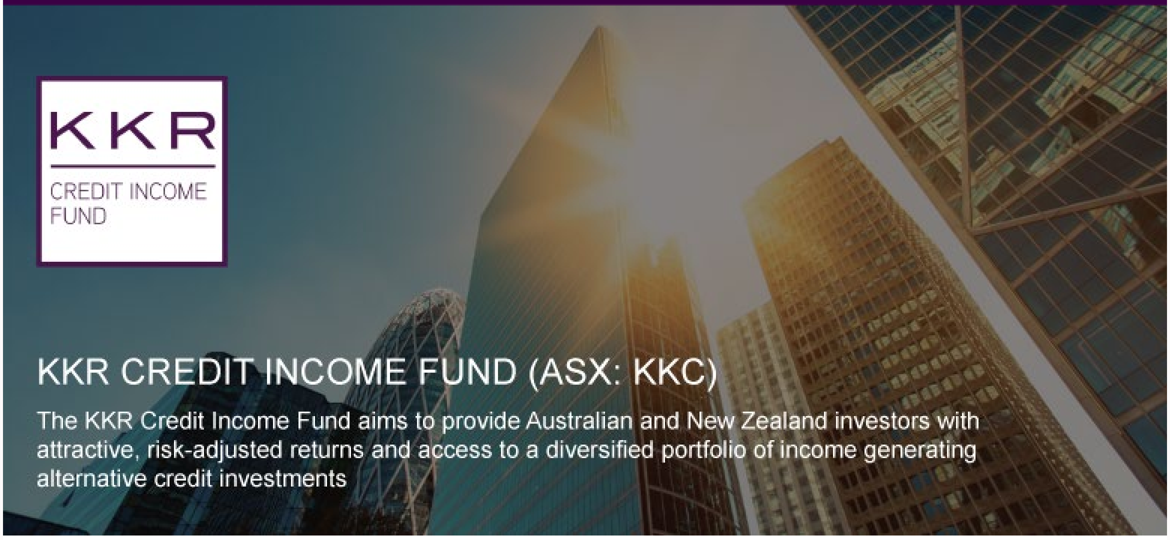

KKC Investment Update

5 August 2020

Given the upheaval seen in the global credit markets in the past months stemming from the impacts of COVID-19, we wanted to share some insights from the second instalment of KKR Leveraged Credit Team's ("KKR Credit") quarterly "V for Volatility" series.

The latest in-depth report, **The Twilight Zone**, is co-authored by KKR's Head of Leveraged Credit Chris Sheldon and touches on subjects related to KKC's underlying investments.

In the last quarter, the world was reacting in real time to the events COVID-19 had catalysed in the market. Today, many unknowns remain despite having more insight on COVID-19 itself, and we believe there will be market uncertainty lurking close by as a result of a second potential wave of infections, federal aid in the US slowly rolling off and liquidity runways shortening for businesses.

Our key insights from the report include:

- **Know the Business:** COVID-19 has greatly influenced consumer behaviours and has forced a shift in business models for many impacted sectors. As a result, it is incumbent upon investors to truly understand the health of a borrower's balance sheet, liquidity forecast and potential revenue impacts.
- **Don't fight the Fed:** The strong market technical created from the Fed's[1] buying programme has provided attractive momentum for fixed rate products relative to leveraged loans. As a reminder, the Manager has been shifting KKC's focus (through its investment in the Global Credit Opportunities Fund) to increase its exposure to high yield bonds compared to loans over the past few months (50%/50% bonds to loans as at 30 June 2020 vs. 44%/56% bonds to loans as at 31 March 2020)[2].
- **Growth of CCC portion of the market [3]:** The growth of CCC-rated assets has almost doubled to accommodate ~10.7% of the US bank loan market [4]. This creates an interesting dynamic in the loan market as many buyers of loans are capped at holding 7.5% of their portfolios in CCC-rated assets. Where there are forced sellers of assets, opportunities to buy can exist for flexible mandates.
- **On the road again**: Given the Fed's intervention and no end in sight for low rates, the market is expected to continue to follow the Fed's path and corporate bonds and high yield bonds offer attractive risk adjusted returns. The report notes that KKR Credit will continue to pursue investing in simplicity over complexity and be on the lookout for compelling idiosyncratic opportunities in bank loans, bonds, and structured products.

We welcome you to read the full report '*The Twilight Zone*' **here**.

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[1] The "Fed" refers to the US Federal Reserve, the central bank of the United States.

[2] Refer to KKC Monthly Investor Update as of 31 March 2020 (released to the ASX on 16 April 2020) and 30 June 2020 (released to the ASX on 17 July 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.

[4] S&P LCD as at 30 June 2020. S&P LCD has not consented to the inclusion of this statement in this update

About KKR

+44 years of experience

US$221 billion total assets under management[1]

US$72 billion credit assets under management

+475 KKR Investment Professionals

US$20.9 billion invested alongside our clients[2]

Figures as of 30 June, 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.

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