KKC Investment Update: Video Interviews with Portfolio Manager

2 December 2022

Dear KKC Investor,

Recently Jeremiah Lane, a partner and portfolio manager within the KKR Credit team spoke twice with Ally Selby from Livewire Markets.

In the first interview, Jeremiah talks to why select "zombie companies" or CCC-rated businesses can provide opportunities for credit investors.

Watch the video **here**, or read the summary below.

Why a global zombie infestation isn't necessarily a bad thing

Despite a highly challenging market characterised by rising interest rates, worsening consumer sentiment and inflationary pressures, the KKC team continues to find opportunities in the market.

Jeremiah says investors fear CCC-rated businesses because they believe they could lead to a flood of defaults, and in the current weaker macro, downgrades and defaults are increasing.

Opportunity for KKC:

Jeremiah explains that when a credit gets rated CCC, the buyer base collapses, as many investors are restricted from this part of the market. Therefore this space consistently provides opportunities.

In saying that, KKR doesn't believe in buying a broad cross-section of CCC investments, a targeted investment strategy is needed. KKC brings to bear the diligence capability of KKR to build a high conviction in a small number of investments.

Currently KKC is looking at attractive propositions that were disrupted early, for example those that import goods from Asia and were impacted by increased shipping costs, and companies that suffered with labour shortages. If KKC picks correctly, they can buy something really cheap that was mistaken for a "zombie" due to short-term fundamental challenges facing the business.

3 defensive asset classes to bolster portfolios in FY23

Jeremiah's second interview delved into areas of opportunity in the current market, what a recession could mean for credit markets, and named the asset class he believes will outperform in FY23.

You can watch the whole interview **here** and read the summary below.

Opportunities facing KKC:

1. Short-duration loans and bonds
These are loans and bonds that mature in 2024 or 2025, KKC likes the short-duration options because they have less exposure to moves in rates.

2. Primary issuance
KKR is seeing primary issuance price at least 100 basis points wide to comparable existing risk. One of KKR's strategies in this space is rotating out of a piece of risk into a newly issued loan or bond and typically picking up 100 basis points of total return.

3. Convertibles

In early 2021 the convertibles market was very strong, fast-forward 18 months and most of those equity prices have collapsed. Often these businesses don't want to pay off at maturity, they want to refinance, and they come to the market and they offer to re-equitize the convertible bond. In exchange, investors give them a slightly longer maturity.

KKC has seen that when they offer those types of deals, the price of the convertible jumps. It's an interesting opportunity where KKC can get an acceptable return, high single digit, and have some optionality around getting a much higher return driven by the ultimate event playing out sooner than expected.

What would a recession mean for the credit markets?

Jeremiah says that a real recession would mean a higher period of defaults, more downgrades from investment grade to high yield; more downgrades from B to CCC. However, KKR has looked at the market and said "a lot is already priced in." KKC is already at attractive levels from a spread standpoint, from a yield standpoint, and from a price standpoint.

Which part of the fixed income market do you think will outperform in FY23?

Jeremiah says that if the Federal Reserve raises rates dramatically higher than expected that will be good for bank loans. This is because investors will get an upside participation through a higher base rate, whereas high yield would trade really poorly. The ability of KKC to pivot between high yield and bank loans means the portfolio is well positioned to benefit from higher interest rates.

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.

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 (the “Responsible Entity” or “TTCRESL”). TTCRESL is the responsible entity and issuer of units in the KKR Credit Income Fund ARSN 634 082 107 (“KKC” 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) and Target Market Determination (TMD) 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. Any term not defined in this update has the same meaning as defined in the PDS.

Copyright © 2022 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@kkr.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