



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

27 April 2020

Given the historic decline in global oil prices over the past week, the Manager believes that it is important to assess what is happening in the oil market and how it relates to the Global Credit Opportunities Fund (“GCOF”), which is managed by KKR Credit and is one of the funds that KKC has invested in [\[1\]](#). As described below, GCOF has limited exposure to the energy sector, reflecting KKR Credit’s general approach to avoiding cyclical sectors and commodity price risk.

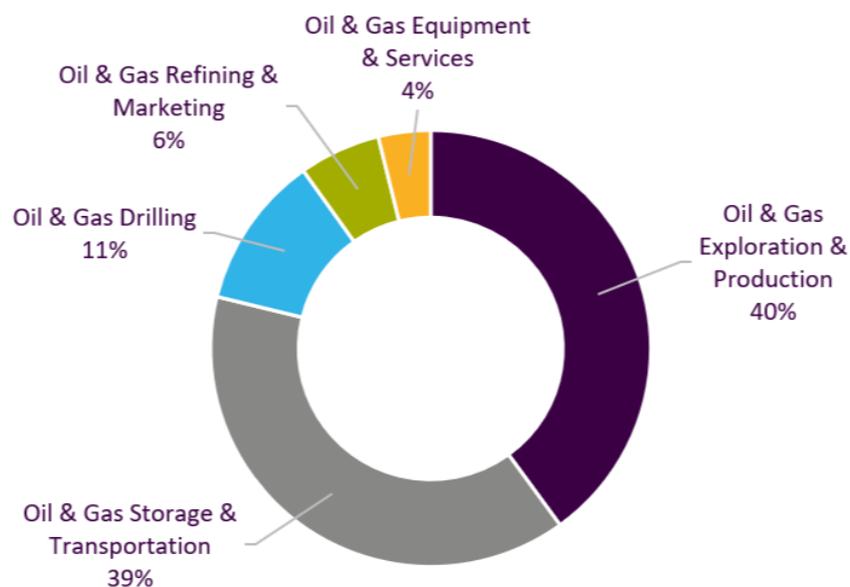
Oil markets around the world have fallen to a more than two-decade low with West Texas Intermediate (WTI), the US oil futures benchmark, moving into negative territory momentarily for the first time in history [\[2\]](#). The significant drop in prices has resulted from a combination of:

- a significant decrease in demand stemming from global lockdowns and factory closures due to COVID-19;
- smaller than necessary OPEC-led [\[3\]](#) cuts to supply; and
- concern over how storage facilities will cope with the oil glut.

The drop in price has put increased financial pressure on oil producers that have a higher cost base, namely US shale oil producers. Year-to-date (“YTD”), the S&P 500 Energy index [4] has fallen more drastically (-45%) than the S&P 500 index (-15%) [5].

The pressure on US oil producers can also be seen in the US credit markets, with the energy sectors of the US loans and high-yield bonds returning, YTD, -30% and -23% respectively [6]. As of 31 March 2020, the energy sector represented approximately 3% and ~11% of the US loans and high-yield bonds markets respectively [7]. By contrast, holdings in the energy sector comprised 3.8% of GCOF's portfolio.

The chart below shows the split of the 3.8% GCOF holding across the energy sector. There are 16 issuers in these sub-categories with the largest five accounting for almost two-thirds of GCOF's 3.8% holding.



Source: KKR Analysis as of 31 March 2020

Of these top-five holdings, only one of the issuers is directly involved with oil drilling. This holding comprises 0.4% of the GCOF portfolio. The other four largest holdings are related to midstream energy and infrastructure and gas production activities which KKR Credit believes are less directly exposed to volatile oil prices. Despite this limited exposure, KKR Credit will continue to monitor global energy demand in the short-to-medium-term.

The GCOF portfolio has traditionally held an underweight exposure to the energy sector

compared to the credit markets that the fund trades. KKR Credit believes that its advantage lies in its consistent, detailed and disciplined approach to its credit underwriting process, which is based on analysing company fundamentals (rather than commodity prices), focusing on downside protection and assessing the predictability of future cash flows.

[1] 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.

[2] Source: Bloomberg as of 20 April 2020. Bloomberg has not provided its consent to the inclusion of this statement in this update.

[3] “OPEC” refers to the Organization of the Petroleum Exporting Countries – an intergovernmental organization of 13 oil-exporting developing nations.

[4] The S&P 500 Energy index comprises those companies included in the S&P 500 that are classified as members of the energy sector (pursuant to the Global Industry Classification Standard).

[5] Source: Bloomberg as of 21 April 2020. Bloomberg has not provided its consent to the inclusion of this data in this update.

[6] Source: Bloomberg as of 21 April 2020. Bloomberg has not provided its consent to the inclusion of this data in this update.

[7] Source: Bloomberg/FactSet as of 31 March 2020. Neither Bloomberg nor FactSet have provided their consent to the inclusion of this data in this update.

About KKR

43+

years of
experience

US\$218

billion total assets
under management¹

US\$73

billion credit assets
under management

465+

KKR Investment
Professionals

US\$20

billion invested
alongside our clients

Figures as of 31 December, 2019. 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, KKR Capstone, and other affiliates. Investments made by current and former KKR employees and KKR Capstone are

retained by those individuals personally. Includes unfunded commitments made by individuals. KKR Capstone is not an affiliate or subsidiary of KKR.



Important Information

General

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 (the “Manager” or “KKR”) and issued by Seed Partnerships Pty Ltd ABN 32 606 230 639 AFSL 492973 on behalf of the Manager and The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235150 (“TTCRESL”). TTCRESL is the responsible entity and issuer of the KKR Credit Income Fund ARSN 634 082 107 (“KIC” or the “Trust”). TTCRESL has appointed KKR to act as the manager of the Trust. This update is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not indicative of future performance. This information is believed to be accurate at the time of compilation and is provided in good faith. This information may contain information contributed by third parties. KKR and TTCRESL do not warrant the accuracy or completeness of any information contributed by a third party.

Before making any investment decisions you should consider the Product Disclosure Statement (PDS) for the Trust issued by TTCRESL and the Trust’s other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (ASX), which are available at www.kkcaustralia.com.au or can be obtained by calling 1300-131-856 within Australia.

None of KKR, its affiliates or its related bodies corporate, or any company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Trust or the return of an investor’s capital. This information does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of the Trust’s units.

Information in this update

This information is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons.

This information may contain projections or other forward-looking statements and comments regarding future events, including targets or expectations regarding the Trust’s business, plans and strategies. Forward-looking statements also include prospective financial information for the Trust. Forward looking statements can generally be identified by the use of forward looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target”

and other similar words that involve risks and uncertainties. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is no assurance that such events or targets will be achieved. A number of important factors could cause the Trust's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements, and many of these factors are beyond the control of TTCRESL and KKR. This information is not a promise or representation as to the future and past performance is not a guarantee of future performance. Statements or assumptions in this information as to future matters may prove to be incorrect and may be superseded by subsequent market events or for other reasons. You acknowledge that the circumstances may change and that this information may become outdated as a result.

You should make your own independent assessment of this information and seek your own independent professional advice in relation to the information and any action taken on the basis of the information.

Copyright © 2020 Seed Partnerships Pty Ltd, All rights reserved. ABN 32 606 230 639 AFSL 492973

You are receiving this email as you have opted to receive KKC updates. The Manager gathers and analyses non-personal data regarding the use of the KKC website (www.kkcaustralia.com.au) and advertisements, including domain names, number of hits, pages visited, length of user session, etc., to evaluate the usefulness of the site/advertisements. This data is collected for statistical purposes only and may be shared with TTCRESL and KKC's unit registry, Boardroom Pty Limited ABN 14 003 209 836. Your personal information is kept to provide you with this update. We may disclose your personal information to external parties who provide services to the Manager (for example, mail houses, and database management services) and, unless you tell us otherwise, your financial adviser. Otherwise, we will not disclose your personal information to any other external parties unless required by law.

You may be entitled to access information which the Manager holds about you. If you would like access or you do not want to receive other information, please contact the Manager.

The Manager's privacy policy is available on the KKC website www.kkcaustralia.com.au or by contacting the Manager as follows:

KKR Australia Investment Management Pty Ltd
Level 42, Gateway Building
1 Macquarie Place
Sydney NSW 2000
Kapil.Kirpalani@kkf.com
+852 36027376

If you do not want to receive further updates, please [unsubscribe](#) here.

Unit Registry - Boardroom Pty Ltd · Grosvenor Place · Level 12, 225 George Street · Sydney, NSW 2000 · Australia

