GCOF Portfolio Sector Positions in Consumer Discretionary and Healthcare^[4]



The current Yield to Maturity (YTM) on the GCOF portfolio is ~8.7% and the cash yield is 6.7% compared to the overall US credit market (assuming 50% loans and 50% high yield) of closer to 6% and 5.5% respectively. KKR believes GCOF is well positioned to outperform.

Many assets were trading in sync during the COVID crisis making outperformance more challenging. During the GFC, the majority of GCOF's outperformance materialised 7-12 months after the point of maximum drawdown as market correlations reduce and dispersion becomes more prevalent. The Manager's expectation is that a similar trend may occur post COVID lows and so has positioned its portfolio accordingly ^[3].

Graph 4 - Scenario Analysis: Performance of the KKR Opportunistic Credit Composite – GFC vs. COVID^[4]



Well Positioned to Reach Investment Objectives

With the strong market recovery and KKR's underlying assets well positioned for the medium term, KKR believes KKR can meet its investment objectives [3] of a distribution yield of 4-6% (net of fees and expenses incurred by KKR, but before tax) and a medium-term average total return (net of fees and expenses incurred by KKR, but before tax) of 6-8%.

If you missed the video update in September, we invite you to watch it [here](#).



[1] Source: Bloomberg as at 7 September 2020. Bloomberg has not provided its consent to the inclusion of this data in this update. All performance has been based to 100% for comparison purposes. All opinions and estimates constitute judgments of KKR and are subject to change without notice. These statements should therefore not be relied upon as an accurate representation or prediction as to any future matters.

[2] 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.

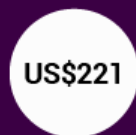
[3] All data as of 31 July 2020, unless otherwise noted.

[4] Represents rolling monthly gross returns beginning T-6 of the KKR Opportunistic Credit Composite for periods from May 2008 – November 2009 (“GFC”) and September 2009 – June 2020 (“Covid”). T-1 refers to one month before maximum drawdown. Market here refers to the GCOF benchmark (50% S&P LSTA Loan Index and 50% BAML HY Index). Source: S&P LCD and BAML as at 30 June 2020. S&P LCD and BAML have not provided its consent to the inclusion of this data in this update.

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 June, 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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