



Perpetual 

The Trust Company (RE Services) Limited  
ABN 45 003 278 831, AFSL 235150

1 April 2020

The Manager  
ASX Market Announcements  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

### **ADVISOR UPDATE AS OF 31 MARCH 2020**

We are pleased to provide a copy of the March 2020 Advisor update for the KKR Credit Income Fund (ASX: KKC).

Yours sincerely,

Kevin Razavi  
Senior Corporate Client Manager  
The Trust Company (RE Services) Limited

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The Trust Company (RE Services) Limited ABN: 45 003 278 831, AFSL: 235150 as Responsible Entity of the KKR Credit Income Fund (ARSN 634 082 107)

### **Important Information**

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 (“KKR”) and issued by 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 (“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](http://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.

# KKR Credit Income Fund Advisor Update

31 March 2020



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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 Fund’s business, plans and strategies. Forward-looking statements also include prospective financial information for the Fund. 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 Fund’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.

## Information about KKR

KKR Credit conducts its business through KKR Credit Advisors (US) LLC, an SEC-registered investment adviser, KKR Credit Advisors (Ireland) Unlimited Company, authorised and regulated by the Central Bank of Ireland, and KKR Credit Advisors (EMEA) LLP which is authorized and regulated by the Financial Conduct Authority in the United Kingdom.

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# Introduction

**Kevin McMahon**

*Managing Director, Credit Strategies Team  
(Dublin)*



# KKR's View on the Macro Environment

**Frances Lim**

*Managing Director, Global Macro, Balance Sheet and Risk Team  
(New York)*



# Credit Markets, Portfolio Positioning and Investing during Volatile Times

**Jeremiah Lane**

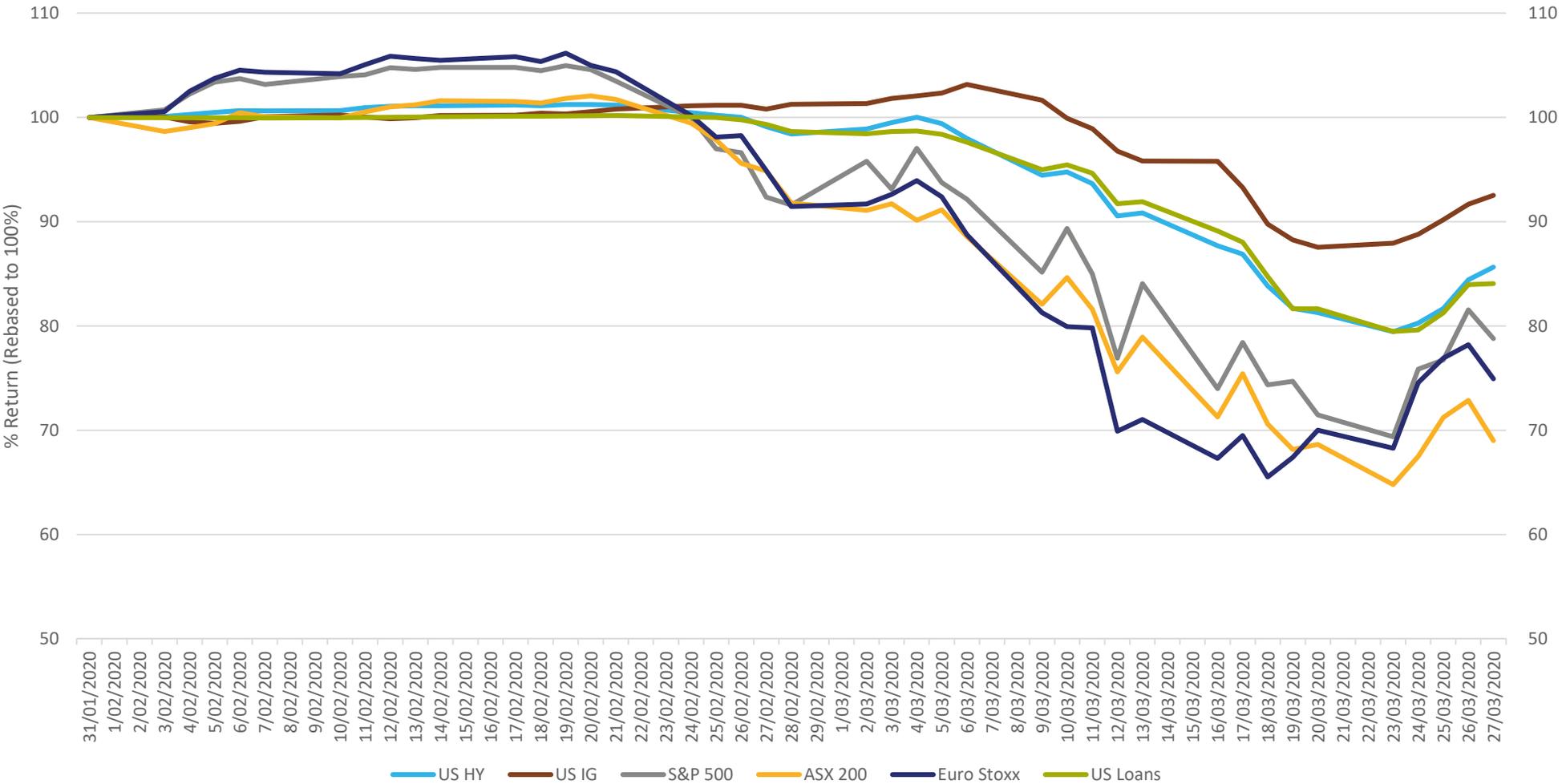
*Partner, Credit Investing Team  
(San Francisco)*



Why has the unit price of KKC dropped?

# Major Markets Have Seen Tremendous Dislocation Over the Past 2 Months

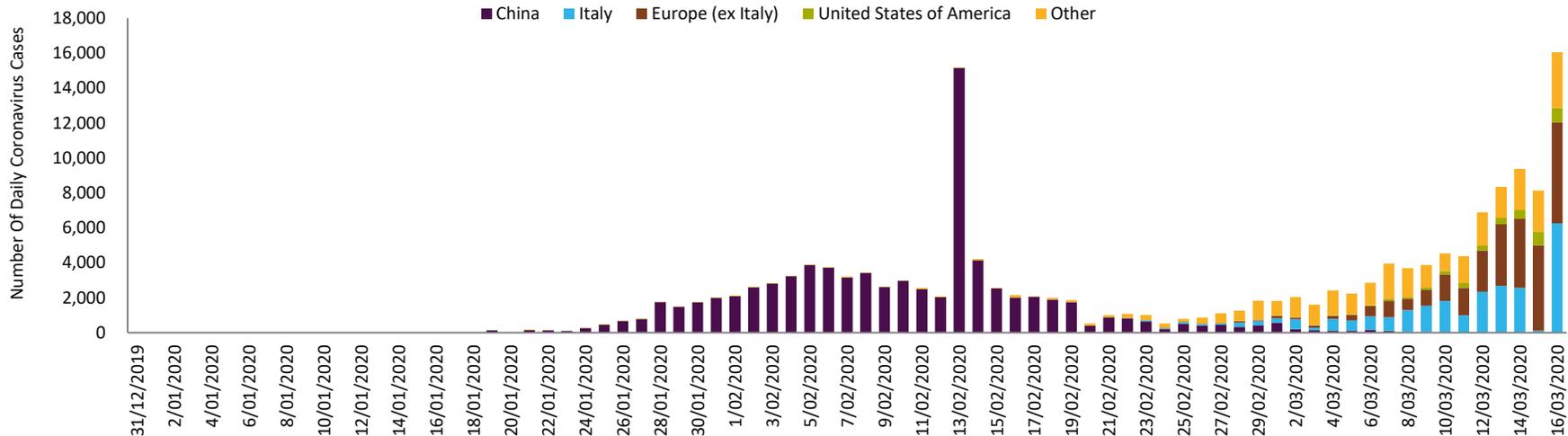
**Relative Performance of Major Indices (Rebased at 100%)**



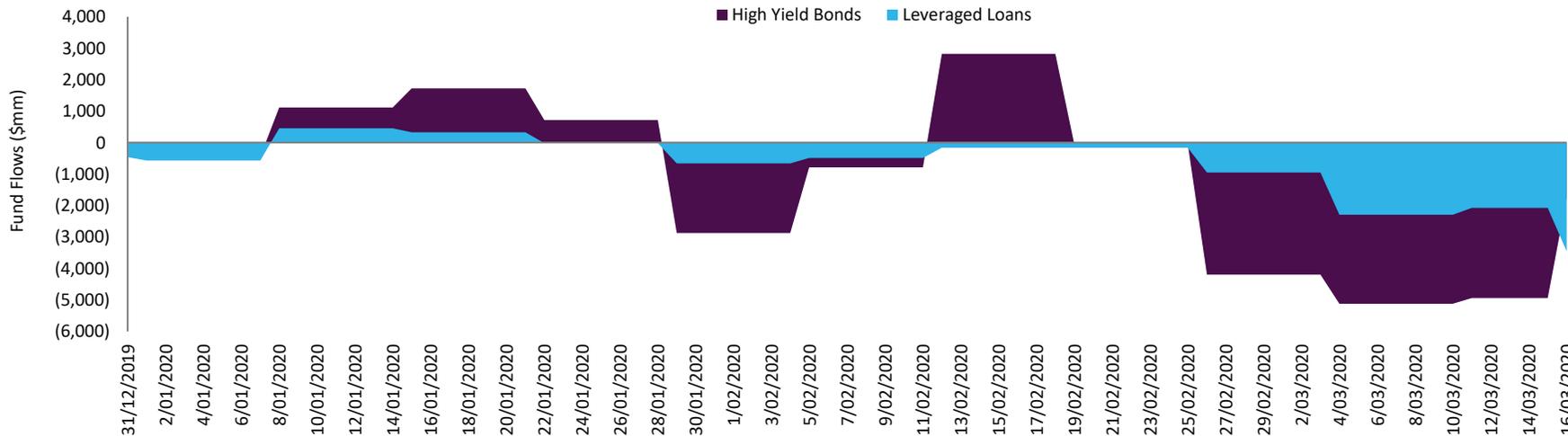
Why has KKR's NTA decreased?

# Markets Are Responding Heavily To COVID-19

## As The Number Of Coronavirus Cases Continue To Rise...



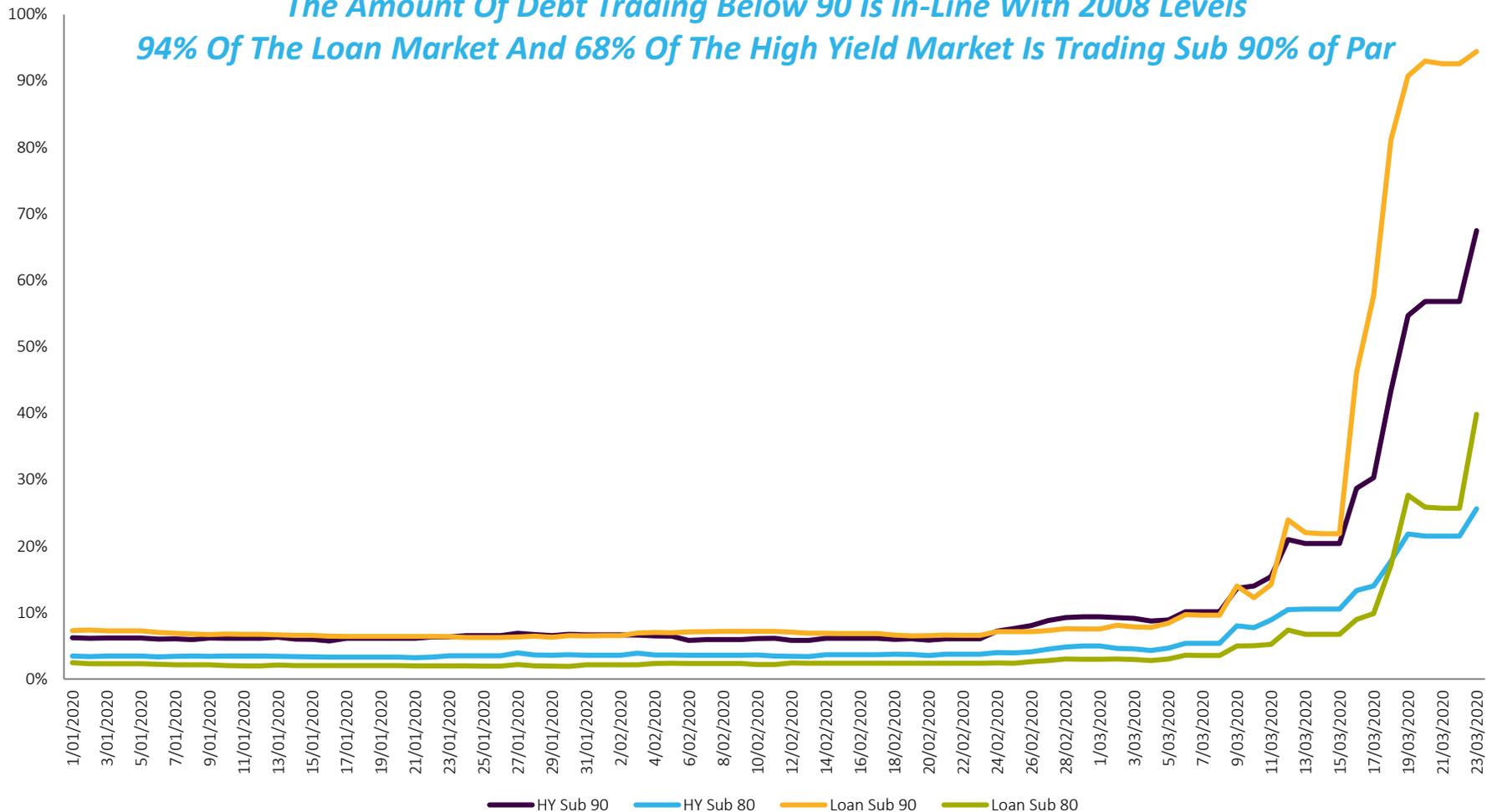
## ...Overall Market Fund Outflows Have Been Large and Consistent



# This is Pushing Down Prices of US Loans and Bonds

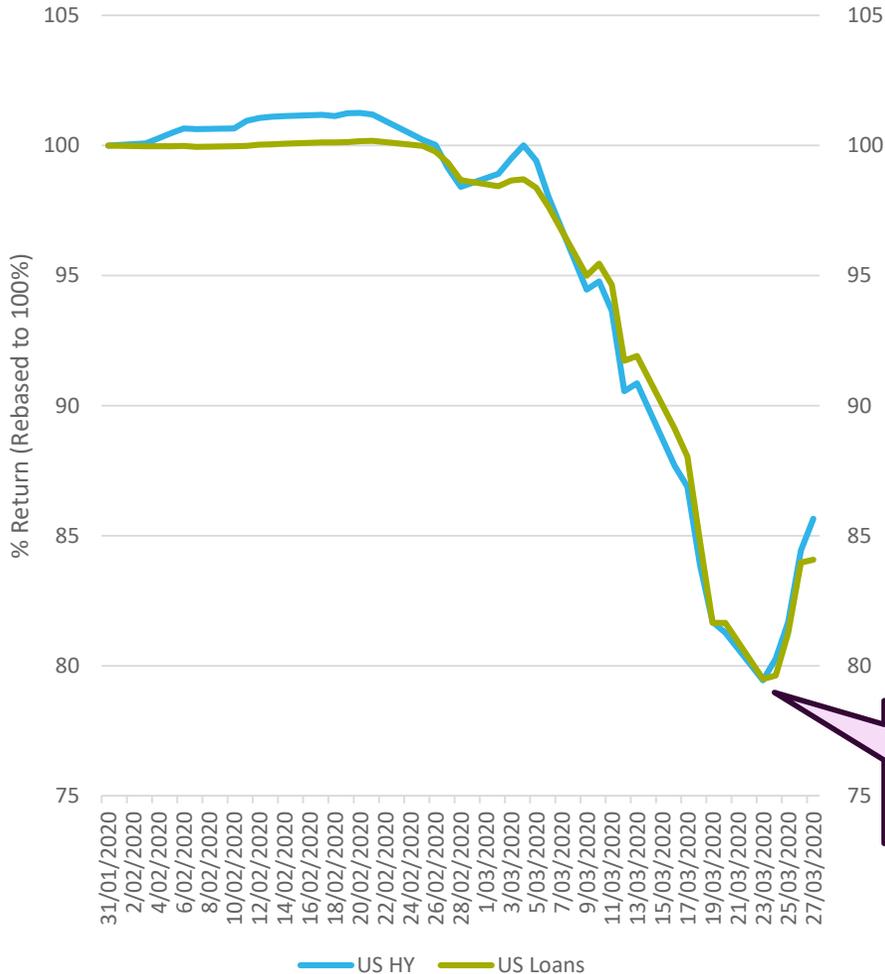
## Percentage Of Market Trading At Various Levels

*The Amount Of Debt Trading Below 90 Is In-Line With 2008 Levels  
94% Of The Loan Market And 68% Of The High Yield Market Is Trading Sub 90% of Par*



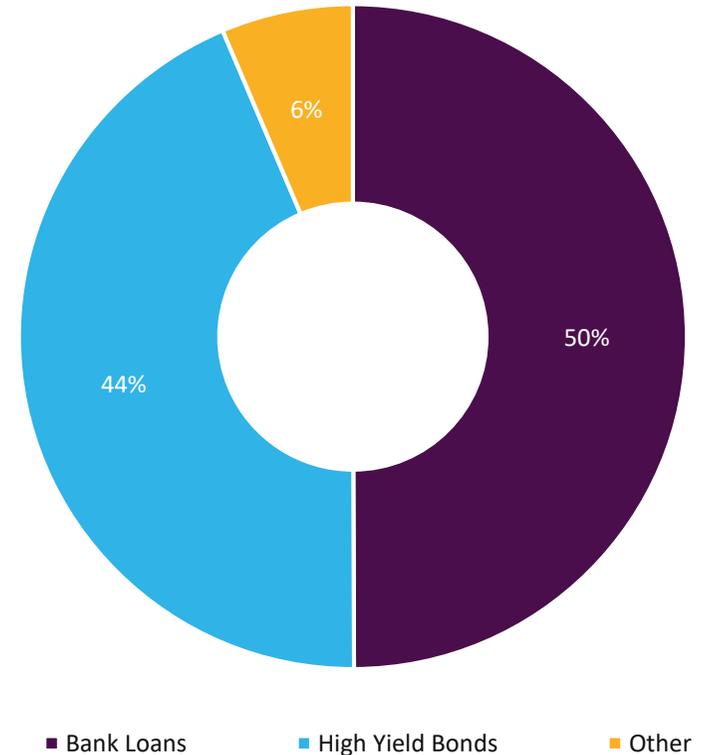
# Which is Resulting in Significant Negative Performance

**US Loans and High Yield Bonds are down ~15% since the end of February**



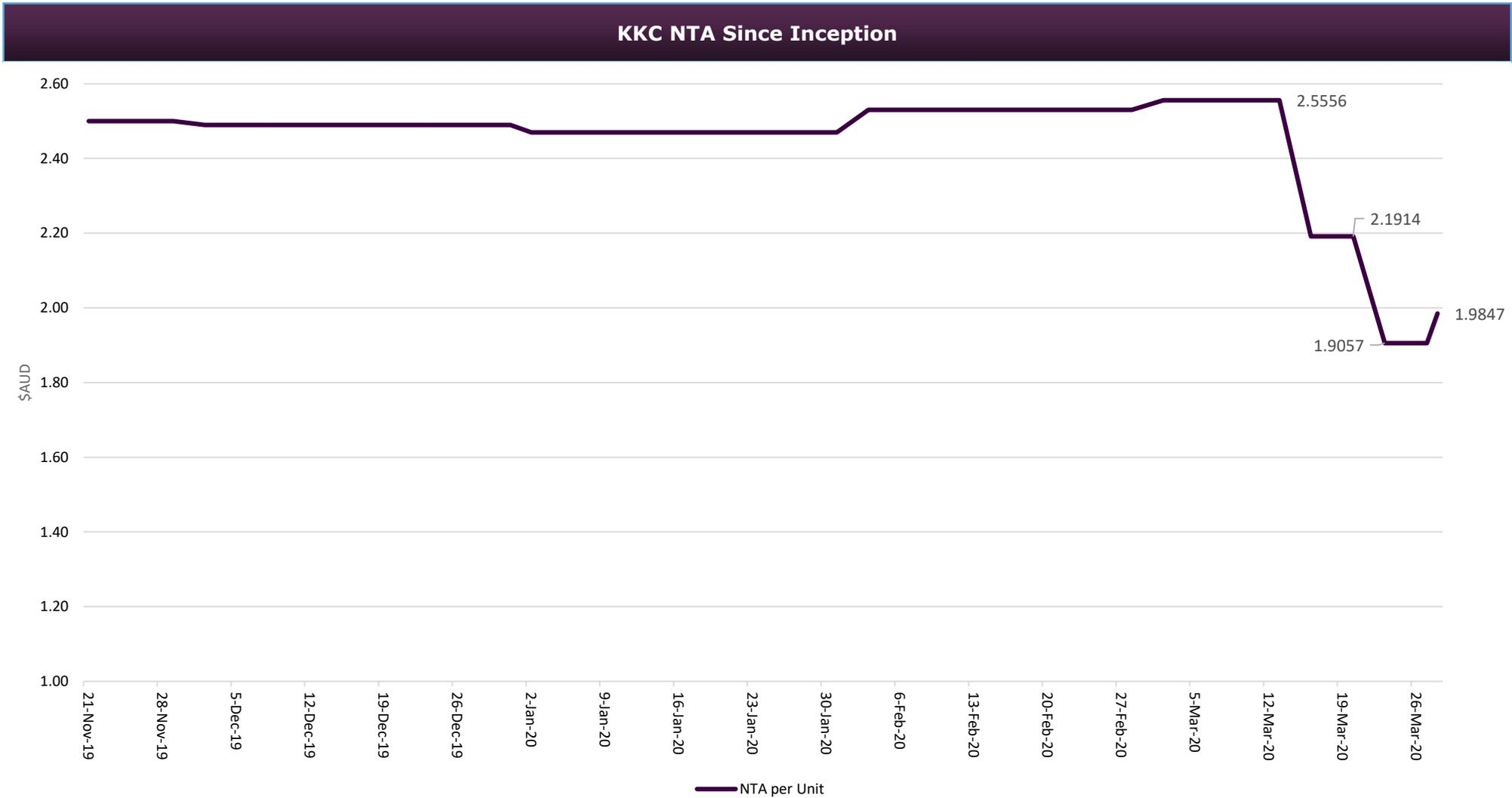
Low point was 23<sup>rd</sup> March

**And GCOF\* is Roughly Split 50/50 between Loans and Bonds**



Source: KKR as at 29 February 2020.

# This Negative Performance Impacts the NTA of KKC



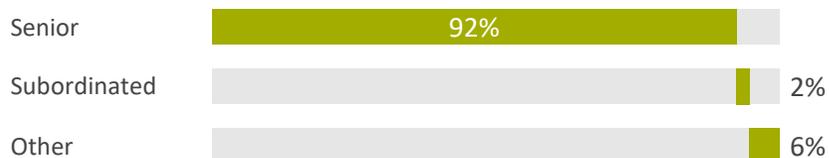
How is the Portfolio Positioned Now?

# KKC - Current Portfolio

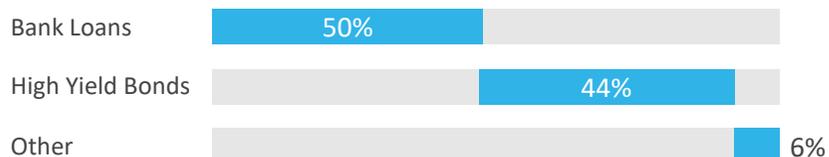
Diversified Portfolio of Income Generating Global Credit\*

**A\$126m**  
Committed, but not  
funded into European  
Direct Lending

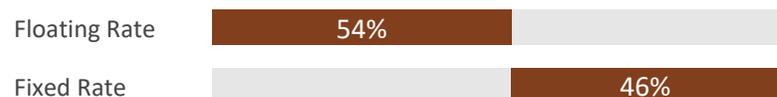
## Senior vs. Subordinated



## Asset Allocation



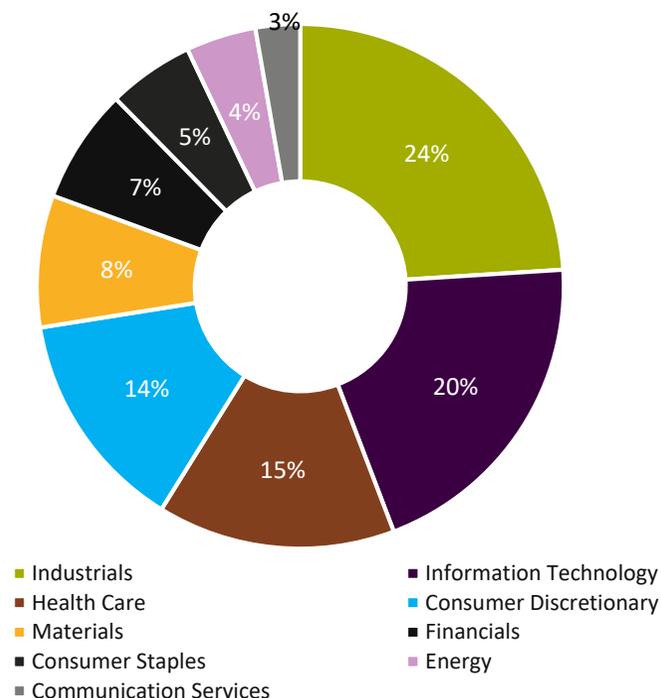
## Floating vs. Fixed Rate



## Geographic Split



SECTOR DIVERSIFICATION

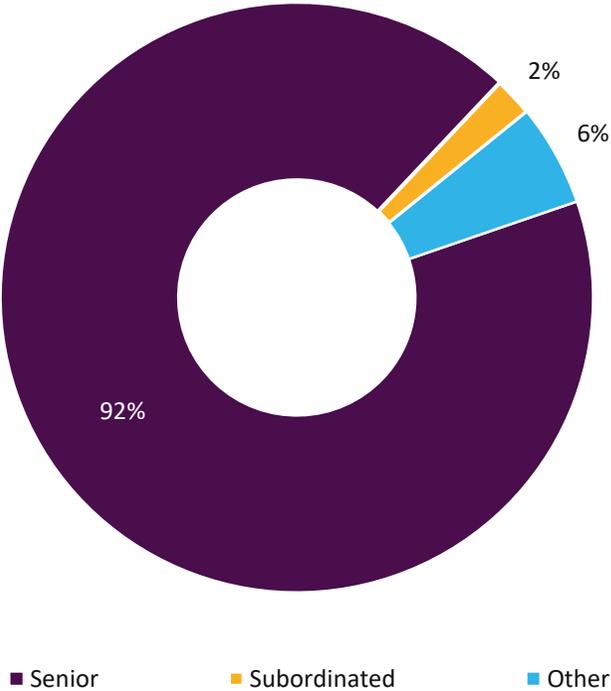


Note: For illustrative purposes only. Investments by the Fund are not limited to the types listed above. The specific investments identified are not representative of all of the investments in which the Fund will directly or indirectly have an interest. \*As European Direct Lending invests over the next 2-3 years, the portfolio will shift more towards a 50/50 split between Traded Credit and Private Credit, and a 50/50 split US/EMEA split. \*\*Based on look through to KKC's underlying funds. Represents GCOF assets as of 29 February 2020

Have there been any defaults in the portfolio resulting from the recent market dislocation, and how does KKR seek to mitigate default risk?

# KKR Seeks to Mitigate Risk by Choosing to be Top of the Capital Structure

## Seniority of Underlying Assets



0

Defaults rising from the recent volatility

4%

Exposure to Energy (HY Bond index has >11%)

9%

Exposure to Leisure Products and Hotels, Restaurants & Leisure

# KKR Remains Highly Focused on its Underwriting of the Portfolio

**We seek to differentiate ourselves with our ability to execute a rigorous portfolio management process to source, undertake due diligence and monitor investments at varying levels of complexity**

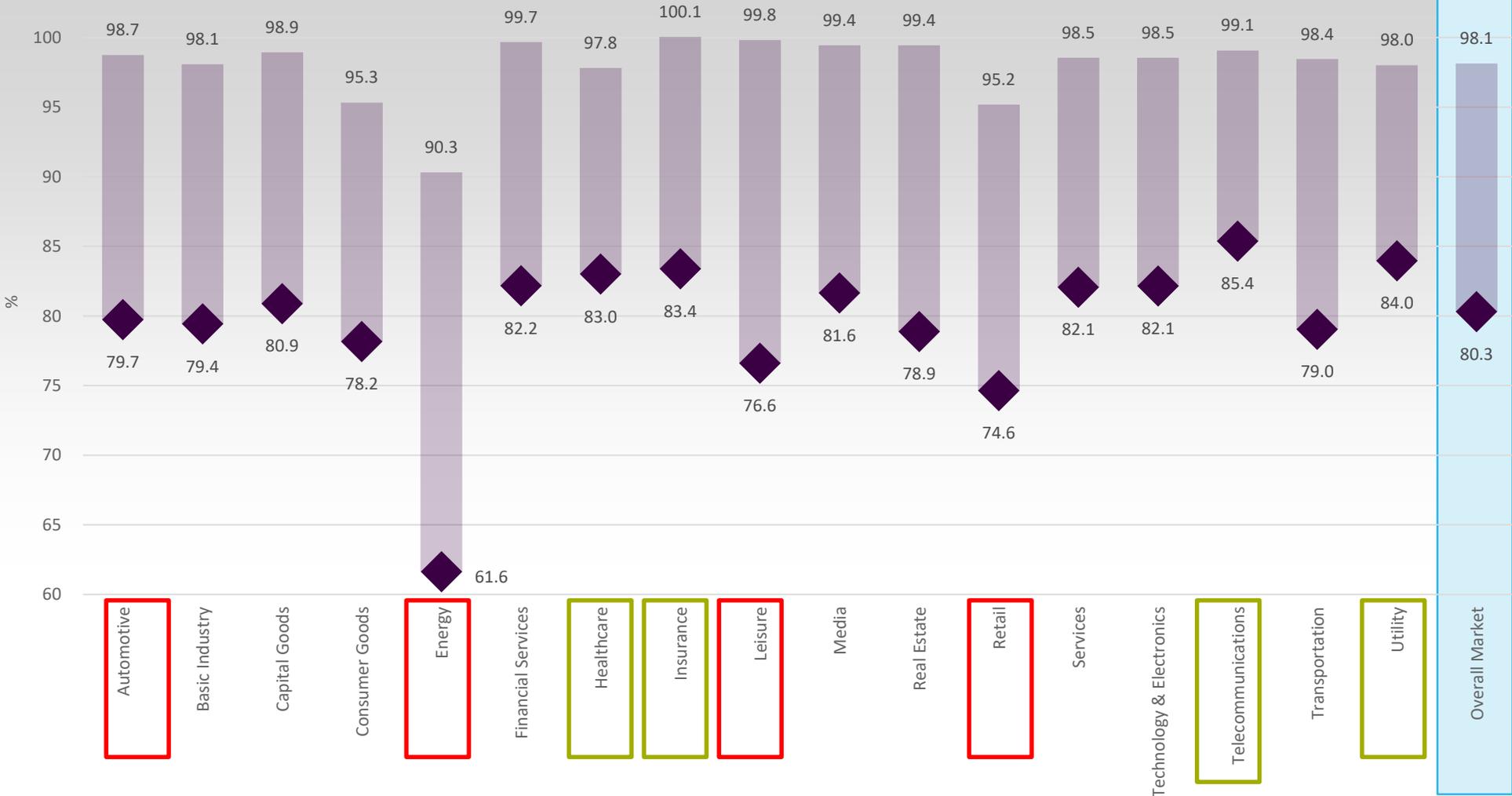
Monday	Tuesday	Wednesday	Thursday	Friday
<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Prioritization Meeting</li> <li>• Weekly IC Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Office Hours</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Monthly General Credit Meeting</li> <li>• Weekly Office Hours</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Office Hours</li> <li>• Weekly IC Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Macro Update Meeting (GMAA)</li> </ul>
<b>Quarterly Portfolio Management Committee ("PMC") Process</b>				

- **Daily Morning Meeting:** Daily interactions among analysts, portfolio managers and traders to discuss market themes, industry trends, company news and new investment ideas
- **Weekly Prioritization Meeting:** Co-heads of US Credit Research will guide the industry analysts what they should focus on that particular week on individual basis (i.e. existing investment, new issuance, secondary investment)
- **Weekly IC Meeting:** All new investments will go through IC; an IC memo consists of 10-15 pages with proprietary financial model with base/upside/downside cases, due diligence review and other industry research materials
- **Weekly Office Hours:** Open forum office hours may consist of screening new investments or ad-hoc IC meetings
- **Weekly Macro Update Meeting:** Macro economic update from our Global Macro & Asset Allocation ("GMAA") team
- **Monthly General Credit Meeting:** Global credit discussion on overall performance and market trends across all credit strategies
- **Quarterly Portfolio Management Committee Process:** PMC meetings to re-visit each credit in-depth and conduct a deep-dive review of each investment from a fresh perspective

What opportunities are you seeing, and how can KKC benefit from this market dislocation?

# US Loan Market

S&P/LSTA Leveraged Loan Index YTD % Price Drop by Sector



# High-Quality Corporate Credit Case Study

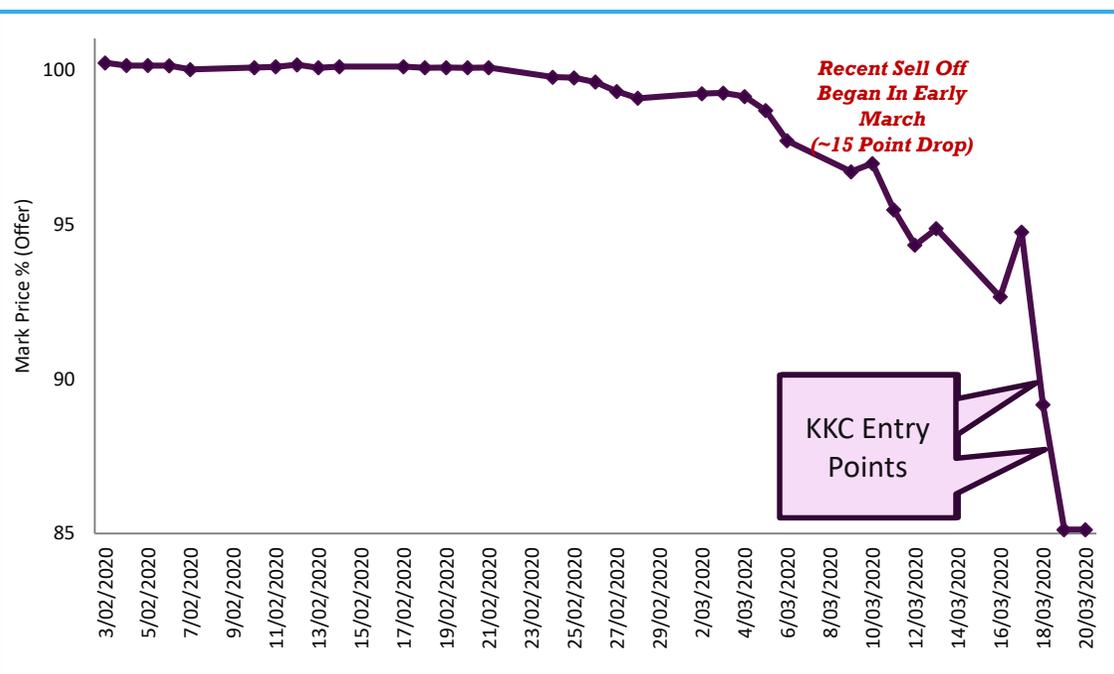
## Company And Transaction Overview

- The company is a high quality telecommunications business with over USD\$1.5 billion (A\$2.46bn) in revenue, high EBITDA margins of ~70% and is based in the United States<sup>1</sup>
- Given the recent market volatility, the company's first lien term loan has traded down due to technical selling
- **The loan to value of the company at our entry price is ~17%**
- The first lien term loan is a high quality rated sub investment grade credit in a defensive sector and the business has durable cash flows that could offer double digit returns due to forced sellers in the market
- Overall, this is strong credit that has attractive price convexity with 10+ points of price appreciation plus coupon which translates into 15%+ yield assuming marketing normalization in 18 months

## Key Asset Attributes

Information Technology <i>Sector</i>	100.6% <i>52 Week Price High</i>	17.2% <i>1 Year Yield</i>
	85.1% <i>Current Price*</i>	9.9% <i>2 Year Yield</i>

## Evolution Of Mark Price (1L Term Loan)



Note: \*As of 20 March 2020. For illustrative purposes only. The specific portfolio company identified is not representative of all of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that the investment in the companies identified was or will be profitable. While KKR considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. Past performance is not indicative of future performance

1) Last twelve months as of September 30, 2019.

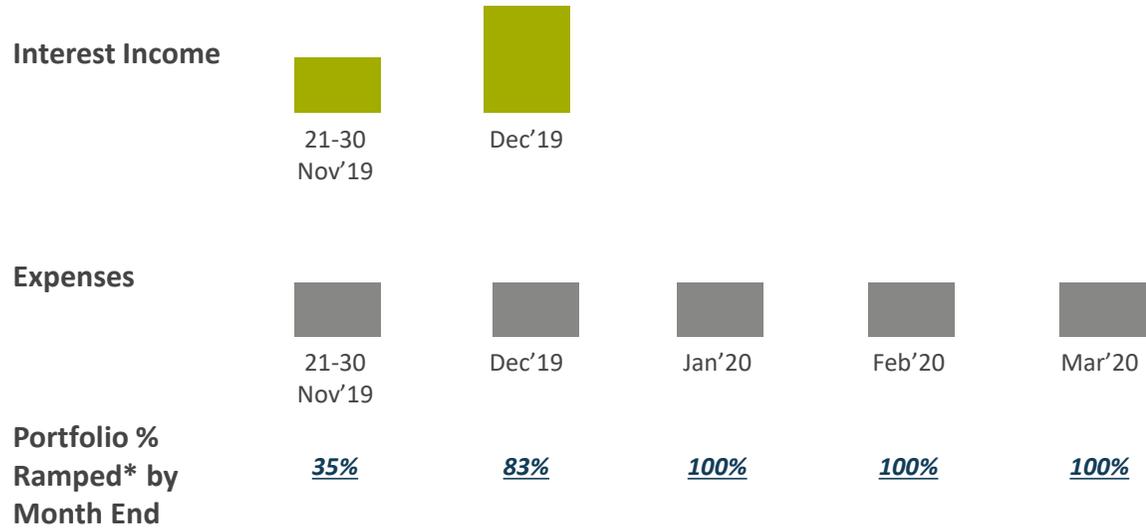
# Managing KKC on a Day to Day Basis

**Kevin McMahon**

*Managing Director, Credit Strategies Team  
(Dublin)*



# March 2020 Dividend Explanation



**This chart is intended to illustrate the effect of the ramp period rather than provide an estimate of future potential distributions. The size of the bars do not reflect actual income or expenses received.**

- KKC's first distribution is lower (on an annualised basis) than the target range for 4-6% given the timing of KKC's IPO, ramping period and underlying GCOF distribution timetable. Distributions are made quarterly with a quarter lag in line with the PDS description of the process.
- The chart above shows that while the level of expenses have been broadly consistent since 21 November 2019, the revenue that the fund received was initially lower due to the ramping up of the portfolio over November and December, and has increased as the fund has become fully invested over time.