KKR

CREDIT INCOME FUND

KKC Investment Update

11 November 2024

Dear KKC Investor,

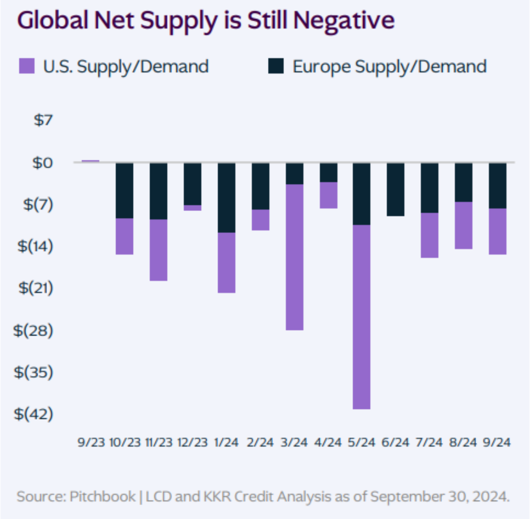
In this month's Manager Insights, KKR Partner Chris Sheldon provides his Review of Credit and Markets which draws parallels between Aesop's fable "The Tortoise and the Hare" and investment strategies, emphasising the importance of persistence, consistency, and long-term planning over chasing quick wins.

You can read our summary below or the full paper here: **October Credit & Markets Review - Hares, Beware: Future-Proofing Credit.**

Last quarter, we advised to keep things simple, as investors were being compensated for patience and prudence. That advice still holds but as spreads continue to compress and the economy shows clearer signs of slowing, we will explore what it truly means to keep things simple and the various ways to reflect that approach in your portfolio.

Credit market performance has been positive year to date, U.S. loans returning +6.54% and high yield bonds +8.03%. CLO issuance has also been robust, with $142 billion in U.S. CLO issuance year-to-date with retail investor participation growing, adding a new layer of demand.

The Federal Reserve's highly anticipated September meeting resulted in a 50-basis-point rate cut, potentially paving the way for a boost in M&A activity. For the first time in nearly two years, refinancings took a back seat to buyouts, acquisitions, and recapitalisations. However, as seen in the exhibit to the right, there is still much more needed for M&A activity to boost supply issuance to meet the demand, and the market still faces challenges like high equity valuations and potential economic slowdowns.



What does it really mean to keep it simple?

Sticking to the core principles of credit, focusing on high-quality credit selection, avoiding the temptation to chase yield by taking on excessive risk, and staying agile and innovative as markets shift and evolve both in the short and long term. By grounding decisions in these fundamental pillars, investors can navigate complexity, uncertainty, and volatility effectively while also providing creative capital solutions amid shifts in the public capital markets. That is where there is opportunity to be scrappy and create your own issuance in growing market segments.

What is KKR's future outlook?

KKR anticipates a slight widening in long-term credit spreads, with a need for additional risk premium. However, if net issuance remains tight, we could envisage further spread tightening in the near term. KKR remains of the view, investors should continue to focus on absolute yield and credit's relative dependability. After all, prospective returns today are more attractive than they were for the ten years post-GFC. This is why staying invested is key — carefully managing risk and strategically leveraging carry over convexity when appropriate.

The punchline? Challenges will persist and it will be hard, from increased dispersion and tightening spreads to a slowing economy. But that is exactly why having a broad set of tools and a trusted and dedicated team with aligned incentives is critical to performing in this environment.

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

48	US$624	US$242	~700	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 30 September, 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.

Important Information

General

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