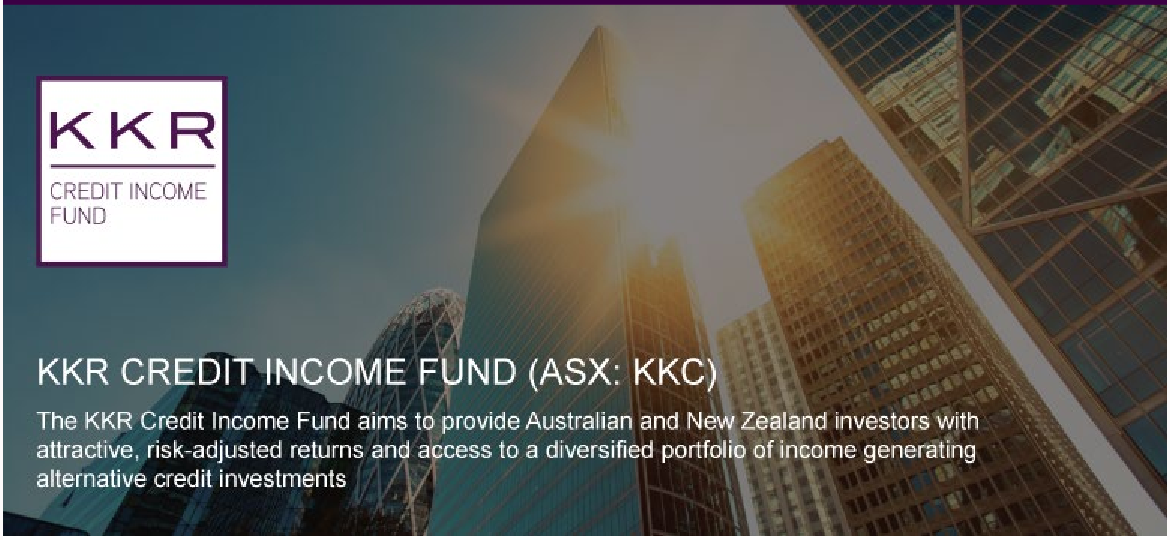

KKC Investment Update

20 May 2020

As lock-downs across the globe begin to relax and business activity resumes, KKR Credit believes CCC assets may be buoyed by confidence in the market and regain some of the lost ground relative to BB and B rated assets.

Looking at market performance Year to Date (“YTD”), KKR Credit has looked at how various components of the market have performed over three time periods:

- 1st - 30th April 2020;
- 23rd March - 30th April 2020; and
- 1st January - 30th April 2020

The table below shows the performance of the different rating groups [1] over these periods [2].

	Price (%)	1st to 30th April 2020 (Return)	23rd March to 30th April 2020 (Return)	1st January – 30th April 2020 (Return)
US High Yield - Overall	**89.09**	**3.80%**	**13.52%**	**-9.82%**
US High Yield - BB	95.81	4.78%	14.84%	-5.94%
US High Yield - B	91.01	3.31%	13.24%	-11.25%
US High Yield - CCC	62.89	0.54%	7.93%	-22.01%
US Loans - Overall	**86.91**	**4.50%**	**13.69%**	**-9.13%**
US Loans - BB	92.29	4.12%	17.34%	-7.20%
US Loans - B	87.42	4.99%	13.26%	-9.41%
US Loans - CCC	69.05	4.00%	2.60%	-19.76%

The returns shown are for the market's different rating groupings and exclude any hypothetical trading costs or bid/ask spreads. Source: Bloomberg as of 30 April 2020. Ratings as rated by one of the major Rating Agencies. Bloomberg has not consented to the inclusion of this chart in this update.

As can be seen, there has been a "*flight to quality*" in the market as buyer demand has been for the higher rated assets. This increased demand has pushed up prices of BB assets more than the other rating groups. This can be seen in the +14.84% and +17.34% increases for high yield bonds and loans respectively over the 23 March to 30 April time period.

The opposite end of the rating spectrum has seen the reverse. CCC rated assets have been slower to recover and returned just +7.93% and +2.60% for the same 23 March to 30 April time period. Since 1 January, CCC assets remain depressed and have returned -22.01% and -19.76% for high yield bonds and loans respectively.

In last week's Investment Update, KKR Credit explored potential reasons for this bifurcation, which it believes are two-fold: Investors have been quick to buy "high quality" (BBB and BB) assets they believed had traded down too far and secondly, some managers have been slow to buy CCC assets, potentially as a result of portfolio management style or portfolio limits. KKR Credit will continue to look for risk adjusted opportunities presented by this bifurcation.[3]

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

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[1] 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.

[2] For illustrative purposes only. The specific assets identified are not representative of all securities purchased or sold by KKC or the underlying funds, and it should not be assumed that the investment in the assets identified was or will be profitable.

[3] 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.

About KKR

44+ years of experience

US$207 billion total assets under management[1]

US$68 billion credit assets under management

470+ KKR Investment Professionals

US$19 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

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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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The Manager's privacy policy is available on the KKC website www.kkcaustralia.com.au or by contacting the Manager as follows:

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