

# KKR Credit Income Fund Advisor Update

31 March 2020



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# Introduction

**Kevin McMahon**

*Managing Director, Credit Strategies Team  
(Dublin)*



# KKR's View on the Macro Environment

**Frances Lim**

*Managing Director, Global Macro, Balance Sheet and Risk Team  
(New York)*



# Credit Markets, Portfolio Positioning and Investing during Volatile Times

**Jeremiah Lane**

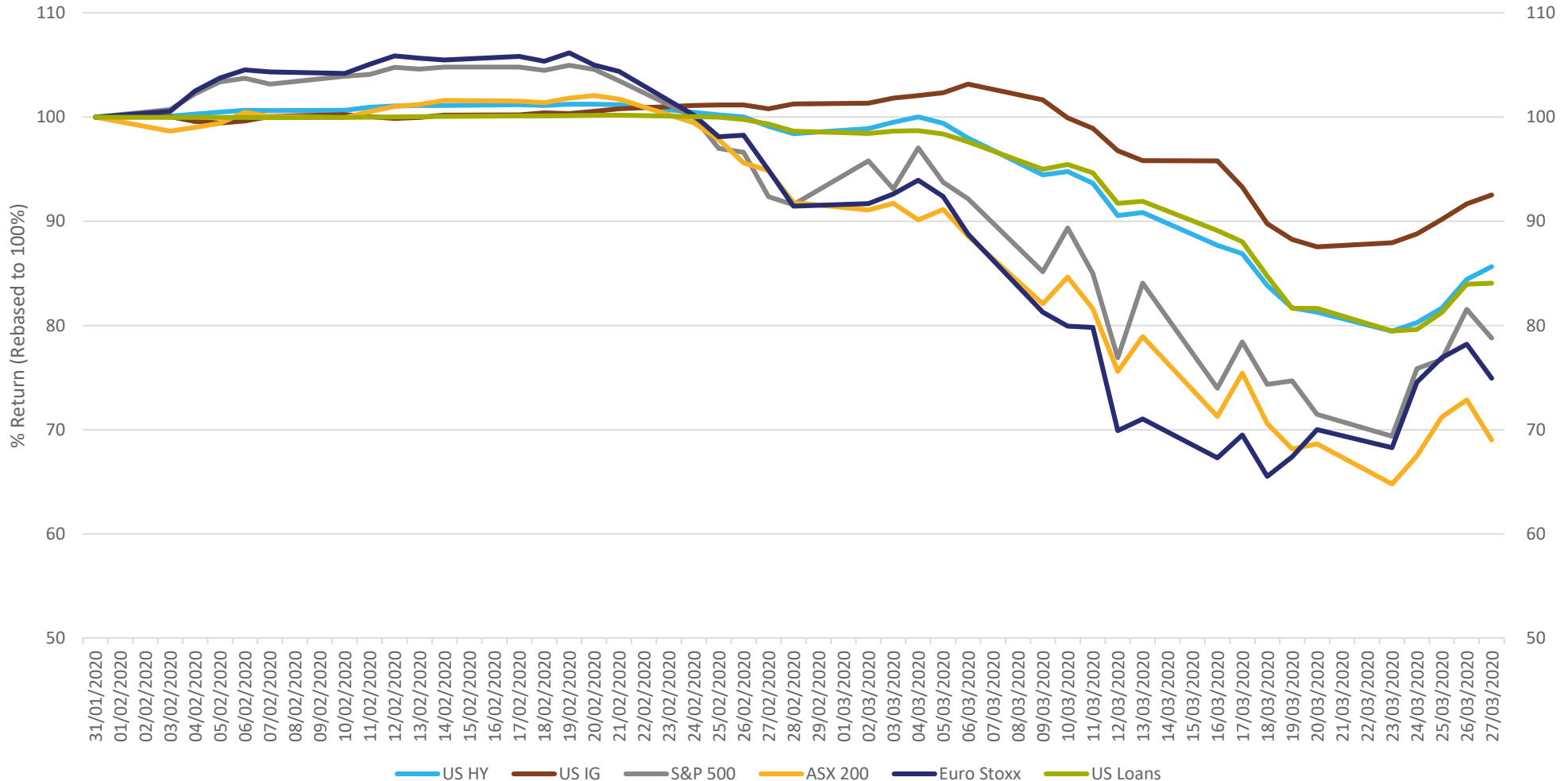
*Partner, Credit Investing Team  
(San Francisco)*



Why has the unit price of KKC dropped?

# All Markets Have Seen Tremendous Dislocation Over the Past 2 Months

Relative Performance of Major Indices (Rebased at 100%)

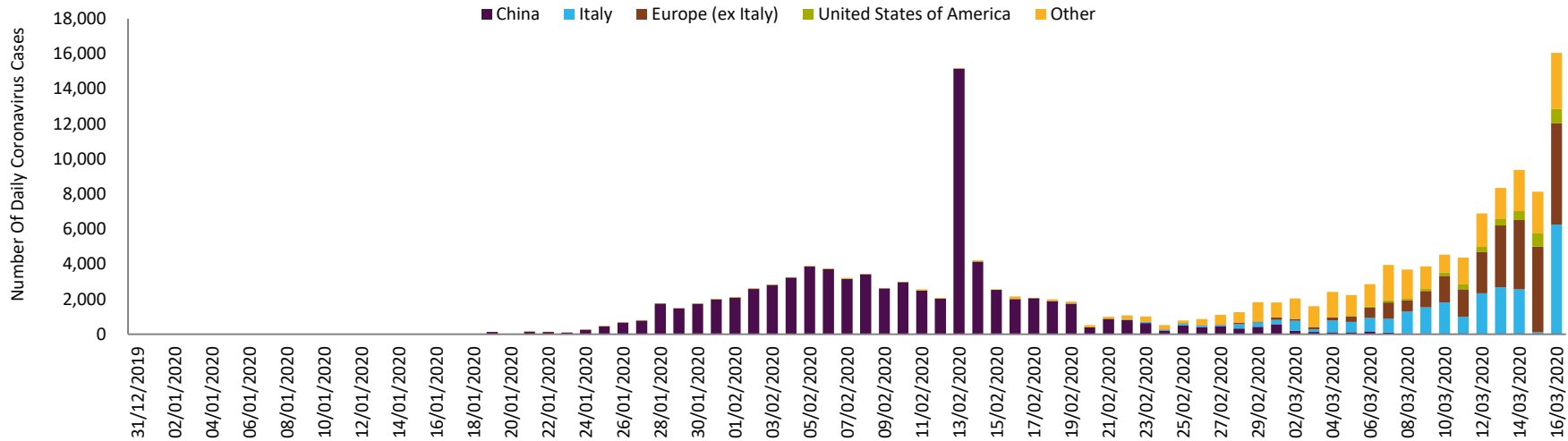


Why has KKR's NTA decreased?

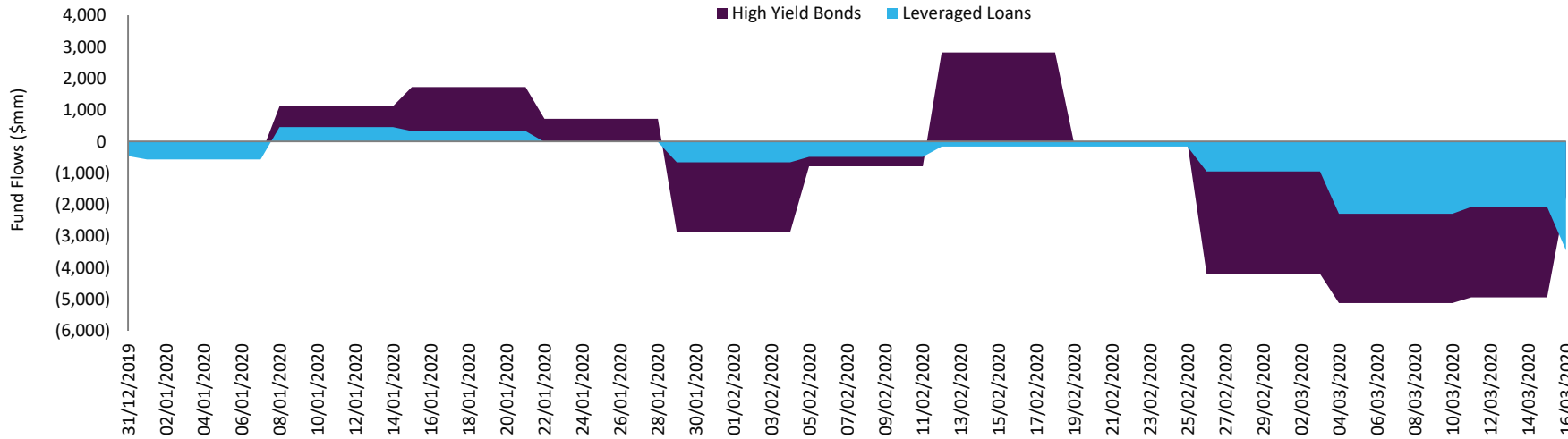


# Markets Are Responding Heavily To COVID-19

## As The Number Of Coronavirus Cases Continue To Rise...



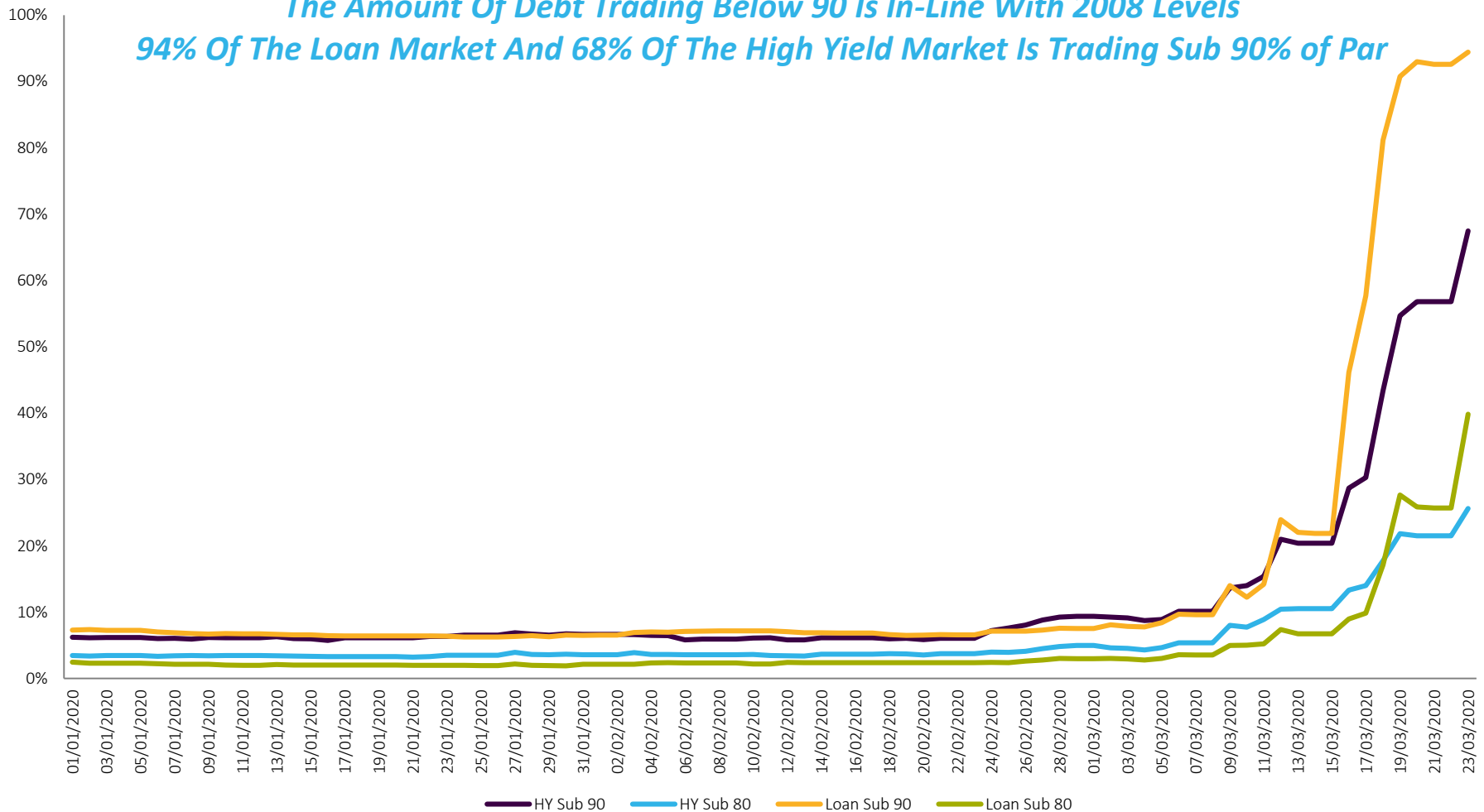
## ...Overall Market Fund Outflows Have Been Large and Consistent



# This is Pushing Down Prices of US Loans and Bonds

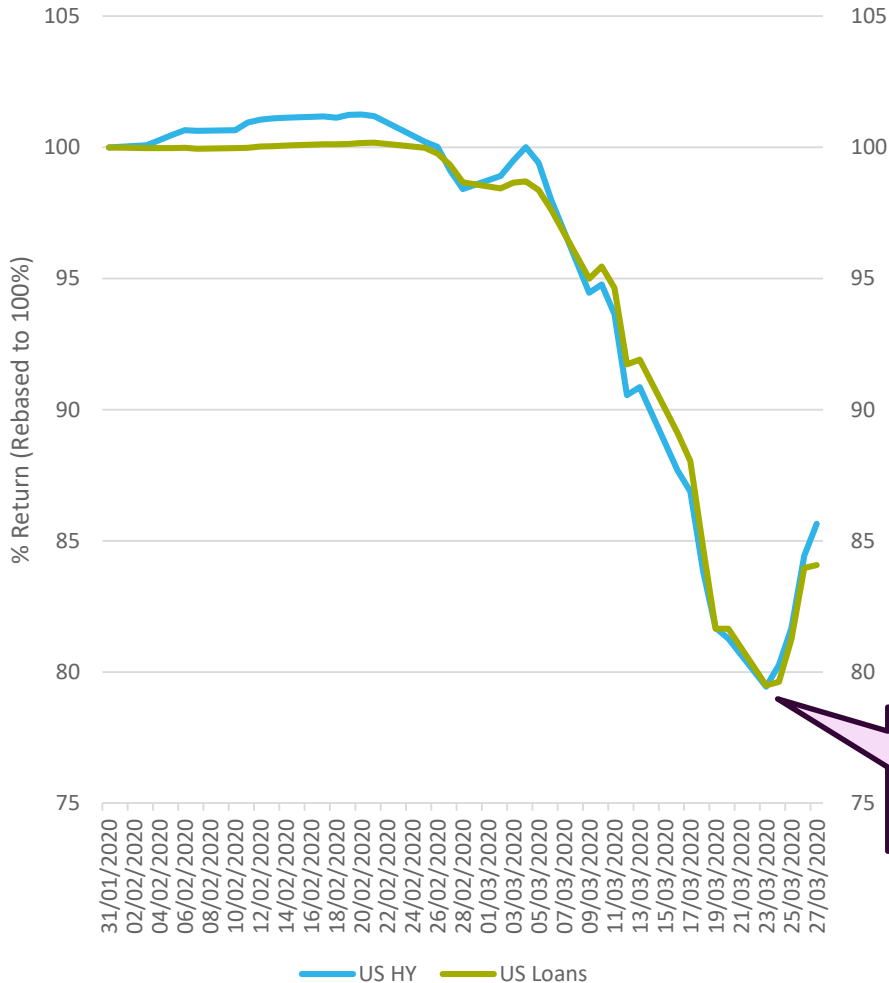
## Percentage Of Market Trading At Various Levels

*The Amount Of Debt Trading Below 90 Is In-Line With 2008 Levels  
94% Of The Loan Market And 68% Of The High Yield Market Is Trading Sub 90% of Par*

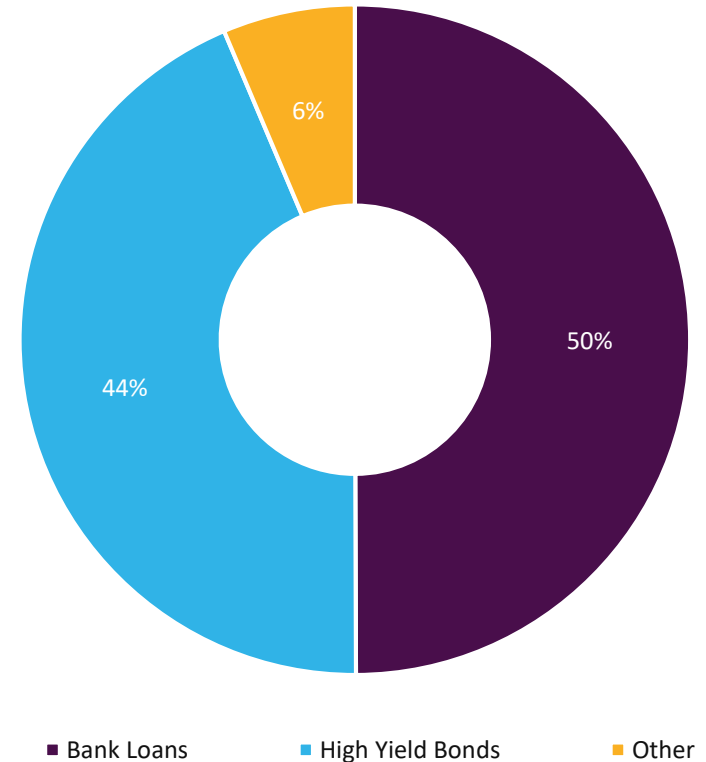


# Which is Resulting in Significant Negative Performance

**US Loans and High Yield Bonds are down ~15% since the end of February**

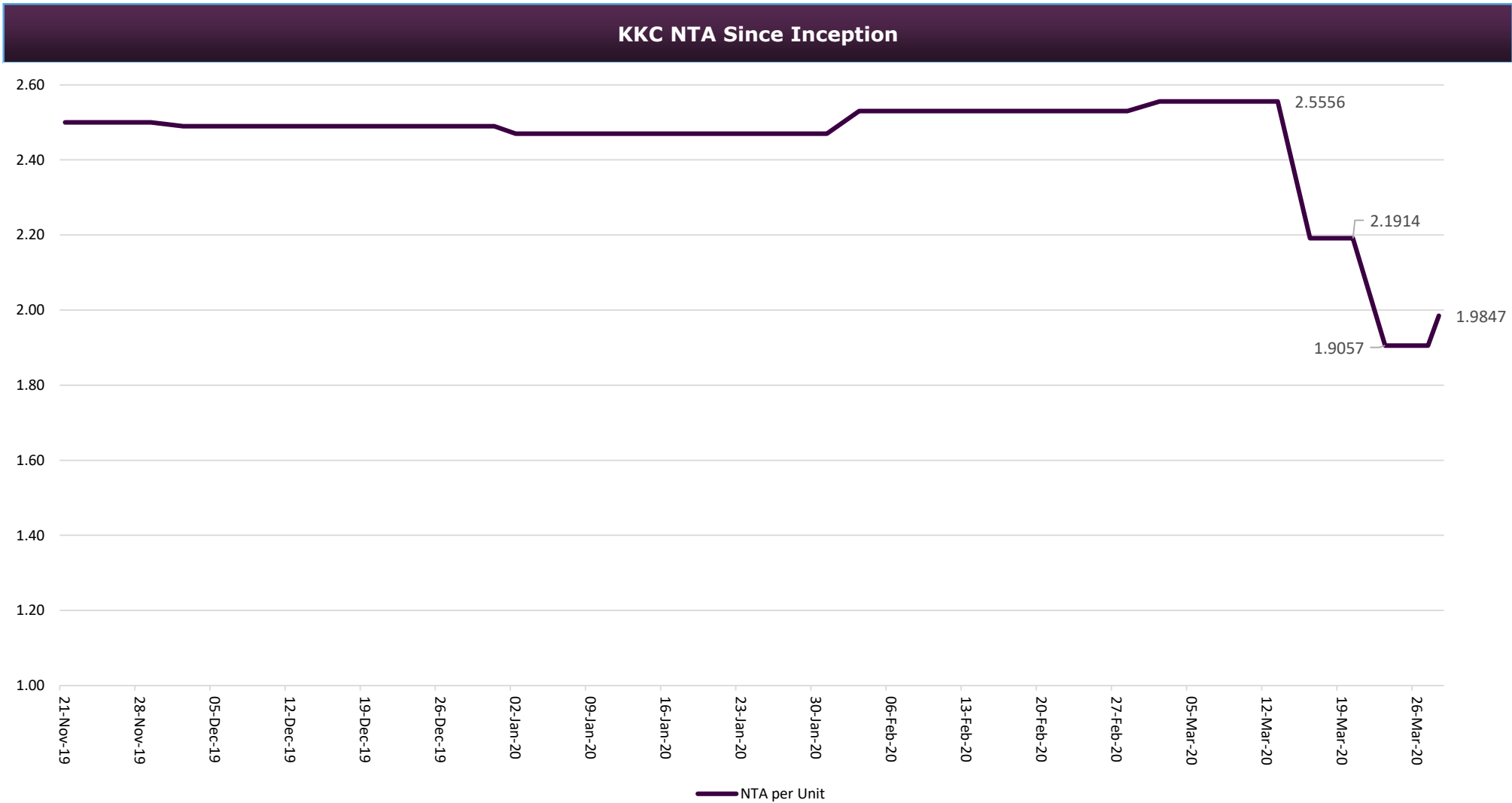


**And GCOF\* is Roughly Split 50/50 between Loans and Bonds**



Source: KKR as at 29 February 2020.

# This Negative Performance Impacts the NTA of KKC



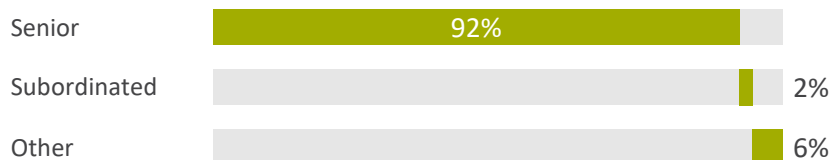
How is the Portfolio Positioned Now?

# KKC - Current Portfolio

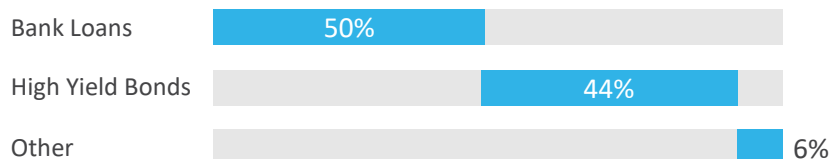
Diversified Portfolio of Income Generating Global Credit\*

**A\$126m**  
Committed, but not funded into European Direct Lending

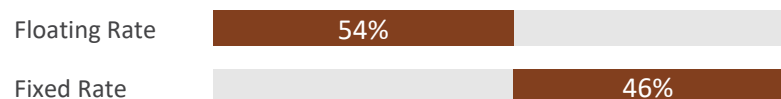
## Senior vs. Subordinated



## Asset Allocation



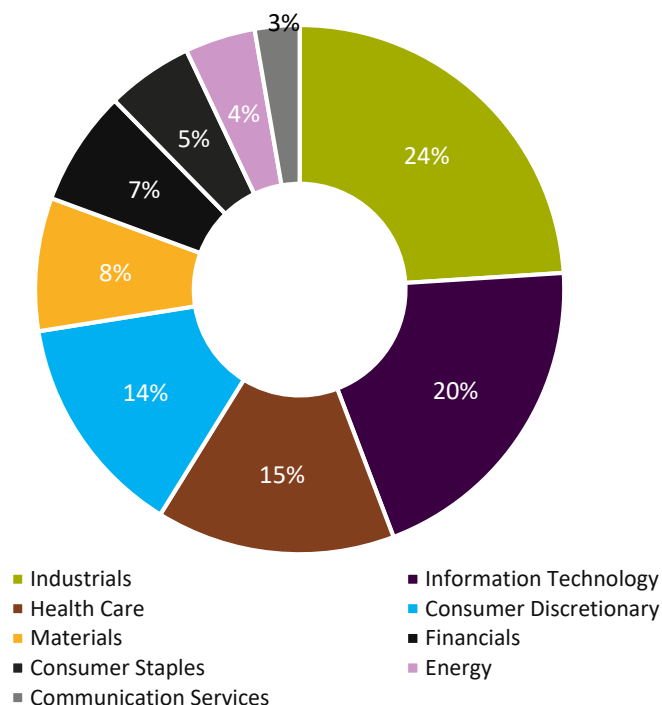
## Floating vs. Fixed Rate



## Geographic Split



SECTOR DIVERSIFICATION

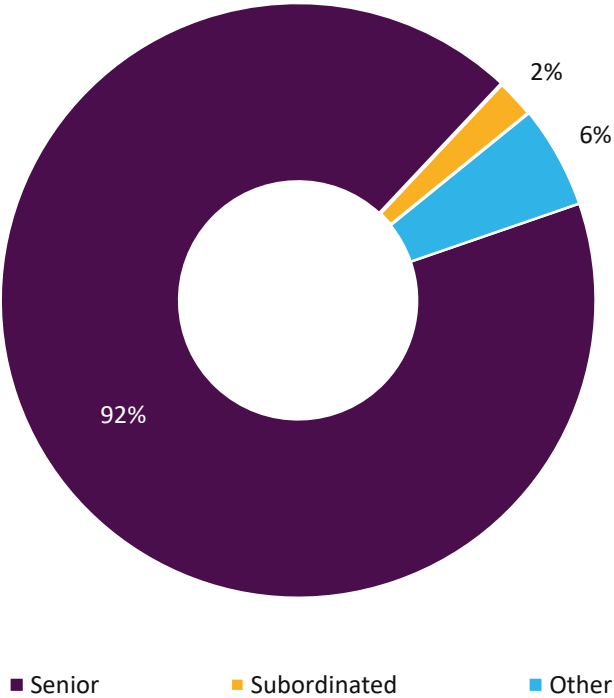


Note: For illustrative purposes only. Investments by the Fund are not limited to the types listed above. The specific investments identified are not representative of all of the investments in which the Fund will directly or indirectly have an interest. \*As European Direct Lending invests over the next 2-3 years, the portfolio will shift more towards a 50/50 split between Traded Credit and Private Credit, and a 50/50 split US/EMEA split. \*\*Based on look through to KKC's underlying funds. Represents GCOF assets as of 29 February 2020

Have there been any defaults in the portfolio resulting from the recent market dislocation, and how does KKR seek to mitigate default risk?

# KKR Seeks to Mitigate Risk by Choosing to be Top of the Capital Structure

## Seniority of Underlying Assets



0

Defaults rising from the recent volatility

4%

Exposure to Energy (HY Bond index has >11%)

9%

Exposure to Leisure Products and Hotels, Restaurants & Leisure



# KKR Remains Highly Focused on its Underwriting of the Portfolio

**We seek to differentiate ourselves with our ability to execute a rigorous portfolio management process to source, undertake due diligence and monitor investments at varying levels of complexities**

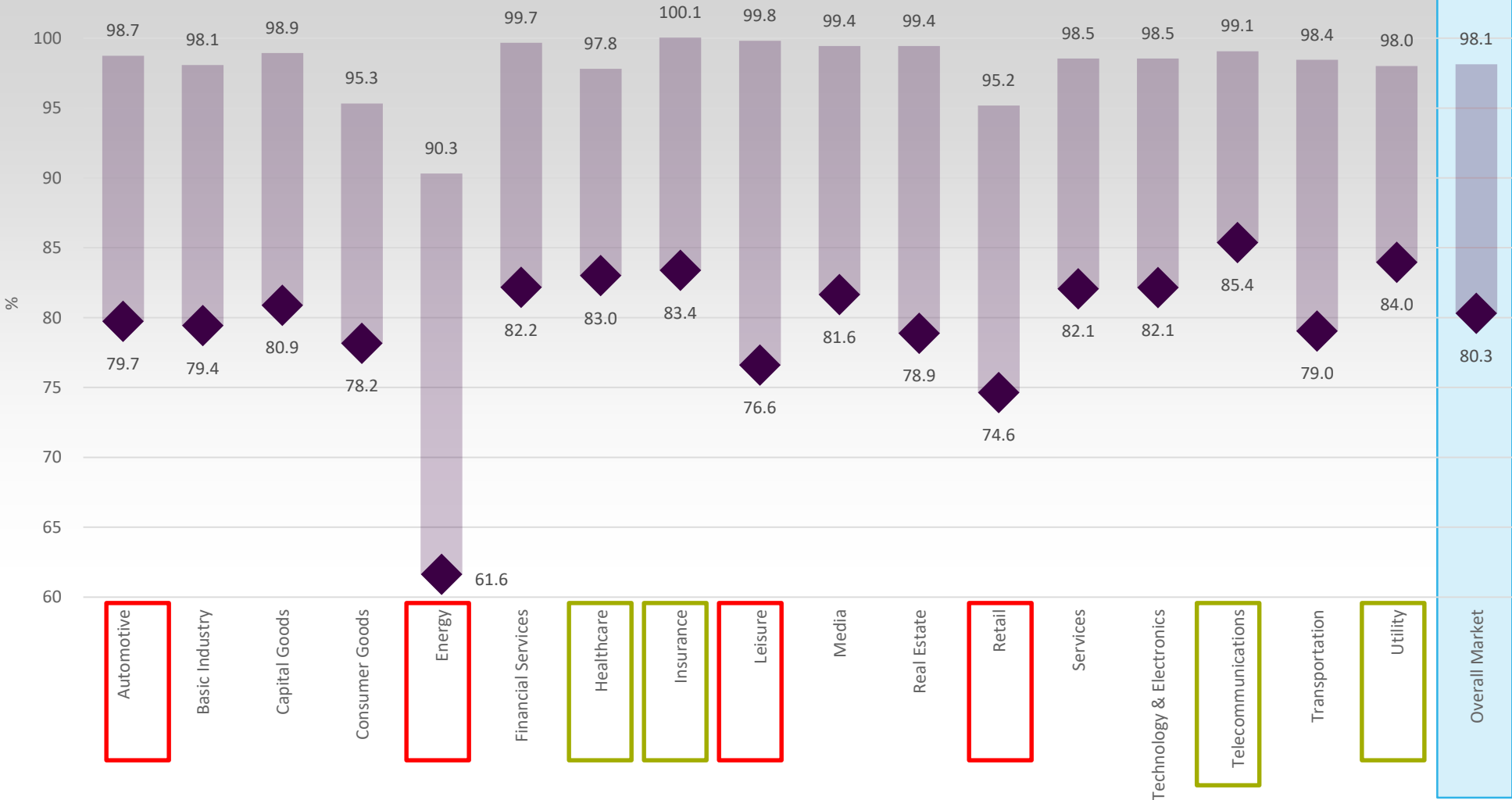
Monday	Tuesday	Wednesday	Thursday	Friday
<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Prioritization Meeting</li> <li>• Weekly IC Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Office Hours</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Monthly General Credit Meeting</li> <li>• Weekly Office Hours</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Office Hours</li> <li>• Weekly IC Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Morning Meeting</li> <li>• Weekly Macro Update Meeting (GMAA)</li> </ul>
<b>Quarterly Portfolio Management Committee ("PMC") Process</b>				

- **Daily Morning Meeting:** Daily interactions among analysts, portfolio managers and traders to discuss market themes, industry trends, company news and new investment ideas
- **Weekly Prioritization Meeting:** Co-heads of US Credit Research will guide the industry analysts what they should focus on that particular week on individual basis (i.e. existing investment, new issuance, secondary investment)
- **Weekly IC Meeting:** All new investments will go through IC; an IC memo consists of 10-15 pages with proprietary financial model with base/upside/downside cases, due diligence review and other industry research materials
- **Weekly Office Hours:** Open forum office hours may consist of screening new investments or ad-hoc IC meetings
- **Weekly Macro Update Meeting:** Macro economic update from our Global Macro & Asset Allocation ("GMAA") team
- **Monthly General Credit Meeting:** Global credit discussion on overall performance and market trends across all credit strategies
- **Quarterly Portfolio Management Committee Process:** PMC meetings to re-visit each credit in-depth and conduct a deep-dive review of each investment from a fresh perspective

What opportunities are you seeing, and how can KKC benefit from this market dislocation?

# US Loan Market

S&P/LSTA Leveraged Loan Index YTD % Price Drop by Sector



# High-Quality Corporate Credit Case Study

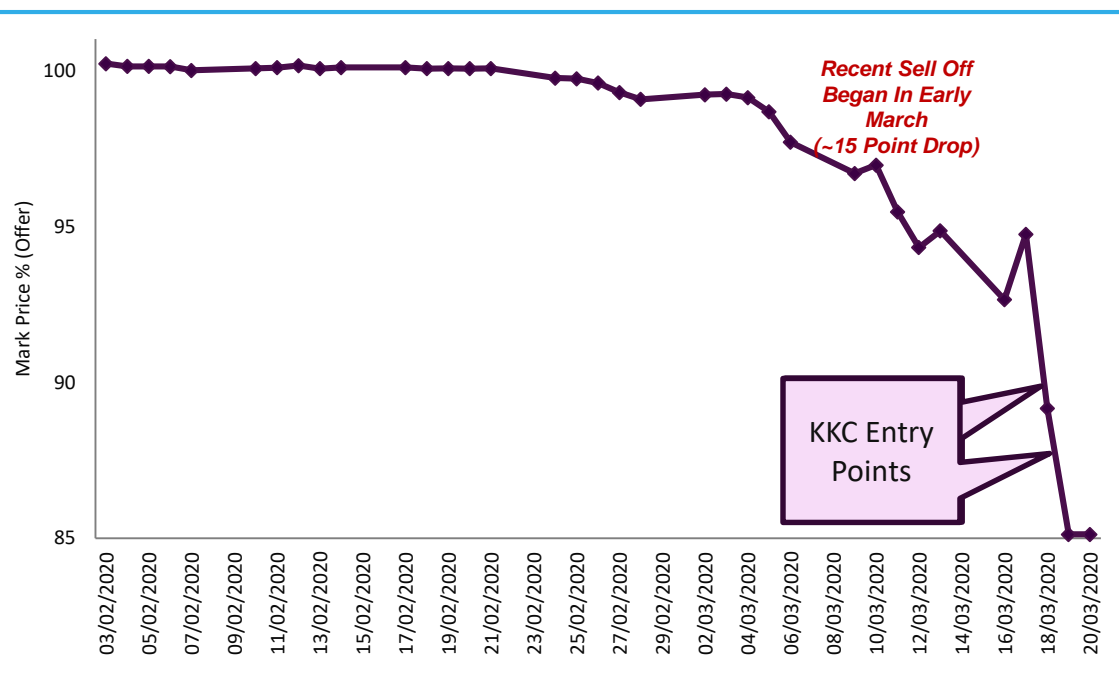
## Company And Transaction Overview

- The company is a high quality telecommunications business with over USD\$1.5 billion (A\$2.46bn) in revenue, high EBITDA margins of ~70% and is based in the United States<sup>1</sup>
- Given the recent market volatility, the company's first lien term loan has traded down due to technical selling
- **The loan to value of the company at our entry price is ~17%**
- The first lien term loan is a high quality rated sub investment grade credit in a defensive sector and the business has durable cash flows that could offer double digit returns due to forced sellers in the market
- Overall, this is strong credit that has attractive price convexity with 10+ points of price appreciation plus coupon which translates into 15%+ yield assuming marketing normalization in 18 months

## Key Asset Attributes

Information Technology <i>Sector</i>	100.6% <b>52 Week Price High</b>	17.2% <b>1 Year Yield</b>
	85.1% <b>Current Price*</b>	9.9% <b>2 Year Yield</b>

## Evolution Of Mark Price (1L Term Loan)



Note: \*As of 20 March 2020. For illustrative purposes only. The specific portfolio company identified is not representative of all of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that the investment in the companies identified was or will be profitable. While KKR considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. Past performance is not indicative of future performance

1) Last twelve months as of September 30, 2019.

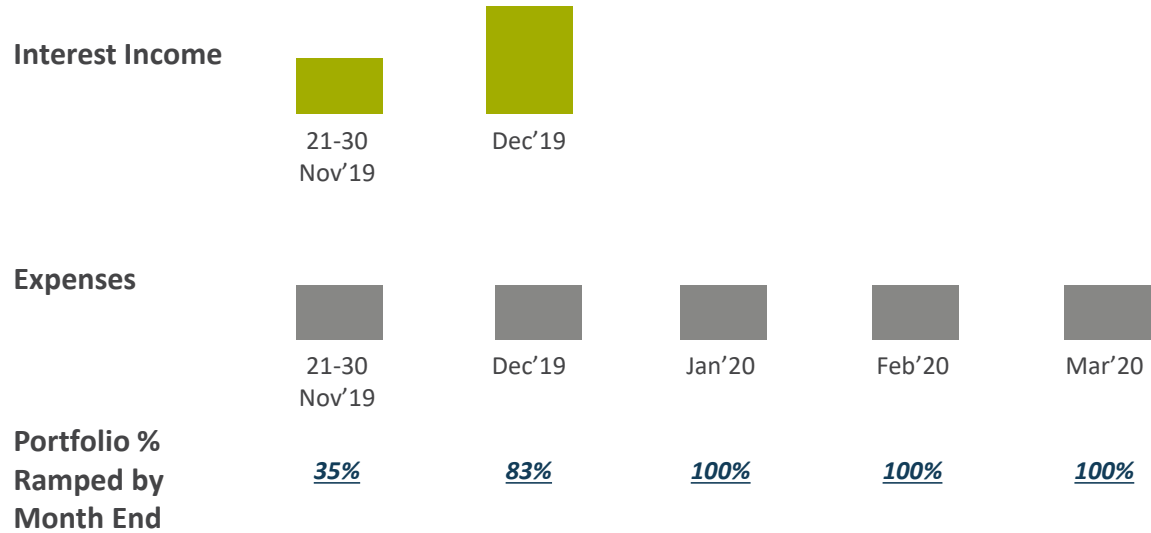
# Managing KKC on a Day to Day Basis

**Kevin McMahon**

*Managing Director, Credit Strategies Team  
(Dublin)*



# March 2020 Dividend Explanation



**This chart is intended to illustrate the effect of the ramp period rather than provide an estimate of future potential distributions. The size of the bars do not reflect actual income or expenses received.**

- KKC's first distribution is lower (on an annualised basis) than the target range for 4-6% given the timing of KKC's IPO, ramping period and underlying GCOF distribution timetable. Distributions are made quarterly with a quarter lag in line with the PDS description of the process.
- The chart above shows that while the level of expenses have been broadly consistent since 21 November 2019, the revenue that the fund received was initially lower due to the ramping up of the portfolio over November and December, and has increased as the fund has become fully invested over time.