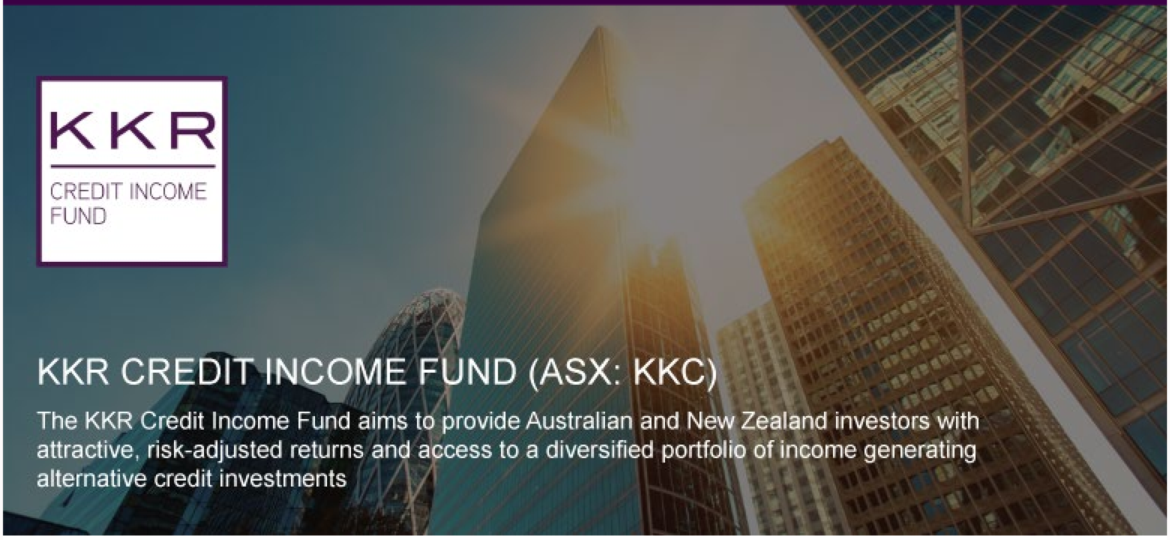

KKC Investment Update

22 July 2020

Beyond the initial volatility of the coronavirus pandemic, we can now see the impact it is having on particular sectors of the US High Yield Bond ("HYB") market. While the shift to people working from home has had a slightly positive effect on some sectors, the restriction of movement has had a dramatically negative impact.

In this communication, the Manager provides commentary in relation to the year-to-date (YTD) performance of the US HYB market and looks at the differing performance across its sectors.[1]

Year to date, the US HYB market has had a negative return of approximately -4.8%. This performance has not been uniform across the market's constituent sectors. There have not been any 'winning' sectors as a result of COVID-19 and the subsequent market volatility, however, there have been significantly different levels of impact felt across the various sectors. Although the four sectors shown in the table below delivered small positive performance YTD, this has come from the performance of issuer-specific credits offsetting a decline in the sector cohort as a whole.

The table below breaks out the performance of each sector in the market, and makes for interesting although not un-expected reading:

YTD 30 June 2020	Market Total Return	Market Avg. Weight
Technology & Electronics	0.6%	5%
Consumer Goods	0.4%	5%
Banking	0.2%	2%
Utility	0.0%	3%
Healthcare	-1.1%	10%
Basic Industry	-1.9%	10%
Media	-1.9%	11%
Insurance	-2.2%	1%
Telecommunications	-2.4%	10%
Automotive	-2.8%	3%
Retail	-3.8%	5%
Financial Services	-5.6%	4%
Capital Good	-6.0%	6%
Services	-6.5%	6%
Real Estate	-7.1%	2%
Leisure	-11.6%	5%
Transportation	-11.8%	1%
Energy	-20.0%	11%
		100%

Source: FactSet as of 30 June 2020. FactSet has not provided its consent to the inclusion of this statement in this update.

- The three US HYB sectors that had positive performance (albeit low) were Technology (+0.6%), Consumer Goods (+0.4%) and Banking (+0.2%). The demand for technology products and services has increased with the recent phenomenon of vast amounts of people working from home. KKC is overweight Technology as it was its third-largest sector exposure at ~18% as at 30 June 2020.[2] This compares to a ~5% holding for the market.
- The three worst performing sectors in the market were Energy (-20%), Transportation (-11.8%) and Leisure (-11.6%). These are sectors where lock-down has significantly reduced demand for products and services. KKC is underweight Energy as it had a 4% exposure as at 30 June 2020 compared to 11% market weight.[2]

Previous KKC investor updates have discussed dispersion across credit rating cohorts and this update highlights the differences between sectors themselves [3].

The Manager believes that having a nimble portfolio with active portfolio managers that can “stock pick” credits across ratings, geographies, sectors and seniority in the capital structure can deliver attractive returns over the medium term [3].

To read previous KKC Investment Updates please visit the KKC Australia website HERE

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[1] A KKR Managed Fund may hold debt investments that may be classified as “higher-yielding” (and, therefore, higher-risk) investments. In most cases, such debt will be rated below “investment grade” or will be unrated. Borrowers of this type are considered to be at greater risk of not making their interest payments or principal repayments. Investors should refer to the risks outlined in section 8 of the PDS.
[2] Based on a look through to KKC’s underlying funds as at 30 June 2020.
[3] Past performance is not indicative of future performance. Before making an investment decision in relation to KKC, it is important to understand the risks that can affect the value of your investment in KKC. Investors should read the risks described in Section 8 of the PDS.

About KKR

44+	US$207	US$68	470+	US$19
years of experience	billion total assets under management[1]	billion credit assets under management	KKR Investment Professionals	billion invested alongside our clients

Figures as of 31 March, 2020. 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. 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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