KKR

CREDIT INCOME FUND

KKC Investment Update

28 October 2024

Dear KKC Investor,

In a recent Livewire interview, KKR Director Richard Schoenfeld discusses why its critical credit investors understand why opportunities present themselves.

Richard is part of the GCOF investment team, investing in public credit. As a reminder, GCOF is one of two underlying KKR strategies which KKC allocates to.

You can read our summary below or view the full interview **here**.

Why it's critical investors understand why opportunities present themselves

Where are valuations today compared to history?

Following the Fed's rate hikes, volatility spiked, and market activity slowed. Now, spreads are compressing, liquidity is improving, and transaction levels are rising, marking a significant difference from two years ago.

We've just seen the FED cut rates by 50bps. Where are you seeing risk and opportunity today compared to two years ago?

Two years ago, the focus was on the potential for hard or soft landings. Currently, KKR believes there's a consensus that we're moving toward a soft landing, which is reflected in tighter spread levels compared to two years ago.

How has the high-yield market been impacted by this environment of rising interest rates?

High-yield bonds are fixed-rate products. Companies that locked in rates in 2021 and early 2022 have extended their maturity timelines, resulting in fewer issuers facing significant maturity challenges.

How resilient are those companies right now?

The high-yield market is different now, with more corporate issuers and higher overall ratings. Additionally, over the past few years, companies who have needed to tap the market have issued more secured bonds, giving first-priority claims on collateral in downside scenarios. Overall, the quality in the high-yield market is higher than it's ever been, and companies have fared quite well from a performance perspective.

Where are cracks starting to appear across credit markets if not in high yield?

The syndicated loan market shows more stress. It's primarily used by private equity for financing but has higher leverage than unsecured bonds. Floating-rate exposure means borrowers face higher interest costs, leading to deteriorating cash flow coverage. For KKR, this creates opportunity.

What does that stress look like?

In the loan market, downgrades are outpacing upgrades. Many investment vehicles have strict limits on ratings, meaning downgrades can trigger forced selling, creating arbitrage opportunities for liquidity providers like us.

What opportunities are you seeing today?

Despite the expensive spread environment, there’s significant dispersion. It’s a winners-and-losers market, and our credit-picking strategy allows us to find opportunities in undervalued sectors.

Are you seeing relative value globally, or are you focusing on the US market?
Having a global presence at KKR allows us to evaluate businesses across regions. Our focus is on understanding company fundamentals rather than emphasising geographical differences.

Is there anything the market is getting completely wrong today?
While many note that spreads are tight, this doesn't capture the complete picture. The market has improved in quality, and we are seeing fewer refinancing activities. As transaction activity increases, a significant amount of credit is still trading below 100 cents on the dollar. This presents an opportunity to capitalise on pull-to-par potential, which is often overlooked as the market tends to concentrate primarily on spreads.

What catalysts are driving this pull-to-par?
The M&A market is improving, with private equity becoming more active. Financing availability is better, and there’s a push to monetise past investments, increasing transaction incentives. Another catalyst is the refinancing of traded credit positions and increased activity in private credit stepping into traded markets.

How does the private market boom impact tradable credit?
Private credit is viewed as an additional tool for borrowers. Companies are exploring both private and traded credit solutions, resulting in beneficial dynamics between the two markets.

What does this mean for investors?
It provides more downside protection, as issuers have greater access to capital and more options for managing maturities.

What’s your unique view from the top, something you’ve learned recently?
Understanding the reasons behind opportunities is crucial. It’s not just about identifying mispriced assets; comprehending the supply and demand of capital, market technicals, and factors driving activity is equally important.

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	US$578	US$232	~690	US$25
years of experience	billion total assets under management[1]	billion credit assets under management	KKR Investment Professionals	billion invested alongside our clients[2]

(1) Figures as of 31 March, 2024. 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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General
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