

KKR Credit Income Fund (ASX:KKC)

Monthly Investment Update: As of 30 June 2023

Net Tangible Assets (NTA)	A\$761,845,184	NTA Per Unit	A\$2.36	Distribution Yield (NTA)	5.56%
Distribution Frequency	Monthly	ASX Unit Price	A\$1.92	Distribution Yield (Unit Price)	6.84%

Fund Performance

As of 30 June 2023	1 Month	3 Month	6 Month	1 Year	3 Year Annualised	5 Year Annualised	Inception* Annualised	Inception* Cumulative
Total Returns (Net)	+1.81%	+2.73%	+9.48%	+12.30%	+6.41%	-	+2.82%	+10.74%
Distribution (% of NTA)⁽¹⁾	+0.47%	+1.40%	+2.85%	+5.77%	+4.74%	-	+4.19%	+16.26%

* Inception of KKC was 21st November 2019

Distribution Based on Closing NAV ¹ (%)	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
Previous Financial Year	-	+0.79%	+0.40%	+0.39%	+0.40%	+0.40%	+0.40%	+0.40%	+0.40%	+0.41%	+0.41%	+0.65%	+5.05%
Current Financial Year	+0.49%	+0.48%	+0.48%	+0.49%	+0.49%	+0.49%	+0.49%	+0.48%	+0.47%	+0.47%	+0.47%	+0.47%	+5.77%

For a full list of distributions made since Inception, please visit the Investor Centre at www.kkcaustralia.com.au. Past performance is not indicative of future performance and the portfolio characteristics are subject to change.

Performance and Attribution:

For the month of June 2023, the KKR Credit Income Fund ("KKC" or the "Trust") delivered a return of +1.81%⁽²⁾.

The table below provides a summary of how each portfolio grouping performed over the month:

KKC – MTD Performance		
By Asset Class	Contributors	Detractors
	Loans	-
	High Yield Bonds	-
By Rating		
	CCC	CC and Below
	B	-
	BB	-
By Sector		
	Transportation	Insurance
	Retail	Automotive
	Leisure	Consumer Goods

Dividend Update:

On 27 June 2023, KKC announced an increase in the target distribution to 1.67 cents per unit per month, or 20.0 cents per annum for FY2024. This represents an increase of 52% from the 1.10 cents per month, or 13.2 cents per annum for the prior financial year.

KKC declared a distribution of A\$0.011 (0.47% of NTA) for the month. This is in line with the announced FY23 distribution estimate of A\$0.13125. As of 30 June ASX Unit Price of A\$1.92, this represents a yield of ~6.84%⁽²⁾.

The weighted average price of the underlying assets in the portfolio stood at 92.1% of par as at month end. The Yield to Maturity, which is inversely related to prices, stood at 12.6% as at month end⁽³⁾. The current yield of the underlying assets in the portfolio was 10.2% as at month end⁽³⁾.

Uploaded to ASX on 26/07/2023

For more information, please refer to www.kkcaustralia.com.au

KKR

Market Update:

U.S. high-yield bond spreads fell in June as receding macro risks, resilient labor market data, and hawkish Fed rhetoric fueled a reassessment of Fed policy expectations. Specifically, the U.S. bank loans market was up +2.3% in June while U.S. high-yield bonds provided a more modest return of +1.6%.

Portfolio Update:

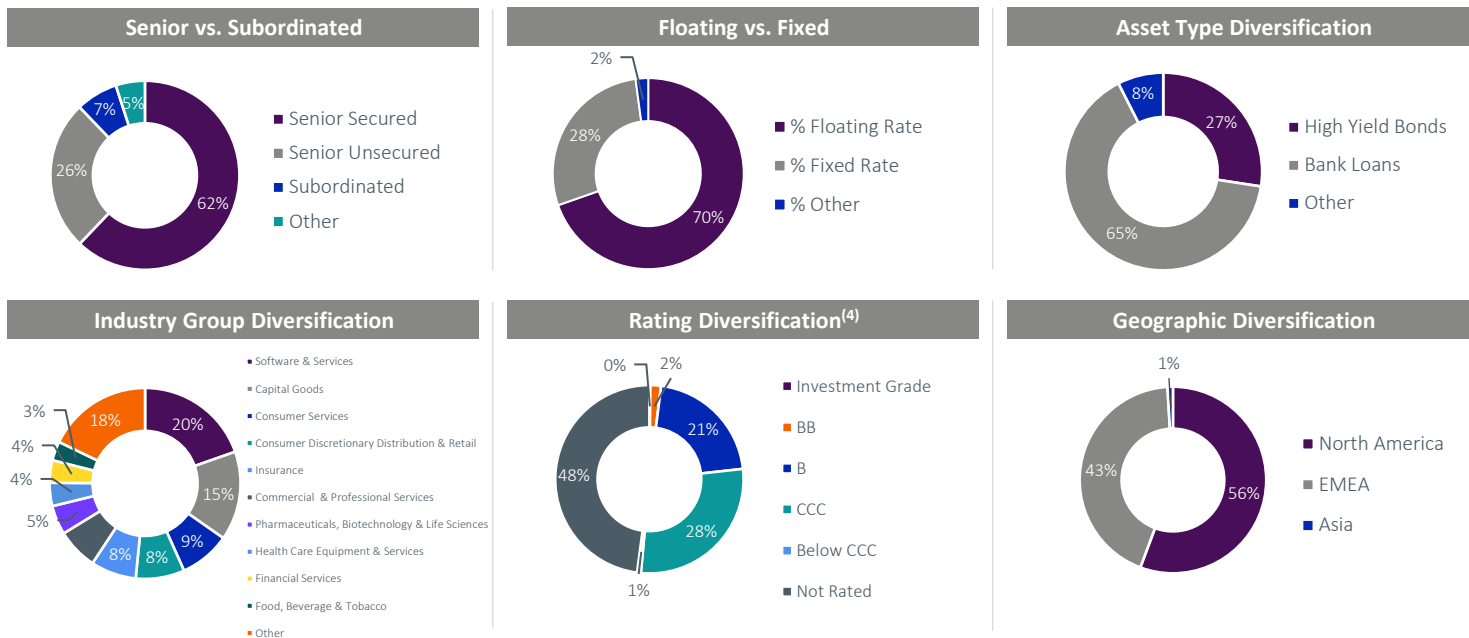
Key portfolio positioning and changes in the underlying portfolio from 31 May 2023 to 30 June 2023:

- The proportion of floating rate assets in the fund is at 70%, the majority of which are loans. Loans and other floating rate assets can act as a natural hedge against inflation and rising interest rates. The portfolio is still intentionally overweight floating rate assets and has a low duration of 1.0 years compared to ~4 years for the bond market as a whole;
- Software & Services and Capital Goods remain the two largest industry groups at ~20% and 15% respectively. A detailed breakdown by industry group can be seen on the next page with the fund having less than 7% exposure to the Retail sector. The fund is also deliberately underweight Energy with ~1% of the portfolio invested in this industry group;
- KKC's exposure to senior secured assets currently stands at ~62%. Senior secured assets, which are secured by a collateral package from the borrower, afford greater downside protection for our investors, relative to unsecured assets (38%);
- European Direct Lending (EDL) had no new additions over the month. There was one realization over the month, a UK based insurance firm. EDL represents ~43% of KKC's portfolio invested across 36 assets as at month end.

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Portfolio Construction⁽⁴⁾



Other Portfolio Details⁽³⁾

Number of Issuers ⁽³⁾	Asset Mix	Yield-to-Maturity on Underlying Assets	Portfolio Interest Rate Duration	Average Price	Current Yield on Underlying Assets
155	57% Traded Credit / 43% Private Credit	12.6%	1.0	92.1	10.2%

Top 100 Issuer Summary: % of Portfolio

Top 10	Top 20	Top 25	Top 50	Top 100
20.1%	36.7%	44.0%	70.6%	95.0%

Top 10 Holdings

Holding	Weight	Type	Sector	Fixed/Floating	Security	Seniority	Country	Currency
Solera LLC	2.23%	Loans	Application Software	Floating	Senior Secured	Second Lien	United States	USD
Varsity Brands Inc	2.18%	Loans	Apparel, Accessories & Luxury	Floating	Senior Secured	First Lien	United States	USD
Ardonagh Group Ltd	2.11%	Loans	Insurance Brokers	Floating	Senior Secured	First Lien	United Kingdom	GBP
ICE	2.09%	Loans	Biotechnology	Floating	Senior Secured	First Lien	Italy	EUR
PIB Inc	1.97%	Loans	Insurance Brokers	Floating	Senior Secured	First Lien	United Kingdom	GBP
Douglas Holding AG	1.97%	Bonds	Other Specialty Retail	Fixed	Senior Secured/ Senior Unsecured	First Lien	Germany	EUR
esPublico	1.95%	Loans	Application Software	Floating	Senior Secured	First Lien	Spain	EUR
Advania Sverige AB	1.92%	Loans	IT Consulting & Other Services	Floating	Senior Secured	First Lien	Sweden	SEK
PSAV Inc	1.91%	Loans	IT Consulting & Other Services	Fixed/Floating	Senior secured/ Subordinated	First/Second Lien	United States	USD
Flora Food Group	1.79%	Bonds	Packaged Foods & Meats	Fixed	Senior Unsecured	First Lien	United Kingdom	USD
Total	20.12%							

This investment update and the statistics surrounding the top 10 holdings in the KKR Credit Income Fund is provided solely for informational purposes. The information contained herein is only as current as of the date indicated and may be superseded by subsequent market events or for other reasons. For more information, please refer to www.kkcaustralia.com.au

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Portfolio Case Study

Life Time Fitness



Company Overview

- Life Time Fitness Inc. (“Life Time Fitness” or the “Company”) designs, builds and operates suburban large premium family recreation clubs complete with cafes, spas and child centers
- The Company was taken private in 2015 by Leonard Green (“LGP”) and TPG, together with LNK Partners and CEO Bahram Akradiat ~\$4.2bn transaction value (implied TEV/LTM EBITDA of 10.5x) pre-sale leaseback
- Since the LBO, the Company has pursued an aggressive footprint build out strategy largely funded by sale-leaseback transactions which has been extremely successful up until the COVID-19 pandemic in 2020
- In the last few quarters prior to the pandemic, LGP and TPG were in the process of exiting their investment by bringing in new long-term oriented strategic partners: MSD Capital, Quadrant Capital, Simon, and LNK Partners each have ~5% equity while LGP has 36%, TPG has 24%, CEO has 7%, and the balance consists of options and others

Investment Thesis

- KKR’s investment thesis centered around the following attributes:
 - **Life Time Fitness is the premium category leader in the fitness sector**
 - **Hard asset value:** Unlike peers, Life Time Fitness owns ~63 facilities. The estimated real estate value is ~\$2.2B
 - **Multiple liquidity levers:** The Company has a comfortable liquidity position at ~\$538M. We estimate they could raise incremental proceeds through SLB transactions. Additionally, the sponsor group has demonstrated its continued support of the business
 - **Long-term EV unimpaired:** We believe that Life Time Fitness will benefit from industry tailwinds including an increasing awareness of health and wellness and increasing penetration of gym membership. We believe that the premium end of the gym space is stickier, and less economically sensitive. We also believe that Life Time will gain market share as many mid-tier players have filed for bankruptcy, accelerating the mid-tier squeeze we have witnessed pre-Covid

Transaction Timeline

- KKR Credit has invested across secured and unsecured tranches since the initial LBO transaction in 2015. We are familiar with the issuer and sector
- Life Time Fitness closed all facilities in March/April due to state-mandated shelter in place orders. The company meaningfully scaled back costs by furloughing the majority of facility-level staff and postponing capex investment to preserve liquidity. The sponsors have proven to be supportive of the business, converting a super-senior loan placed at the peak of facility closures and have since converted it to equity
- KKR Leveraged Credit took advantage of market volatility to scale our positions in the 1L TLB and 5.750% 01/2026 144A at trough levels in March/April 2020 and as security prices recovered to par levels near the end of the year
- Life Time Fitness refinanced its entire capital structure in January 2021, raising a new 1L note, 1L TL, and unsecured bonds. KKR invested in the secured tranches of the Company’s new capital structure and continues to hold a sizeable position

Note: The specific investment identified is not representative of all of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that the investment in the company identified was or will be profitable. There is no guarantee that the strategy will hold any or all of the securities identified. Our investment thesis is subject to change. In instances where our view on the issuer changes, the KKC portfolio may adjust its positioning. Please refer to "Important Information" at the end of this report for further information on KKR’s inside information barrier policies and procedures. Please note that all third party trademarks included in this report are registered trademarks of the company represented by such trademark and such companies have no affiliation with KKR except as indicated. For illustrative purposes only. For more information, please refer to www.kkcaustralia.com.au

KKR Credit Income Fund (ASX:KKC)

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KKC Overview

The Trust aims to provide investors with attractive, risk-adjusted returns and access to a diversified portfolio of income generating alternative credit investments through the Trust's investment across strategies managed by the credit investment teams of Kohlberg Kravis Roberts & Co. L.P. ("KKR").

These strategies comprise the Global Opportunistic Credit strategy and European Direct Lending strategy, which seek to take advantage of the attractive opportunities that KKR sees in the market. The Trust's investment objective is to provide an income stream as well as to achieve attractive long-term capital appreciation over a full market cycle.

The Trust seeks to deliver investors with a distribution yield of 4% - 6% per annum⁽²⁾, paid monthly in arrears. KKC has announced that for the financial year ended June 2023, KKC is targeting a distribution of +5.25% based on the issue NTA per unit of A\$2.50⁽²⁾ (13.125c per year). The Trust continues to target a medium-term average total return of 6% - 8% per annum⁽⁵⁾.

The Trust is appropriate for investors seeking income distribution to be used as a satellite allocation within a portfolio where the investor has a 5+ year investment timeframe and a medium to high risk/return profile. Investors should refer to the Target Market Determination ([TMD](#)) document for further information.

KKR Overview

Established in 1976, KKR is a global investment firm with industry-leading investment experience, a pioneering attitude to ESG management and a strong culture committed to teamwork.

As of 31 March 2023, KKR had A\$761.0 billion of assets under management, of which A\$294.1 billion sits within KKR Credit.⁽⁶⁾

KKR has a global presence with offices in 23 cities across 4 continents, including Sydney, Australia. KKR employs approximately 190 investment professionals in the Credit business.

KKC represents the largest pool of capital for KKR's Australian business and KKR now has two permanent members of its Client Partner Group based in Sydney. The Client Partner Group is responsible for client and market engagement across KKR's breadth of funds and strategies

KEY TRUST INFORMATION AS AT 30 June 2023

Trust Name	KKR Credit Income Fund (ARSN 634 082 107)
ASX Code	KKC
ASX Listing	21 November 2019
Market Capitalisation	619,265,052
Units On Issue	322,533,881
Investment Manager	KKR Australia Investment Management Pty Ltd (ABN 42 146 164 454)
Responsible Entity	The Trust Company (RE Services) Limited (ABN 45 003 278 831)
Management Fee	0.88% per annum of the NTA, plus net GST of 0.022% per annum of the NTA ⁽⁷⁾
Performance Fee	Up to 5.125% of the net annualised return (inclusive of net GST, less RTIC), multiplied by the 'Adjusted NAV' with a hurdle of RBA cash rate plus 4.00% and subject to a high water mark ⁽⁷⁾
Asset Class	Fixed Income, AUD Hedged

CONTACT INFORMATION

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RESEARCH

BondAdviser

Independent
Investment Research

Zenith
Investment Partners

For more information, please refer to www.kkcaustralia.com.au

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Footnotes

- (1) Distribution % calculated as the distribution per unit divided by the closing NTA of the previous month. The multi period calculations sum the dividend yields received and does not compound them.
- (2) Net of fees and expenses incurred by the Trust, but before tax. The target distribution is only a target and may not be achieved. All investments are subject to risk which means you may lose all or a portion of the amount you invest or you may otherwise achieve distributions and returns that are lower than any target distribution or target return. Before making an investment decision, it is important to understand the risks that can affect the value of your investment. Investors should read the risks described in Section 8 of the PDS.
- (3) Represents KKR estimates of the yields of the portfolio's underlying assets, excluding cash, as of 30 June 2023.
- (4) Source: KKR as of 30 June 2023. Credit ratings are statements of opinion of a relevant credit agency about the likelihood of a borrower to meet its interest and principal payment and repayment obligations when they fall due. Credit ratings are not statements of fact or recommendations to purchase, hold or sell securities. Credit ratings do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied upon as investment advice.
- (5) Target medium-term average total return net of fees and expenses incurred by the Trust, before tax. The distribution yield over a given period may be lower than the total return in this period to the extent that the total return includes unrealised gains. Investors should review the Risk summary set out in Section 1 and Section 8 of the PDS for important information regarding Target Total Returns and the Trust's ability to achieve them. Past performance is not indicative of future results.
- (6) The KKR Credit group is comprised of KKR Credit Advisors (US) LLC, KKR Alternative Investment Management and KKR Credit Advisors (EMEA) LLP. AUM is updated quarterly in line with KKR's public filings.
- (7) This is a summary only – see section 9 of the PDS for more detail.

IMPORTANT INFORMATION

GENERAL

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 ("KKR" or "The Manager"), and authorized for release and issued by The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235150 ("TTCRESL"). TTCRESL is the responsible entity and issuer of the KKR Credit Income Fund ARSN 634 082 107 ("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. Any term not defined in the document has the same meaning as defined in the PDS.

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 corporate bodies, 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 Document

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.

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