KKC Investment Update: 2023 Outlook

20 December 2022

Dear KKC Investor,

As the end of the year approaches, KKR has been considering the outlook for the months ahead as well as the implications of rising rates and inflation on KKC's opportunity set.

Read the summary below.

Is Now the Time to Consider Credit Opportunities?

Rising rates, inflation and a volatile market environment have created a challenging environment for investors over the past year. However, KKR believes that the volatility may also be creating some very attractive opportunities and credit markets may be offering very compelling relative value when compared to equities.

The Macro Environment

According to KKR's Global Macro and Asset Allocation team, the current environment is one where liquidity is thin, sentiment is bifurcated and inflation is set to peak in 2023.

The five factors KKR are watching closely are supply and demand, sentiment, earnings trajectory, valuation and inflation. In considering investment opportunities, KKR believes we are moving from a “Walk, Don’t Run” stance to a “Jog, Then Run” stance.

The Historic Opportunity in Secondary Traded Credit

Conditions have shifted meaningfully since the beginning of the year, with prices rarely having been so low and yields and spreads rarely so high.

Forced selling, technical factors, and the structure of the market are helping to create the current opportunities. In KKR's view, management teams raising prices and cutting costs quicker than ever is creating attractive loss-adjusted yield potential.

History shows that markets usually bottom before fundamentals do, and that means careful selection is essential, those with flexible capital have an opportunity to make equity-like returns.

Expectations for the Next 12-24 Months

This is not 2008. Banks are not overleveraged, employment trends are very strong, and consumer debt seems manageable. It’s not a time to simply “buy the market,” but rather, a time to carefully select dislocated assets and assets that benefit from a competitive advantage.

Credit has more relative value than equity in this market, with more attractive valuations, and interest rate moves, not spreads, driving negative returns.

Timing credit markets is very difficult and liquidity often dries up at the bottom. KKR believes the time to start allocating, is now.

Credit Market Risks to Bear in Mind

KKR sees downside in corporate earnings and valuations, with revenue and EBITDA growth slowing and outliers coming under pressure with repayment issues.

Higher rates from the Fed are challenging for fixed-rate credit. Even for floating-rate debt, higher rates put more pressure on underlying borrowers.

Cash is building up on the sidelines and forced buyers will enter a tight market. The velocity on the way up will be faster than on the way down.

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$496
billion total assets under management[1]

US$186
billion credit assets under management

~740
KKR Investment Professionals

US$25
billion invested alongside our clients[2]

(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.

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