KKC Investment Update

30 August 2024

Dear KKC Investor,

In this month's Manager Insights, KKR shares some insights on lending in the upper middle market, asking the key question, is it better to focus on lending to smaller companies or larger ones?

You can read the summary below or view the full article, **Upper Middle Market Lending: Four Reasons We Focus on Larger Companies**, here.

Upper Middle Market Lending: Four Reasons We Focus on Larger Companies

by George Mueller, Rony Ma and Ian Anderson from the Credit team

There's an ongoing debate about size in direct lending circles. Namely, is it better to focus on lending to smaller companies or larger ones?

Sometimes we hear investors say it is possible to achieve more attractive returns and better risk profiles by lending to lower middle market (<$50 million EBITDA) companies.

Meanwhile, this argument goes, the upper middle market ($50-$200 million EBITDA) has become commoditised, lacks investor protections, and is in direct competition with a resurging broadly syndicated loan market.

We think there are several misconceptions embedded in this view. We focus on lending in the upper middle market because:

1. Upper middle market companies have historically had strong, stable financial performance
2. This performance pattern has historically resulted in lower default rates for the upper middle market.
3. The spread difference between returns in the upper and lower middle market is not as wide as many believe.
4. History suggests that attractive opportunities are available in the upper middle market even with broadly syndicated markets functioning at full tilt.

We explore these in more detail in the full article, **here**.

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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