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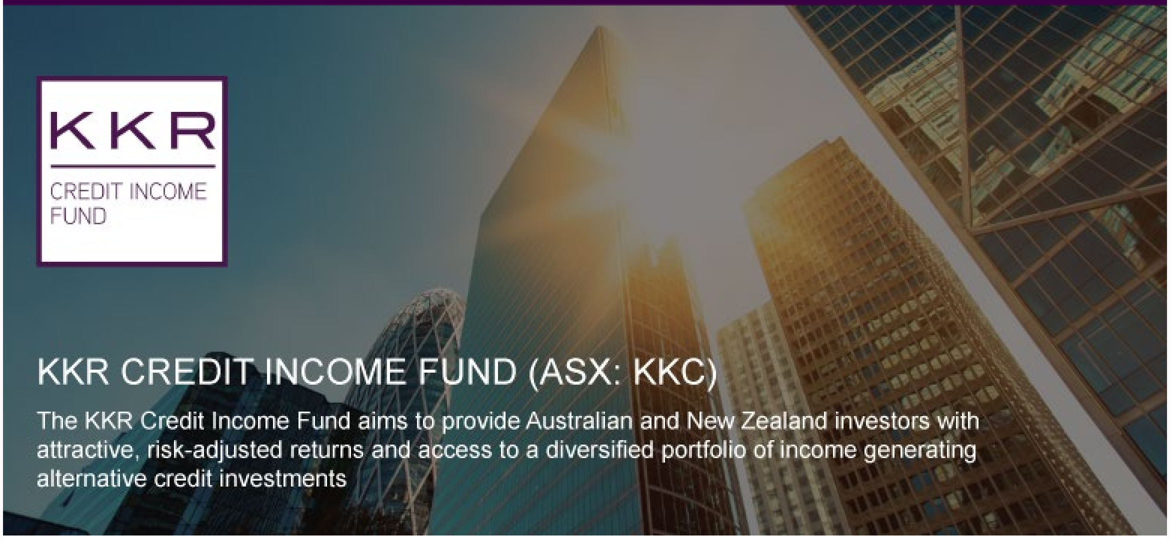

KKC Investment Update

17 June 2020

In this update, the Manager discusses two of the asset classes in which KKC is invested indirectly through the Global Credit Opportunities Fund ("GCOF") – Syndicated Bank Loans ("Bank Loans") and High Yield Bonds ("HYBs") [1].

As described last week, KKC is currently 100% invested into GCOF. As of 31 May 2020, 44.0% of the underlying assets in GCOF were Bank Loans, 48.8% were HYBs, with the remaining 7.2% invested in other assets.

What is a Bank Loan?

A syndicated loan is a debt instrument provided to a company by a group of lenders. Initially, Bank Loans are typically structured, arranged and administered by investment banks, known as arrangers. The Loan is then sold (or syndicated) to institutional investors (such as GCOF) or other banks. Bank Loans are generally senior secured credits, meaning that the borrower puts up some asset(s) as security or collateral for the loan.

How is a Bank Loan different from a private loan the European Direct Lending Fund invests in?

There are several key differences between Bank Loans and private loans:

- Size: Direct lending, or private loan deals, tend to be much smaller than a Bank Loan. A typical direct lending borrower may have earnings before interest, depreciation and amortisation (EBITDA) of ~AUD$72m whereas borrowers that can access the syndicated Bank Loan market are much larger (generally these borrowers have EBITDA of more than AUD$217m) [2].
- Ratings: Syndicated loans and bonds will have a rating from one or more of the credit rating agencies whereas direct lending deals, which are generally negotiated bilaterally, do not have a rating.
- Size of lender group: Syndicated deals may have upwards of 50 lenders whereas direct lending deals may only have one to five lenders.

What is a High Yield Bond?

HYBs are debt securities issued by companies with below investment grade ratings, i.e. lower than BBB- / Baa3 [3]. Similar to Bank Loans, HYBs begin with investment banks drafting the offering proposal and negotiating conditions with potential investors. Once the terms are finalised, the securities are allocated to bondholders. HYBs are generally unsecured obligations of the issuing entity, meaning lenders rely on the borrower's creditworthiness and promise to repay, rather than an underlying pool of collateral.

What are Bank Loans and HYBs used for?

Companies issue Bank Loans and HYBs for four main reasons:

1. to support M&A-related transactions;
2. to recapitalise a company's balance sheet;
3. to refinance debt; or
4. for general corporate purposes or project finance.

Bank Loans and HYBs are often used to part-fund leveraged buy-outs ("LBOs") of companies by private equity firms (or "PE Sponsors"). Typically, the total capital requirement for an LBO will consist of the following:

- 50%-65% Bank Loans
- 5%-10% HYBs
- 25%-45% Equity

What are the key differences between Bank Loans and HYBs?

While Bank Loans and HYBs are often used for similar purposes, there are some key differences including:

- Interest rates: HYBs have a fixed interest rate, meaning the rate (known as a coupon) remains constant over the life of the asset. Bank Loan interest rates are floating. This means that the rate rises and falls in line with a reference rate and consists of:
    a. a reference rate such as 3-month USD LIBOR, which is a measure of the rate banks charge to lend to each other. For example, if the Federal Reserve reduces interest rates, LIBOR will generally fall and the loan will pay less interest. Often Bank Loans include a minimum floor to the reference rate, limiting the rate from going negative; and
    b. a spread, which is a rate charged on top of the reference rate and is agreed during the syndication process described earlier. If the spread is 4.00%, then the loan pays 400bps over LIBOR, or "L+400bps".
- Seniority: Bank Loans are typically senior to HYBs in the capital stack. Hence, Bank Loan lenders would be paid back before HYB lenders in the event of insolvency.
- Call protection: This limits the ability of the company to redeem the debt before maturity. This is common for HYBs and typically runs for half the term of the bond. Bank Loans do not typically include call protection, which can make this a more attractive source of financing for PE Sponsors who may wish to have the option to sell the business and repay the loan early.

Can Bank Loans and HYBs be sold after initial allocation?

Yes, both Bank Loans and HYBs can be traded after the initial allocation in the secondary market. There are established markets for both Bank Loans and HYBs, where trading desks, such as the GCOF trading team, can buy/sell assets. The prices available for these assets are available on platforms such as Bloomberg and other mark-to-market service providers. Given these assets can be bought/sold on a regular basis, this is often referred to as "Traded Credit" or "Liquid Credit".

What are the risks associated with Bank Loans?

Bank Loans may be secured, partially secured or unsecured and may have speculative characteristics. Changes in interest rates generally will cause the value of debt investments to vary inversely to such changes. Debt investments with longer terms to maturity or duration are subject to greater volatility than investments in shorter-term obligations. The obligor of a debt security or instrument may not be able or willing to pay interest or to repay principal when due in accordance with the terms of the associated agreement. Refer to section 8 of the KKC PDS for further details.

What are the risks associated with HYBs?

In most cases, HYBs will be rated “below investment grade”. Borrowers of this type are considered to be at greater risk of not making their interest payments or principal repayments. The market for high yield securities has previously experienced and may in the future experience periods of volatility and reduced liquidity, which may be exacerbated by a general economic recession. Refer to section 8 of the KKC PDS for further details.

The Manager looks forward to keeping KKC unitholders updated on KKC’s underlying portfolio positioning.

To read previous KKC Investment Updates please visit the KKC Australia website [HERE](#)

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[1] 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.
[2] Figures converted from U.S. dollars based on an exchange rate of 1 USD to 1.44 AUD at 16 May 2020.
[3] 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.

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

This information has been prepared by KKR Australia Investment Management Pty Ltd ABN 42 146 164 454, AFSL 420 085 (the “Manager” or “KKR”) and issued by Seed Partnerships Pty Ltd ABN 32 606 230 639 AFSL 492973 on behalf of the Manager and The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235150 (the “Responsible Entity” or “TTCRESL”). TTCRESL is the responsible entity and issuer of units in the KKR Credit Income Fund ARSN 634 082 107 (“KKC” or the “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.

Before making any investment decisions you should consider the Product Disclosure Statement (PDS) 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 bodies corporate, 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 update

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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