

## KKC Investment Update

31 July 2024

Dear KKC Investor,

In this month's Manager Insights, KKR provides our mid-year credit market review as well as the latest thoughts from KKR's Global Macro team. You can read a summary of both below or click the respective link to view the full report or video.

**Mid-Year Credit Market Review:** 4 key takeaways on how investors can explore opportunities within this complex market. Full report here: [Credit Market Review: Run Credit, Run!](#)

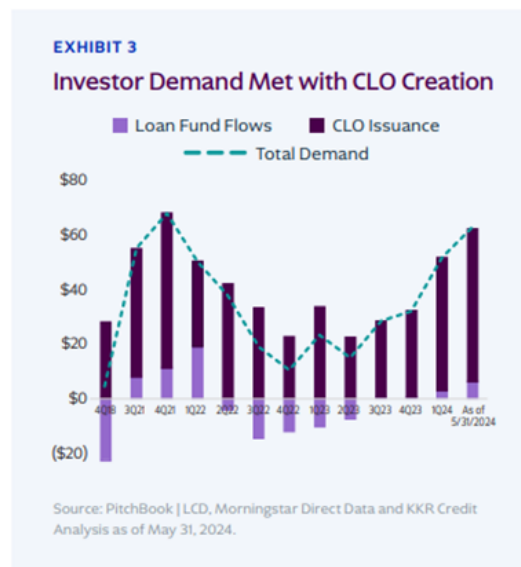
**KKR Global Macro & Asset Allocation:** the team recently sat down to discuss why they believe the current cycle has further to run and their latest thinking on portfolio construction heading into the second half of the year. Watch the recording [here](#).

### Mid-year Credit Market Review from Chris Sheldon

#### 1. Assessing the 'new normal' – Rates, economic data and portfolio allocations

- The concept of "normalcy" in financial markets is widely debated, particularly in the context of low or negative interest rates. KKR says the past 12+ years have shown the need to reevaluate what constitutes normal market conditions.

- The first half of 2024 saw strong performance in global credit markets, with significant inflows into loan and bond markets, as well as a resurgence in CLO (Collateralised Loan Obligation) issuance. This led to tighter spreads and improved investor sentiment, driven by increased demand and record issuance levels, despite net issuance being negative for the first time in CLO 2.0 history (as seen in Exhibit 3).



- The Federal Open Market Committee meeting on June 12th left interest rates unchanged at a two-decade high, aiming to reduce inflation to a sustainable 2%. Although some progress has been made, inflation remains elevated. The KKR house view on a go-forward basis suggests rates are likely to settle at higher nominal levels than markets were “used to” prior to the pandemic.

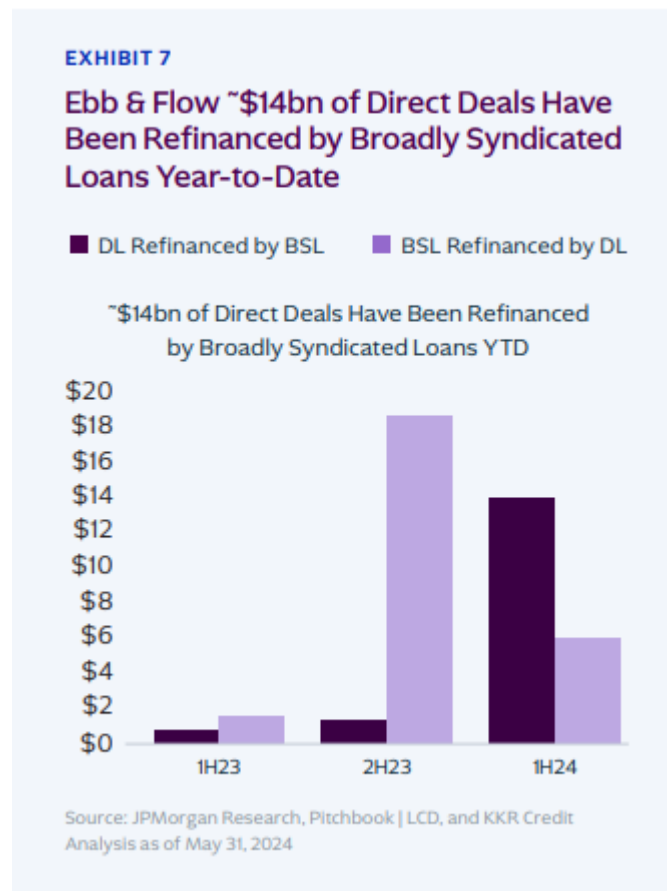
## 2. What relationship are we seeing between global credit and the market?

- The structural shift in global credit provision has led to collaborations between traditionally separate market segments, such as asset managers and banks, enhancing diversification of risk and capital providers. This shift, accelerated by the post-GFC changes and last year’s regional banking crisis, has created significant opportunities for private non-bank lenders and expanded access to diversified credit portfolios for investors.
- The interplay between public and private credit markets has evolved, with public credit experiencing a resurgence in 2024. M&A activity has increased, and the syndicated loan market has rebounded, with private equity dry powder and capital markets activities supporting this growth. The complementary dynamics between public and private credit have strengthened the market, providing diverse and high-quality investment opportunities.

## 3. How creativity is proving to be the winner in this market

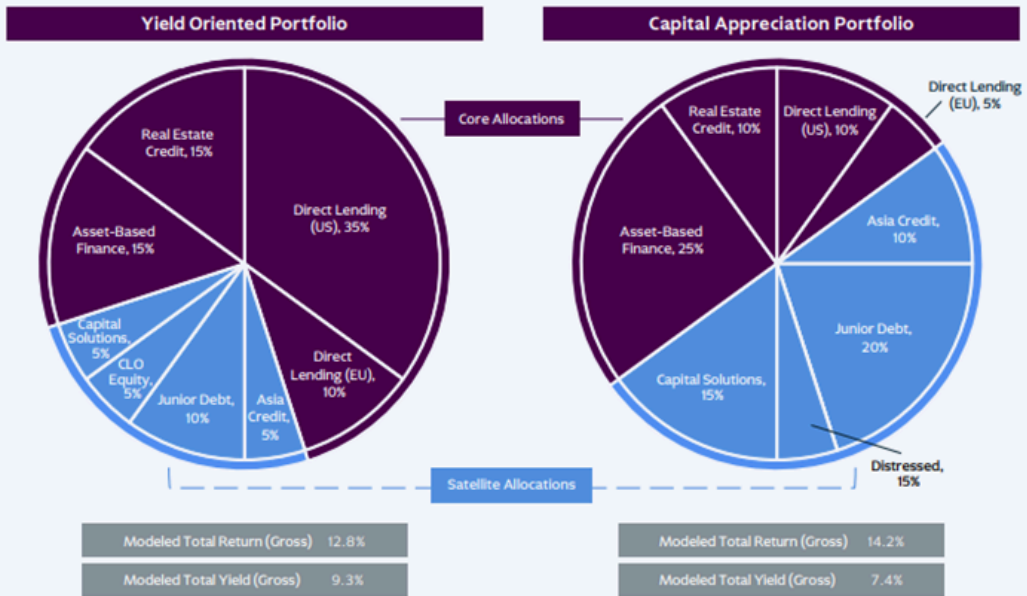
- The evolving global credit market has fostered the need for creative and opportunistic capital solutions. This shift has allowed for more agile and tailored financing structures, illustrated by the LBO financing of Cotiviti which utilised both direct and syndicated routes.
- Technical constraints in both public and private credit markets can limit flexibility and opportunities. However, platforms with a broad range of capabilities and aligned incentives, like KKR, can dynamically create multi-asset portfolios, offering significant advantages in an evolving market.
- The departure from zero interest-rate policy (ZIRP) and the high demand for structured, partnership-oriented capital have increased interest in hybrid financings,

such as preferred equity investments or HoldCo financings. This trend is driven by the need to bridge valuation gaps, optimise capital structures, and provide strategic growth without ceding control.



#### 4. Simplicity is the Key to Success

- Volatile markets require a dynamic, multi-asset approach, reflecting the importance of nimble portfolio management and opportunistic asset allocation to navigate market fluctuations effectively.
- Institutional investors are increasingly prioritising 'all-weather portfolios' that leverage both public and private credit allocations to build resilience and capture opportunities in a fast-moving market, supported by comprehensive risk management and active portfolio oversight (as seen in Exhibit 15).

**EXHIBIT 15****Indicative Multi-Asset Private Credit Portfolio**

**For Discussion Purposes Only.** The data presented herein is based upon the assumptions detailed on Footnotes page. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used have been stated or fully considered. Actual performance may differ substantially from the model performance presented. Changes in the assumptions may have a material impact on the model returns presented. The data presented above is based on information obtained from sources believed by KKR to be reliable; however, KKR does not guarantee or give any warranty as to the accuracy, adequacy, timeliness or completeness of such information. Source: KKR Global Macro & Asset Allocation (GMAA) analysis, Q1 2024. Please see Footnotes page for further information regarding Target or Modeled Returns. Target allocations are subject to change, and there is no assurance that the target allocations will be achieved. Actual allocations may be significantly different than those shown here.

### KKR Global Macro & Asset Allocation: 2024 Mid-Year Outlook

#### Why our Global Macro & Asset Allocation Team believes the current macroeconomic cycle has further to go and how can we leverage it?

Despite political uncertainty, geopolitical tensions, and volatile commodity prices, KKR sees compelling investment opportunities driven by accelerating AI demand, reoriented global supply chains and improving labor productivity.

Encouragingly, net issuance of equities and credit remains below trend. KKR's Regime Change thesis necessitates a different portfolio management approach, emphasizing non-traditional assets.

KKR is finding private equity, real assets like real estate credit, infrastructure, and asset-based finance, and opportunistic credit and capital solutions particularly attractive.

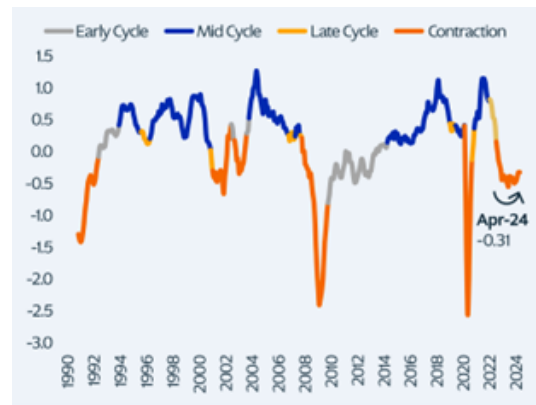
Higher rates pose a risk, especially if productivity declines, but KKR remains optimistic about the economic cycle's potential, benefiting long-term investors prepared for periodic market dislocations.

Listen to the full webinar [here](#).

## After Two Years of Being in Late Cycle and Contraction, Proprietary KKR Cycle Indicator Is About to Move Into Its Early Cycle Phase

KKR Cycle Indicator (1990-Present, Z-Score)

Data as at April 30, 2024. Source: Bloomberg, KKR Global  
Macro & Asset Allocation analysis



### 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

<b>46</b>	<b>US\$578</b>	<b>US\$232</b>	<b>~690</b>	<b>US\$25</b>
years of experience	billion total assets under management <sup>1</sup>	billion credit assets under management	KKR Investment Professionals	billion invested alongside our clients <sup>2</sup>

(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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### General

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### Information in this update

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