Fund Research

KKR Credit Income Fund (ASX: KKC)

BondAdviser

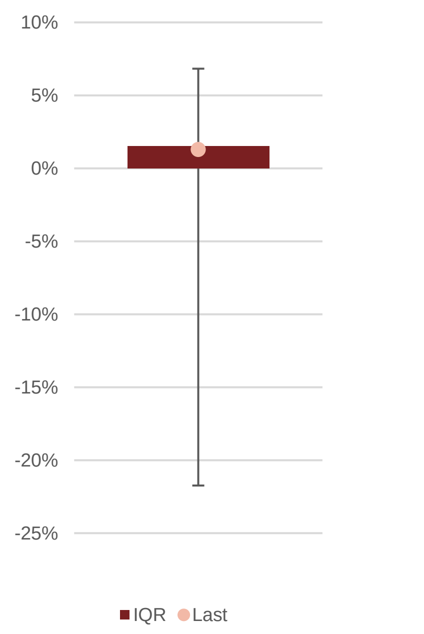
Overview

KKR Credit Income Fund (ASX: KKC) is a listed investment trust (LIT, 'the Trust', or 'the Fund') that aims to deliver capital appreciation and a regular income stream over a full market cycle. The Fund provides exposure to KKR's global credit platform, comprising diversified investments across traded and private credit markets. While such opportunities are typically reserved for institutional investors, KKC enables retail investors to access KKR's A$400.1 billion credit platform (as at 30 June 2025).

The LIT provides exposure to KKR's European Direct Lending (EDL) and Global Credit Opportunities Fund (GCOF) strategies. GCOF, KKR's flagship credit strategy, focuses on maximising risk-adjusted returns across a broad universe of predominantly sub-investment-grade (sub-IG) US securities. In contrast, the EDL strategy focuses primarily on directly originated bilateral loans to middle market European companies, which are not traded in public credit markets. Given that the Fund's units are denominated in AUD while its underlying assets are offshore, the Manager utilises hedging strategies to manage currency risk. Additionally, while leverage is utilized in the underlying strategies, it is applied strictly for liquidity and cash-flow management purposes, not for the purpose of enhancing returns.

The Trust targets a distribution yield of 4-6% (net, paid monthly in arrears) and medium-term total returns of 6-8%. KKR has announced that it is expecting a total net distribution of $0.20 per unit for FY26 equating to an annual distribution yield of 8.26% (based on a current net tangible asset per unit of $2.43).

Figure 1. Monthly Returns* Box Plot



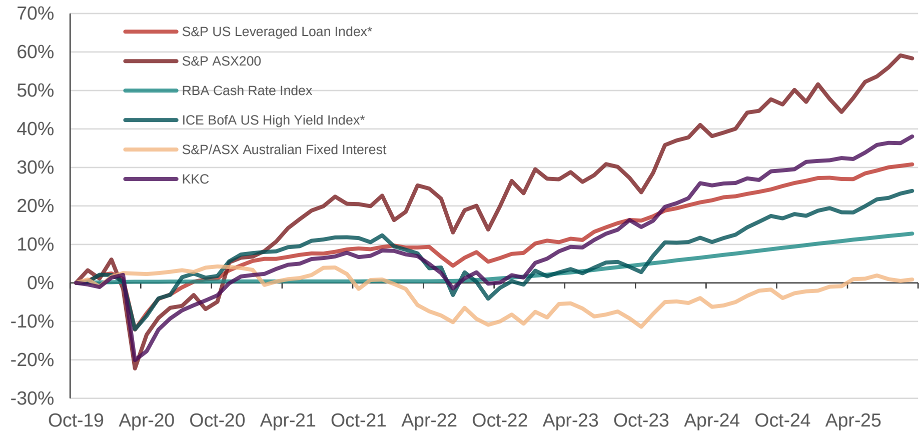
*Source: BondAdviser, KKR. *Net monthly returns based on NTA. As at 30 September 2025 (since inception).*

Figure 2. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2025	0.20	0.10	0.46	-0.20	1.26	1.50	0.38	-0.06	1.29				**5.02**
2024	0.79	1.07	3.21	-0.48	0.42	0.08	0.96	-0.32	1.78	0.18	0.22	1.49	**9.75**
2023	3.79	1.04	1.78	1.08	-0.15	1.81	1.42	0.95	2.20	-1.53	1.38	3.14	**18.16**
2022	-0.08	-0.85	-0.41	-1.91	-2.25	-3.91	2.65	1.56	-2.88	0.29	1.93	-0.63	**-6.50**
2021	0.37	0.29	1.29	1.02	0.28	1.14	0.25	0.39	0.89	-1.01	0.30	1.29	**6.65**
2020	2.43	0.75	-21.7	2.90	6.82	3.13	2.31	1.43	1.19	1.38	3.32	1.76	**2.74**
2019											-0.42	-0.65	**-1.06**

Source: BondAdviser, KKR. As at 30 September 2025.
** Return is monthly net total return based on NTA plus dividends.* ***Assumes reinvestment of distributions**.*

Figure 3. Relative Cumulative Performance



** Calculated from cumulative net monthly returns of the Fund, based on NTA.*
*Source: BondAdviser, KKR, Bloomberg. As at 30 September 2025. *AUD hedged.*

Product Assessment

Recommended | Stable

Following our upgrade in KKC's Product Assessment to Recommended, the Fund has continued to meet its medium-term target return on a 2-year look-back basis.

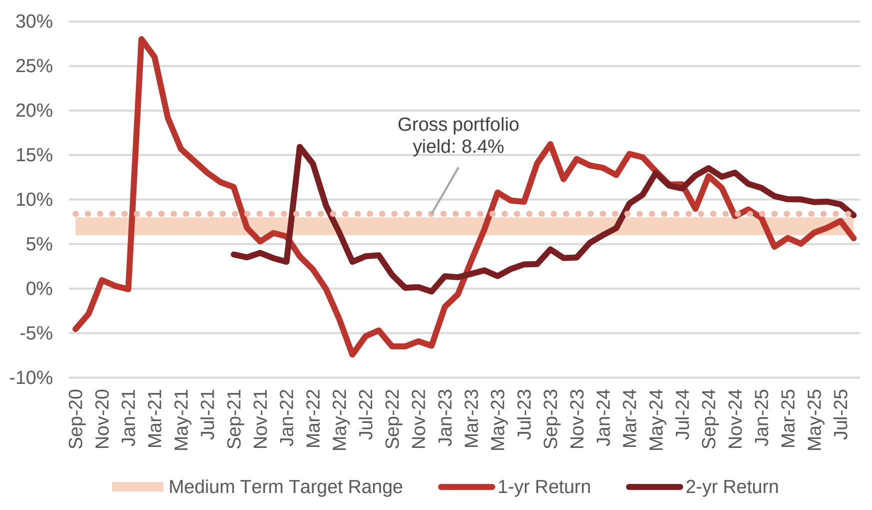
KKR Credit Income Fund (ASX: KKC) is a listed investment trust (LIT) listed on the ASX that provides investors exposure to global alternative credit opportunities sourced across the KKR credit platform. This is derived through investing in KKR's European Direct Lending (EDL) and Global Credit Opportunities Fund (GCOF) strategies, which are currently respectively allocated across a 40/60% split as of 31 August 2025. The EDL strategy comprises a portfolio of predominantly middle market private bank loans across Europe while GCOF is an opportunistic traded credit strategy across high yield bonds, collateralised debt obligations and other credit instruments.

These underlying strategies are managed as part of KKR Credit's broader A$400.1 billion (as of 30 June 2025) umbrella which boasts an impressive track record. This is underpinned by the long-term performance of the KKR Credit Composite (a grouping of funds and accounts that are managed to the same strategy) which was established in 2008 and has delivered a net return of 9.4% per annum to date, outperforming its benchmark (50% LSTA / 50% BAML HY Master II) by 3.3% p.a.

Strong performance has also been reflected in recent years for KKC with a 1-year, 3-year and 5-year annualised net return of 6.80%, 10.00% and 6.52% (as of 30 September 2025) based on NAV returns, meeting the Manager's medium-term target of 6-8%. While the annualised inception (from November 2019) return is currently 4.75% as a function of the COVID-19 drawdown in March 2020, the *BondAdviser Alternative Investment Fund Research Methodology* requires outperformance over a 2-year look-back period to qualify for a **Recommended** Product Assessment. With the portfolio yield currently sitting at 8.4%, this is conducive for KKC to continue to meet its target return over the near-term barring a market-wide sell-off event.

The credit risk of the look-through portfolio has improved. We view these defensive adjustments as prudent in the context of current credit spread levels.

Figure 4. KKC Total Net Return vs Target Range*



*Source: BondAdviser, KKR. As at 31 August 2025. * Return is monthly net total return based on NTA plus dividends.*

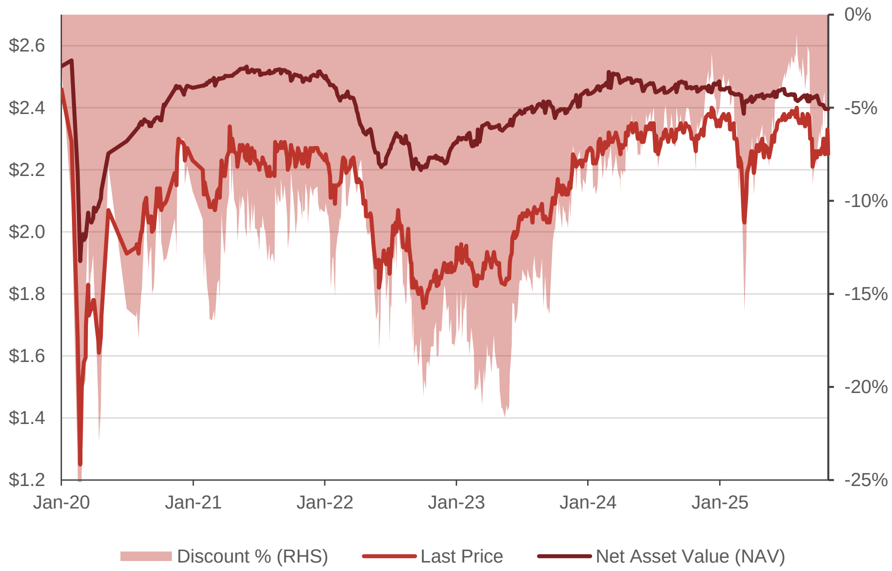
We remain comfortable with the underlying portfolio of KKC, reflecting managerial expertise in credit selection and strong counterparty diversification. Since our last review in Jun-24, the number of issuers has increased to 234 (from 192), and the portfolio has notably de-risked from the more speculative spectrum of credit with the allocation to CCC-rated credit declining 12ppts to 10%, while weighing senior secured assets has

Whilst the unit price discount to NAV has persisted, the gap has tightened recently relative to historical trading.

risen 15ppts to 72%. Geographic exposure to the US has also reduced 11ppts to 53%. We view these portfolio adjustments as prudent in the context of tight credit spread levels and geopolitical tail risks.

Despite our comfort with the Manager and underlying strategy (noting we assigned a Highly Recommended rating on KKR's GCOF AUD strategy in March 2025), KKC's unit price continues to trade at a persistent discount to NAV. This reflects the ASX-listed nature of the product with realised returns subject to the performance of the Fund together with unit price movements that can be driven by external market volatility. KKR has taken past steps to resolve the discount including switching to monthly distributions from August 2021, conducting an on-market buy-back in September 2021 and raising the distribution rate by over 50% in June 2023. While this has slowly narrowed the gap from over 20% in mid-2023 to as low as 1% in September 2025, it has since widened again to 6% currently. Driving this recent sell-off has not been through fundamental weakness to the portfolio, in our view, but rather softer sentiment around the broader global private credit asset class.

Figure 5. KKC Unit Price vs NAV



Source: BondAdviser, Bloomberg. As at 27 November 2025.

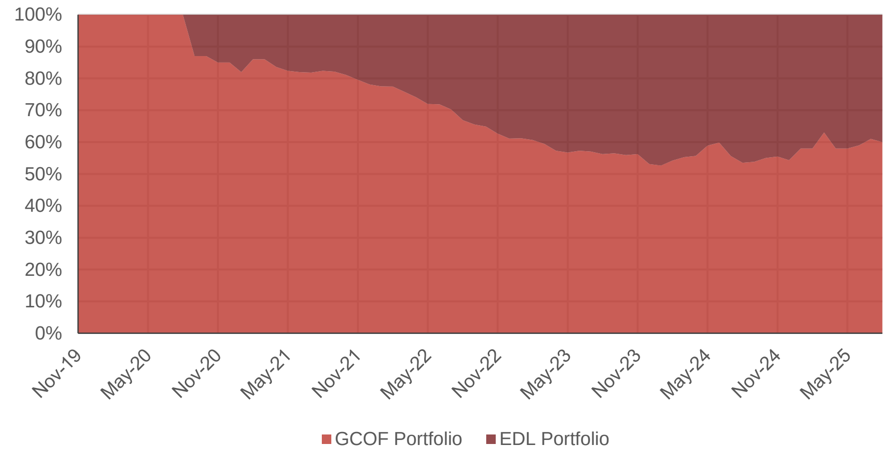
KKC's discount from NAV continues to be the main drawback from further positive pressure emerging in our Product Assessment.

As KKC now has a track record of greater than 5 years, it is eligible to be upgraded to Highly Recommended under the *BondAdviser Alternative Investment Fund Research Methodology*. However, we note the lack of a formal policy and strategy to bridge the gap between the unit price and NAV. While KKR can invest in units of KKC through an unlisted credit fund to provide additional support to the unit price, greater clarity on future and consistent actions to narrow the discount as well as proof of effectiveness is required for us to consider upward pressure to our Product Assessment. Importantly, however, the Fund continues to comfortably meet all requirements for its **Recommended** Product Assessment including continued outperformance (on a NAV basis) and documentation, systems, processes and representations of an excellent standard.

Construction and Investment Process

In the 12-months to 31 August 2025, the fund has moderately increased its allocation to the GCOF strategy, up 6ppts to 60% (of FUM). The remaining exposure is to the EDL strategy, which includes EDL II and EDL III (closed-end funds). The EDL II investment period ended in September 2023, with the underlying fund currently in runoff. The EDL strategy provides greater stability in the Fund's NAV and distributions, reflecting its predominantly private and floating-rate loan exposures.

Figure 6. Portfolio Strategy Mix



Source: BondAdviser, KKR. As at 31 August 2025.

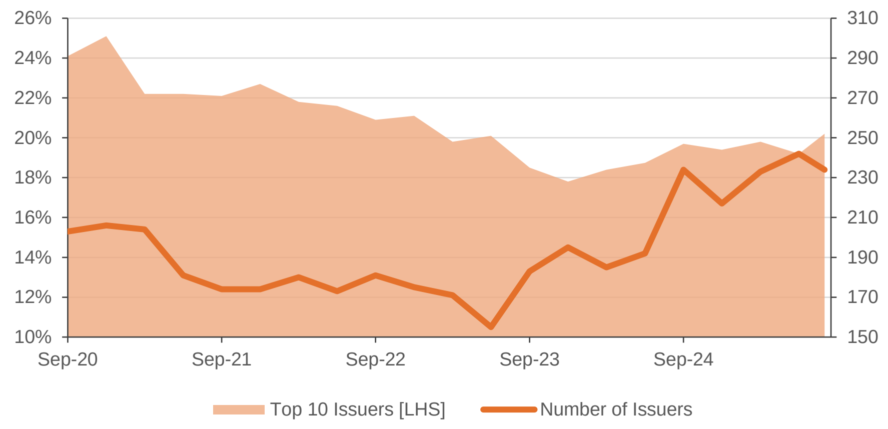
Portfolio Risk Management

KKC is an opportunistic credit strategy and therefore risk management is crucial to ensure capital is preserved throughout the market cycle. KKR's disciplined credit selection is a core strength of the Fund, helping to drive consistent outperformance across the GCOF and EDL underlying strategies. This is achieved through a dynamic mix of assets across the $400 billion KKR Credit platform. As of 31 August 2025, the portfolio comprised bank loans (64%), high-yield bonds (25%), collateralised loan obligations (CLOs, 9%) and equity (2%).

Credit risk is managed at a portfolio level through diversification, and at an asset level through deep fundamental diligence and robust credit underwriting. We highlight that the number of issuers in the look-through portfolio has improved notably since our last review, increasing to 234 as of 31 August 2025 from 192 as of 30 June 2024. While we view this positively, we acknowledge KKC is an opportunistic strategy and therefore targets a level of concentration in positions where it has conviction. That said, in our opinion the team is well resourced to manage the growing number of investments as the underlying portfolio continues to expand. Concentration risk remains unchanged with KKC's exposure to the 10 largest issuers oscillating around 20% and modestly increasing between 30 June 2024 and 30 August 2025 (+1.5ppts to 20.2%).

This has been partly counterbalanced by a longer tail of positions with KKC's 100 largest issuer exposures accounting 86.8% of the portfolio as of 31 August 2025 (versus 92.5% as of 30 June 2024). This reflects ~43% of the portfolio is invested in assets with an exposure of <0.5% (ex. cash) and ~70% is invested in the <1.0% bucket. Investors should nonetheless be aware that KKC invests in credits at the lower end of the credit spectrum and relies heavily on the expertise of the Manager in assessing credit risk and structuring transactions on the EDL sleeve of the portfolio.

Figure 7. Underlying Portfolio Diversification



Source: BondAdviser, KKR. As at 31 August 2025.

While there is a risk that the Manager has mispriced the borrowers' underlying creditworthiness, we take comfort in KKR's impressive track record of allocating capital. This is evident across KKR's credit composite returns versus benchmark over the past 15+ years. Notably, the team has outperformed over the 3-yr, 5-yr, 7-yr, 10-yr, and since inception time periods.

Figure 8. KKR Credit Composite Returns vs Benchmark*

	1 Year	3 Year	5 Year	7 Year	10 Year	Since Inception^
Annualised Gross Return	7.6%	11.0%	8.7%	7.1%	8.3%	10.5%
Annualised Net Return	6.7%	10.0%	7.8%	6.3%	7.3%	9.4%
Benchmark[ⱡ]	7.7%	9.5%	6.1%	5.4%	5.6%	6.1%
Outperformance (Net)	**-1.0ppts**	**0.5ppts**	**1.7ppts**	**0.8ppts**	**1.7ppts**	**3.3ppts**

*Source: BondAdviser, KKR. As at 31 August 2025. * The KKR Credit Composite is a grouping of funds and accounts that are managed to the same strategy for the projected returns for the Fund. ^ Inception: 31 May 2008. [ⱡ] Benchmark: 50% LSTA / 50% BAML HY Master II.*

From a credit rating perspective, the proportion of non-rated (NR) positions has risen significantly over the past 5-yrs, now accounting for over 50% of the portfolio versus 19% in February 2021 (ex. Cash). This reflects a growing exposure to the EDL strategy, where most loans are unrated – driving a greater level of opacity. However, we argue this is balanced against:

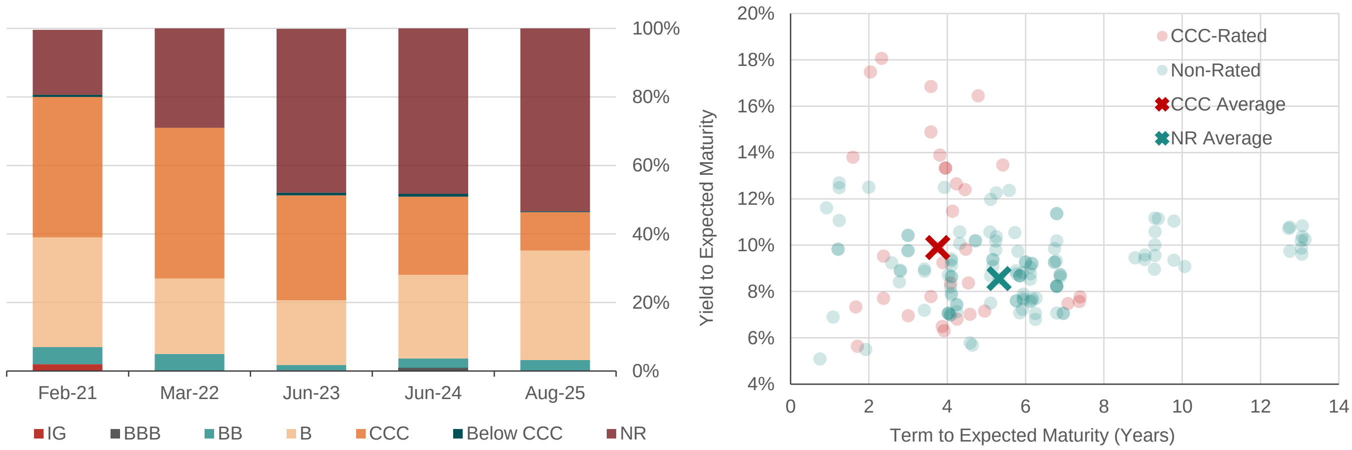
1) CCC-rated exposure reducing by ~12ppts to 11.2% as at 31 August 2025 (from 30 June 2024) which is significantly less than a 44% peak in March 2022.

2) The NR exposure's weighted average yield to expected maturity (YTeM) of 8.6% implies a stronger credit quality than the CCC assets (9.9%), particularly when considering private loans are typically priced with an illiquidity premium.

3) The quality of borrowers in the European direct lending market has improved over time. The average EBITDA of borrowers for the EDL strategy has nearly tripled since 2019, supporting the notion of market maturity

4) The ability for KKR to negotiate and structure private assets with greater flexibility versus traded credit assets. This results in greater structural protection, all else equal.

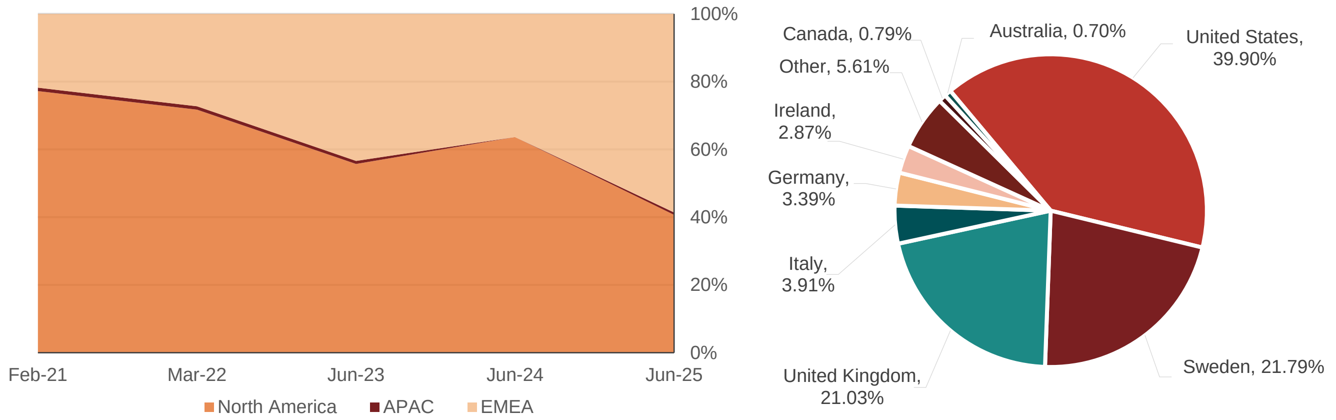
Figure 9. Underlying Rating Mix | CCC Versus Non-rated Assets Yield Scatter*



*Source Left: BondAdviser, KKR. As at 31 August 2025. Source Right: BondAdviser, KKR. As at 31 August 2025. *Excludes assets with a YTeM of <0% or >20%.*

In line with the growing allocation to the EDL sleeve, the geographic weighting to Europe, the Middle East, and Africa (EMEA) has increased to 59% versus 22% in February 2021. This reflects a rebalancing away United States (US) which has coincided with an increase in volatility since the Trump administration was re-elected in January 2025. Large swings in portfolio allocations are to be expected and are in line with the Fund's opportunistic nature and propensity to seek out inefficiently priced and misunderstood credits. From our perspective, a more balanced allocation to North America and EMEA enhances the diversification of the portfolio and contributes to a more resilient risk profile.

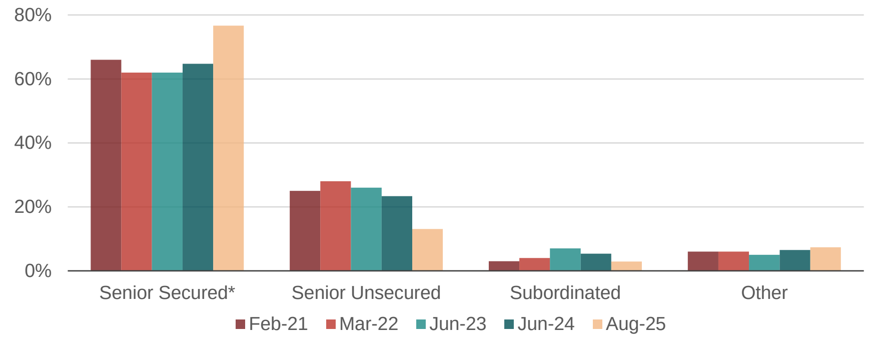
Figure 10. Geographic Exposure



Source: BondAdviser, KKR. As at 31 August 2025.

While counterparty diversification helps mitigate idiosyncratic, sectoral and geographic risks across issuers, the inherent return asymmetry and higher default risk in sub-investment grade markets mean that seniority enhances downside protection. We therefore favor positioning higher in the capital stack to safeguard investor capital against potential credit deterioration. This is supported by KKC's heavy allocation to senior secured loans, which has improved since 30 June 2024, up 12ppts to 77% as of 31 August 2025. These instruments sit at the top of the capital stack and are backed by collateral, providing lenders with a direct claim over assets in the event of borrower distress or insolvency. This structural protection improves recovery rates and reduces loss-given-default (LGD), making senior secured positions an attractive way to achieve exposure to higher-yielding credit while maintaining strong capital preservation.

Figure 11. Asset Seniority Mix

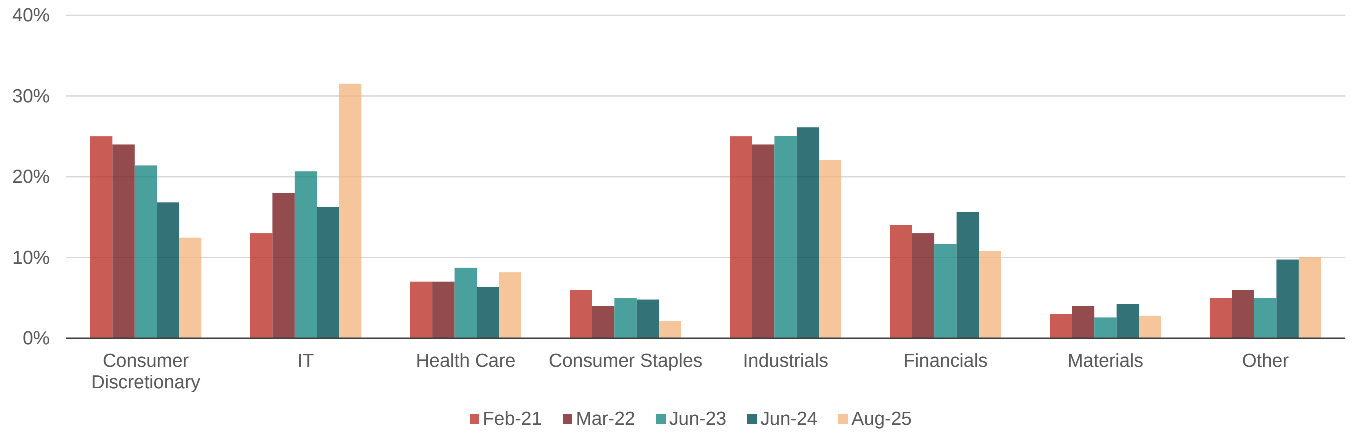


*Source: BondAdviser, KKR. As at 31 August 2025. *Senior secured includes a 1.1% second secured position in 2025.*

In terms of the portfolio's sectoral mix, the most notable move was evident across Information Technology (IT), up 15.3ppts to 32% (31 August 2025). Also notable was the continued decline in the consumer discretionary allocation, down 4.4ppts to 12% (31 August 2025). The Fund increased its allocation to the sector post-COVID, targeting credits that were excessively downgraded by credit rating agencies. The trade has largely run its course – reflected in the sequential decline since 2021.

Over the past 12-months, strong global demand for credit, coupled with resilient economic data releases and tariff relief has driven credit spreads to historical lows, with valuations potentially stretched beyond fundamentals. In this context, KKC is committed to maintaining exposure to high-quality businesses with resilient cash flows. This positions KKC to benefit when conditions turn, allowing the Manager to sell out of strong credits near par and redeploy capital into mispriced opportunities offering wider spreads. Notably, the Manager deployed this strategy in April and even stepped in as a liquidity provider for companies that needed to refinance. We note that this approach has been a key driver of the Fund's long-term outperformance.

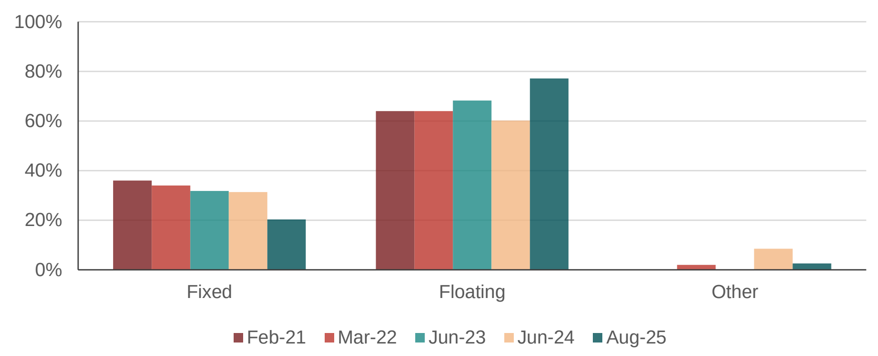
Figure 12. Underlying Sector Mix



Source: BondAdviser, KKR. As at 31 August 2025.

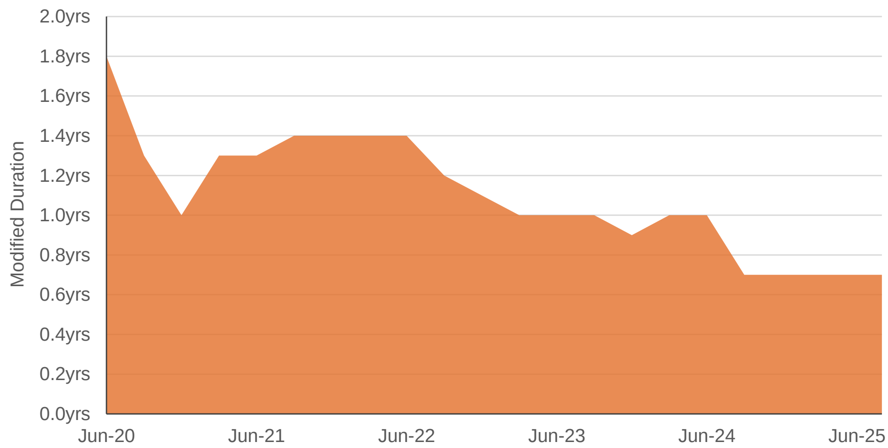
Finally, we note that while the split between floating and fixed-rate securities has remained largely stable over the past 4-yrs, there has been a noticeable shift since our prior report. As at 31 August 2025, the floating exposures accounted for 77% of the portfolio versus 60% as at June 2024. Consequently, the Fund's allocation between fixed and floating rate securities tends to remain broadly aligned with its benchmark. However, the Manager retains the flexibility to adjust duration when they hold a strong conviction that the market is mispricing the future path of cash rates.

Figure 13. Fixed Versus Floating Rate Exposures



Source: BondAdviser, KKR. As at 31 August 2025.

Figure 14. Portfolio Duration



Source: BondAdviser, KKR. As at 31 August 2025.

Fund Governance

There have been **no material changes** to fund governance since our last report.

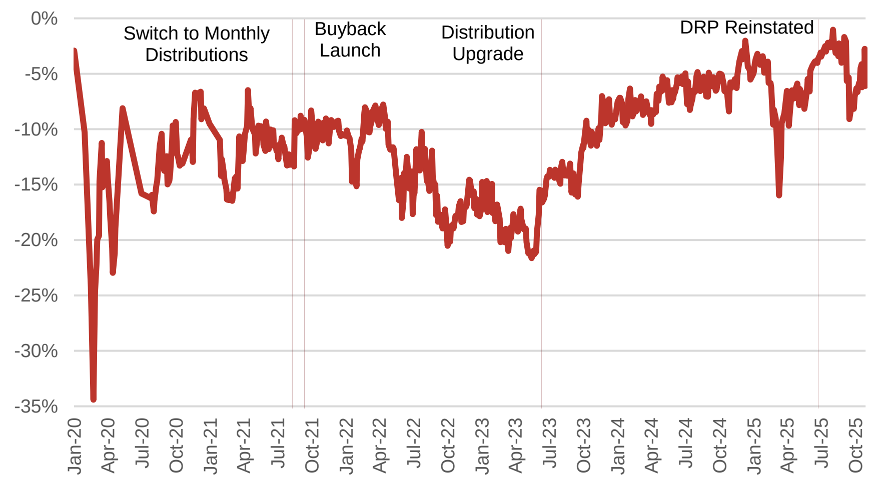
KKC, like many ASX-listed investment trusts, began trading at a discount to NAV during the COVID-19 sell-off. However, this has since persisted with KKC trading at a discount consistently. Positively, the discount has improved over time, and while some investors may be able to profit over short-term moves in the unit price, this has nonetheless weighed on realised performance when including movements in unit price over the long-term.

Given the ASX-listed nature of the Trust, it remains subject to equity like market volatility and therefore the discount to NAV can vary. The most recent example of this came in April 2025 when global markets were afflicted by uncertainty regarding US tariff policy, with KKC's discount to NAV peaking at ~16%. This has since recovered and is averaging ~5% for the month of October 2025 but had since widened again to around ~7% currently.

We highlight that KKR has taken action steps in the past to reduce this discount. Firstly, it undertook a ~$100 million (equivalent to roughly 10% of the Fund's market capitalization) on market buyback between September 2021 and June 2023. Secondly, at the conclusion of the buy-back, it announced of a 52% uplift in the targeted distribution – from 1.10 to 1.67 cents per unit (cpu). Further or similar measures could be utilised if the discount deteriorates materially again towards pre-2023 levels, which gives us some comfort around price support.

On 23 July 2025, the Responsible Entity reinstated the Distribution Reinvestment Plan (DRP) for KKC. Under the DRP, eligible unitholders (with Australian or New Zealand registered addresses) may elect to reinvest all or part of their cash distributions into additional units rather than receive cash. **This provides an element of support to the Fund's unit price, albeit noting the discount still persisting at present.** Specifically, should a meaningful proportion of unitholders elect to participate, the Responsible Entity (through its broker) will acquire units on-market, priced at the 5-day volume-weighted average price (VWAP) if VWAP is below the net asset value (NAV). Because additional units are bought on-market rather than newly issued, existing unitholders may benefit from a more stable supply-side dynamic.

Figure 15. KKC Unit Price Discount vs Key Support Actions



Source: BondAdviser, Bloomberg. As at 27 November 2025.

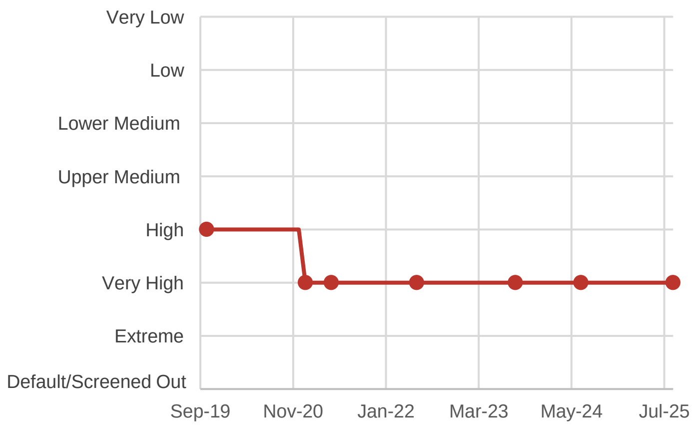
Quantitative Analysis

The underlying portfolio performs **well under benign economic conditions** where credit downgrades are less frequent and recovery rates are generally higher, which is conducive to positive sub-investment grade performance. That said, return volatility relative to comparable domestic funds is elevated as a function of assets being marked to market, and the fund allocation being tilted to speculative credit which is higher on the credit risk spectrum. Nonetheless, based on our modelling of the underlying assets we expect the Fund to be able to meet its target return with a median simulated return of 7.9% generated across the 10,000 simulations under standard economic conditions.

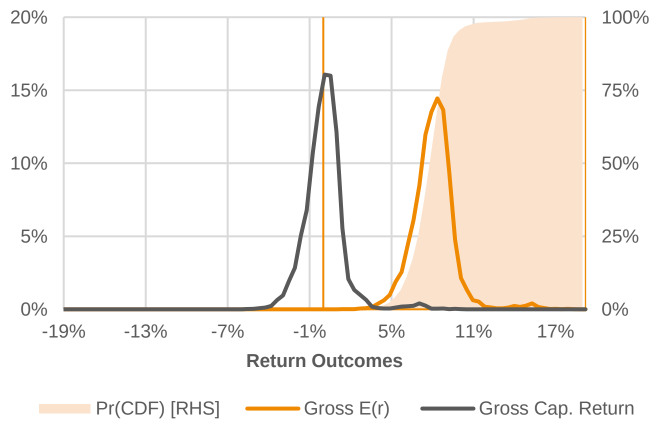
Under extreme distress our modelling suggests that the portfolio would perform poorly as a function of a high weighting to credits on the weaker spectrum of high yield (CCC and B), despite the portfolio being 77% senior secured (as at Aug-25). That said, downside protection is still evident with a 99% and 95% VaR of -6.34% and -5.34%, respectively, reflective of the aforementioned positioning across secured credit. We **note that this quantitative analysis does not account for any managerial skill in credit analysis and restructuring/workouts**, which can in practice result in more favourable default rate frequencies and higher recovery rates, which we view to be a key strength of KKR. Supporting this view, we note KKR's underlying GCOF and EDL strategies have outperformed key high-beta credit indices consistently during periods of market weakness.

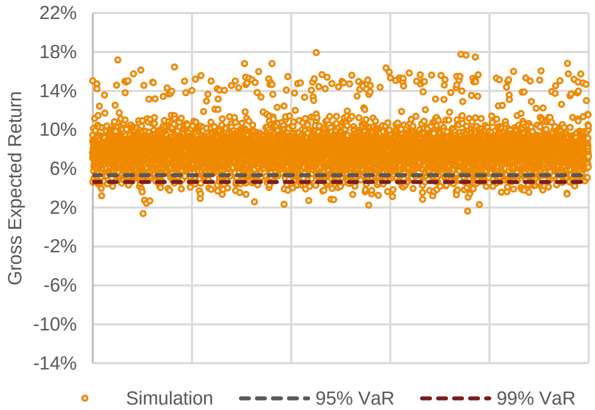
Using internal loan mapping assumptions based on our estimates for the unrated portion of the portfolio, we estimate that the weighted average credit rating of the portfolio is within the "**B**" band range, corresponding to a **Very High** Risk Score.

Figure 16. Risk Score



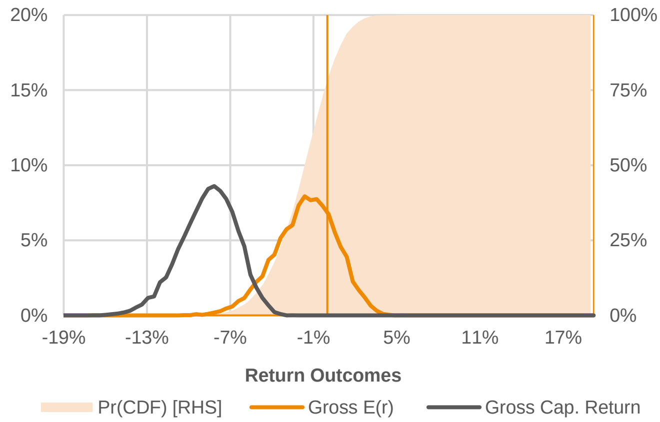
Scenario 1. Baseline Asset Assessment

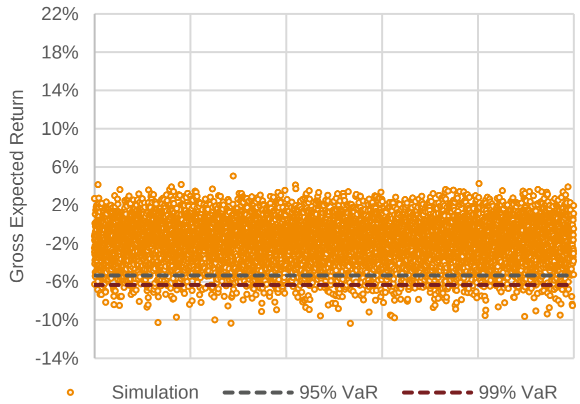




Source: BondAdviser Estimates as of 31 August 2025 portfolio. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. Impact of traded price is not simulated. For a more detailed explanation of the methodology, please contact BondAdviser.

Scenario 2. Stressed Asset Assessment





Source: BondAdviser Estimates as of 31 August 2025 portfolio. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. Impact of traded price is not simulated.

Reporting History

KKC Update Report – 21 October 2024

KKC Update Report – 14 August 2023

KKC Update Report – 26 April 2022

KKC Update Report – 1 April 2021

KKC Update Report – 20 November 2020

KKC Initial Report – 18 September 2019

Alternative Investment Fund Research Methodology

Click here to view

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