CREDIT INCOME FUND

KKC Investment Update

14 February 2024

Dear KKC Investor,

We were pleased that KKC delivered net total return of 17.25% in 2023 and thank you for your interest and ongoing support, and we continue to remain excited about the opportunity set.

In this month's Manager Insights, we have provided commentary on the traded credit component of KKC's portfolio. We also discuss why we believe KKC remains highly compelling in the current environment, and our expectations for 2024.

Portfolio Commentary and Current Investment Themes

- **Leaning into New Issuance:** In December there was a more opportunistic tone to the market with consensus building that we had reached a peak in rates and volatility should diminish. As a result, December produced the second heaviest traded loan issuance since November 2021, with issuance heavily weighted to issuers refinancing in these better market conditions. We expect that new issuance early 2024 will likely come at a premium and offer attractive economics.
- **High Quality Loans and Bonds:** The fund has been purchasing high quality credit paper in names with stable, simple business models which offer attractive yield. These positions are generating strong high single-digit cash yields which allow for us to redeploy into the market at opportunistic points, while creating a defensive profile as these names are typically higher quality.
- **Near Term Catalyst Positions:** We have been allocating to discounted short duration paper within high conviction issuers where we believe there may be a

potential near-term catalyst – typically where KKR is able to work with issuers to proactively address upcoming maturities and provide high upside stemming from early take outs at par. Additionally, these short-dated positions create a defensive, shorter duration profile across the fund.

- **Elevated European Exposure:** We have been incrementally increasing allocations to attractive names within Europe through fixed rate high yield bonds. Within traded credit, we are generally constructive on Europe and think many companies are in better shape relative to the U.S as a result of European nations providing distributions during the COVID-19 pandemic to companies rather than individuals. This has translated to corporate balance sheets which are today in a better shape relative to the U.S.

We believe the opportunity for KKC makes sense now for three reasons:

- **Multi-Asset Approach:** the portfolio is geared to capitalise on market dislocations across the credit realm. With the market having a propensity to overreact to negative credit events, KKR's Global Credit Opportunities Fund can step in as liquidity provider and build incremental value in the portfolio.
- **Compelling Yield Profile:** while credit markets have experienced strong performance in 2023 leading to price appreciation and spread compression, we believe that yields remain attractive on a historical basis. Investors are being compensated for elevated default risk with higher-than-average yields. We believe this will provide investors attractive current income relative to other asset classes, such as equity dividends.
- **Attractive Expected Returns:** KKR’s Global Macro Asset Allocation team is constructive on both bank loans and high yield over the next cycle, with expected annualised returns for the next five years being 4.5% higher for high yield and 3.1% higher for bank loans compared to the previous five years.

2024 Expectations

Looking broadly, we are generally constructive on the outlook for 2024, but we expect there to be elevated dispersion and an increase in defaults in an idiosyncratic fashion with subsequent lower recovery rates driven by more asset light businesses defaulting.

We view this market as one that is conducive towards our Credit’s teams investing approach, where it is important to have a strategy that focuses on fundamental analysis and dynamically allocating across asset classes rather than have broader beta exposure.

Given the many upcoming critical elections as well as increased uncertainty on the Fed's near-term plan, we continue to emphasise on keeping it simple and avoid stressed credits and complex situations.

Looking at the end of past hiking cycles, we have observed that high yield bonds have generally returned more than bank loans, and higher quality issues tend to perform better than low quality. High yield BB bonds in particular have had strong total returns in past cycles.

From KKR's Global Macro Asset Allocation team's perspective, one of 2024's top picks for investing is Opportunistic Credit. We see significant value in opportunistic liquid Credit vehicles that can nimbly 'toggle' allocations across High Yield, Bank Loans, and Structured Credit as well as between sectors and themes, particularly as a repricing of spreads and the risk-free rate create select pockets of relative value.

We look forward to keeping you updated in 2024.

KEY BENEFITS AND RISKS

BENEFITS:

The key benefits of inventing 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

47	US$528	US$202	~710	US$27
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 30 September, 2023. 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

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