Credit Royale

BY CHRISTOPHER A. SHELDON, TAL REBACK & KRIS NOVELL

As with all great stories and cycles — they begin and end somewhere. Years of history, plot twists, and rotating protagonists have made the credit markets a dynamic and multi-faceted segment of the broader market ecosystem. The pulse of the financial system is deeply rooted in credit, a reality we so poignantly saw in March 2020. As we head into the fourth quarter of 2021, almost 20 months into a global pandemic that sent ripples and shock-waves through the global macroeconomic footprint, we believe it is important to address how the credit markets continue to transform and where we believe they are headed. But in order to do that, we need to revisit credit's roots, fundamental characteristics, and how they have shifted over time. Akin to Ian Fleming's 1953 novel *Casino Royale*, the prequel to what would become the internationally recognized James Bond series, we view the third quarter as an homage to how James Bond truly became 007, and how the history of credit informs the future of credit amidst an ever-evolving backdrop.

> **"You never get real adventures without a bit of risk somewhere."**
> — Ian Fleming

We believe one of the biggest key takeaways of this market is the fact that the composition of the credit market has been evolving, drastically, for the last 15 years and we are now starting to see the unambiguous effects taking form through increased concentration of constraints and overall less flexibility. Just as James Bond is not truly agent 007 without the unity, tools, and shared intelligence of his partnership with M, Q, and the MI6 team; we believe investors, now more than ever, need connectivity to succeed as the market has moved to become more fragmented and siloed. We will elaborate on this analysis later on.

Looking back on the third quarter, the credit markets continued their run with U.S. Bank Loans returning +4.42%,[1] European Bank Loans +3.88%,[2] U.S. High Yield +4.68%,[3] and European High Yield +3.69%[4] year to date as of September 30, 2021. Investor appetite continued to show demand for floating rate assets as evident with the CLO machine churning at a rapid rate and leveraged loans outperforming high yield during the quarter. We also witnessed a number of short bouts of rate volatility, fears of topping the U.S. debt ceiling, a market spooked by China's Evergrande Group debt crisis, and continued pressure on global supply chain and labor wages amidst an increasingly real inflationary backdrop.

All of this is to say that the credit markets have continued to be resilient and highly in demand, despite continued spread compression and the prospect of more policy uncertainty in the future. We also continue to believe that when the Fed begins to taper more meaningfully, which they signaled is imminent that will likely be when we see the first domino fall in many portfolio repositioning strategies given the intrinsic role the Fed's presence continues to play in this market.

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Fed Chair Powell continues to remind the market that "tapering is not tightening," which has helped keep treasury yields in check. It is important to remember that the Fed has technically begun their taper with unwinding credit exchange traded funds ("ETFs"), but the more meaningful taper will begin in late Q4 with target reductions of $15bn per month. Further, we believe investors should continue to be mindful of the risks created by the movement in rates — that is real. The not-so-unexpected rally in treasuries in late June translated into market skepticism heading into Jackson Hole, resulting in approximately ~30bps of spread widening in high yield from the tights as the need for yield is constant. The overall tone of the market since Jackson Hole has remained strong, and high yield and leveraged loans continued to deliver positive returns, with high yield spread differentials across rating sleeves barely off their year-to-date tights.

Market Segment	Yield	Spread	QTD	YTD	Total Return 2020	Since 3/23/20
U.S. High Yield	4.08%	315	0.94%	4.68%	6.17%	39.89%
Investment Grade	2.14%	89	-0.06%	-1.12%	9.81%	20.60%
High Yield Energy	4.72%	370	1.72%	12.10%	-6.62%	89.30%
Distressed	17.17%	1648	1.49%	31.80%	-4.21%	126.61%
Fallen Angels	3.34%	217	1.62%	6.52%	15.03%	53.33%
Euro High Yield	2.55%	304	0.65%	3.69%	2.76%	32.18%
U.S. Bank Loans	4.19%	404	1.11%	4.42%	3.12%	34.73%
Euro Loans	3.82%	442	1.01%	3.88%	2.38%	31.88%

Rating Segment	Yield	Spread	QTD	YTD	Total Return 2020	Since 3/23/20
BBB	2.37%	110	0.06%	-0.32%	9.76%	25.78%
HY BB	3.21%	218	1.08%	3.78%	8.62%	37.62%
HY B	4.48%	364	0.69%	4.02%	3.66%	37.58%
HY CCC	7.27%	654	1.01%	10.62%	2.86%	57.47%
Bank Loan BB	3.21%	304	0.83%	2.43%	0.75%	30.49%
Bank Loan B	4.40%	422	1.14%	4.33%	3.80%	35.40%
Bank Loan CCC	7.86%	763	2.09%	12.31%	4.35%	49.44%

Source: KKR Credit Analysis, ICE BofAML, S&P LSTA as of September 30, 2021.

A Briefing from M

M, the head of the British Secret Service MI6, and Bond's relationship has always been a complex one — filled with twists and turns across 007's suite of missions. Sometimes their banter includes a sarcastically dry quid-pro-quo, but ultimately M and 007 have always remained a united and tight unit.

Despite the tremendous run the market has endured, coupled with the sustained record amount of dry powder on the sidelines, we believe credit investors should strive to remain as coordinated with the market as possible to perpetuate a symbiotic unit just like M and 007. Agility will be a critical tool as the market continues to see an increased number of roadblocks and inspires less incentive to take on risk.

As mentioned, we have noted that market constituents have become more siloed as a result of being hyper focused on specific segments or sectors of the market as opposed to viewing the market holistically. We believe this pattern will persist which could give rise to even more investment restrictions, soliciting possible exuberance in specific market sectors, and or potential dislocation if and when the market moves in the opposite direction.

We also believe the market is already experiencing a lack of incentive to take risk as a result of this fragmentation and this has created a giant tug-of-war, one that pits those that are restricted to take specific risk vs. those who lack incentive to take risk. This see-saw structure highlights there is still underlying fragility in the market due to structural affinities.

Ultimately, this pattern could perpetuate less flexibility across asset management, which we believe may result in broader risk. As large market players get bigger, and possible consolidation ensues in the industry, we believe that connectivity as the backbone of scale will be a differentiator. There have been many new entrants into the loan market who have grown considerably over the last decade and we continue to envision a path where the loan market will continue to grow given the pace of LBOs, attractive fundraising environment, insurer balance sheet expansion, CLO creation, and low default rates. Low interest rates will always fuel the hunt and demand for yield. As we like to say, *good yield hunting.*

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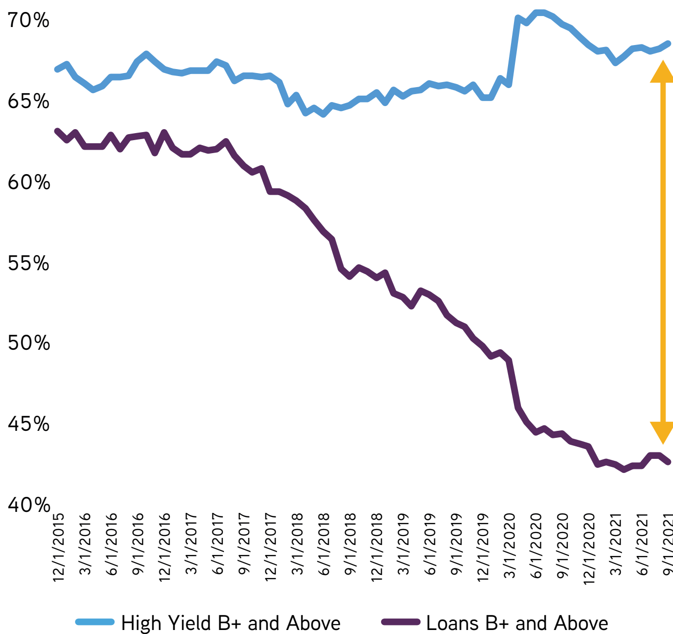
Credit Markets: B+ and Above

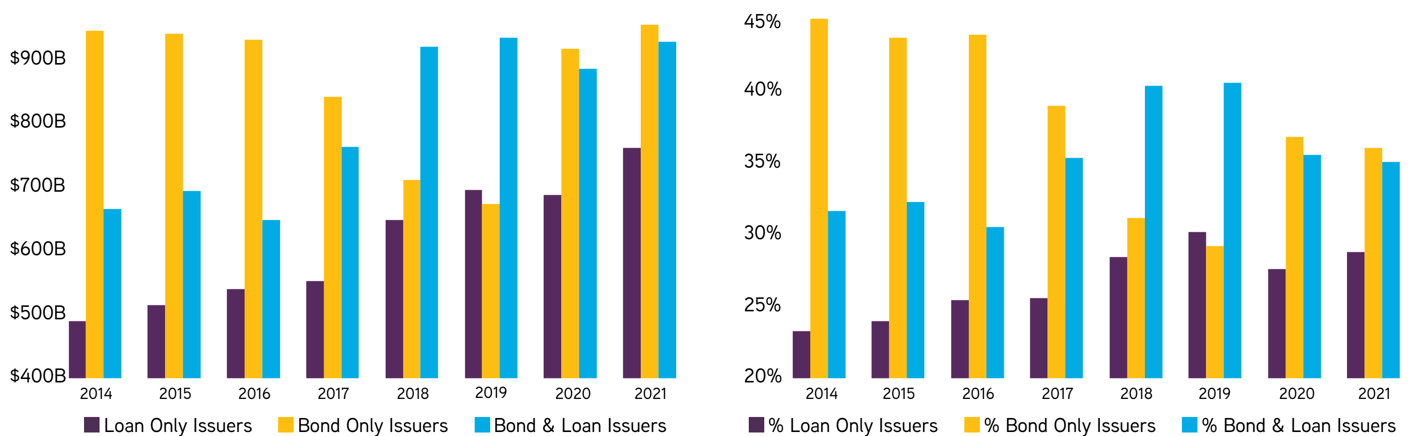


Source: KKR Credit Analysis, ICE BofAML, and S&P LSTA as of September 30, 2021.

Like a prudent agent, we took a deeper look at the underlying market composition over time to further extrapolate any trends that could help inform our thesis. It is important to recognize the structural effects to the market when looking at the degree of overlap in issuer utilization in the loan market versus the high yield market. A number of years ago, the warning bells rang loudly when the number of loan issuers and loan only structures began to rise as they were smaller issuers who were able to get senior secured debt without the need to issue a bond. What we have witnessed in the last year and a half, as the Fed stepped in and reopened the capital markets, has been an increasing number of first-time bond issuers. However, are these borrowers truly first-time issuers? Have they ever tapped the loan market? Is there a large population of issuers who utilize both the bond and loan market or are they diverging?

What we uncovered was in-line with our expectations: loan only issuers have steadily continued to rise and bond only issuers saw a meaningful uptick in 2020. However, issuers of both bonds and loans have only modestly trended upward over time signaling to us that the loan market and the high yield market constituencies continue to diverge and deepen their silo's within the credit landscape. The lack of overlap between loan only and bond only issuers continues to widen which naturally creates concentration in specific sectors and areas of the market. Additionally, given the ecosystem borne out the COVID-19 pandemic and Fed induced capital markets support, the sectoral differences between the two markets also continues to grow widening the opportunity to continue to identify relative value pockets. We believe this trend will continue to permeate the market ecosystem, especially if we continue on an elevated pace of LBO transactions.

Issuers Continue to Tap their Preferred Market of Choice for Financing



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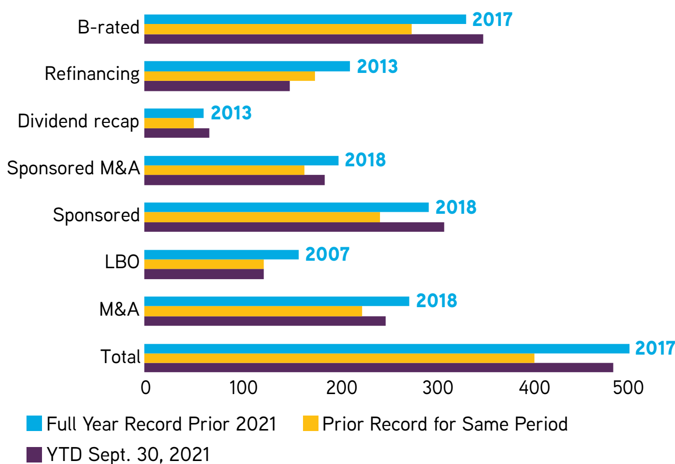
The Spy Who Loaned Me

The third quarter continued with gusto as leveraged loan issuance is on pace to break historical issuance records. Total year-to-date U.S. institutional volume as of September 30, 2021 was $487bn,[5] which surpassed the prior three record volume quarters, and is within reach of breaking the all-time record full year record from 2017 of $503bn.[6] Year-to-date European new issuance stood at €107bn[7] as of September 30, 2021, the highest it has been in the comparable period since 2007.

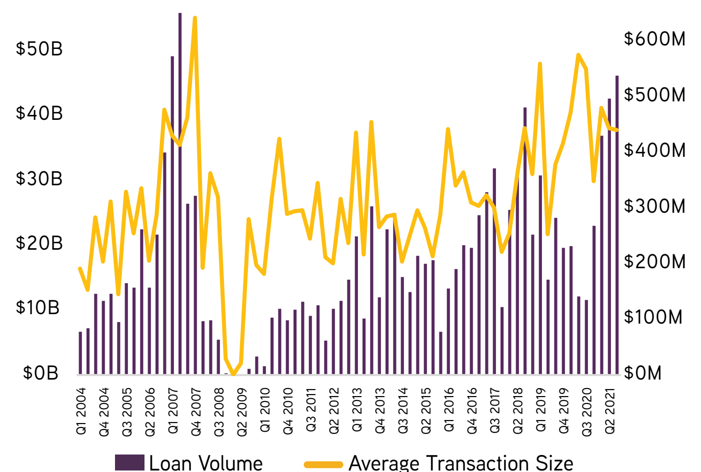
The wave of issuance has been across all major segments of the loan market propelling the amount of loans outstanding to $1.3 trillion.[8] The leveraged loan index has grown for seven consecutive months on the order of $113bn,[9] which is the largest growth we have seen across any period since February 2019. Total M&A volume of $250bn[10] exceeds the previous high of $226bn[11] achieved in 2018, and M&A in the sponsor community is up to $188bn[12] from the 2018 high of $167bn.[13]

Institutional Loan Volume On Track to Beat Records



Source: KKR Credit Analysis & S&P LCD as of September 30, 2021.

LBO Institutional Loan Volume



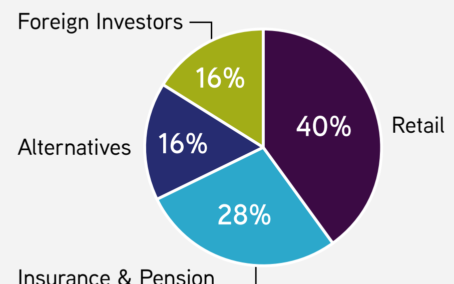
Source: KKR Credit Analysis and S&P LCD as of September 30, 2021.

Quantum of Silos

Unintentional silos have been borne out of structural constraints across market participants. The market is an evolving rubik's cube puzzle; one piece fits and the other may fall out of favor ultimately inspiring behaviors across asset classes.

- Credit risk in the loan market has increased, but CLOs have to manage a weighted average risk factor ("WARF"). As a large share of the loan market, this constraint could cause price gap risk when fundamentals lag.
- High yield accounts are increasingly mirroring the higher quality index and focused on managing tracking error.
- Open ended funds focused on managing liquidity.

High Yield Ownership



Source: KKR Credit Analysis, ICE BofAML, as of September 30, 2021.

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In fact, sponsor led activity has set an all-time high, coming in at $311bn[14] year-to-date as of September 30, 2021 surpassing the previous 2018 full year level and record of $295bn.[15] Sustained record-low funding yields and the reflation narrative have set up the market up for elevated acquisition activity. The "double-O" unit at KKR has certainly experienced this trend as our deployment and activity level across our various segments within KKR Credit are now running at the pace of Aston Martin DB5 engines. We continue to see the thirst for yield as well as the heightened activity levels across our Global Leveraged Credit, Private Credit and Capital Markets franchises.

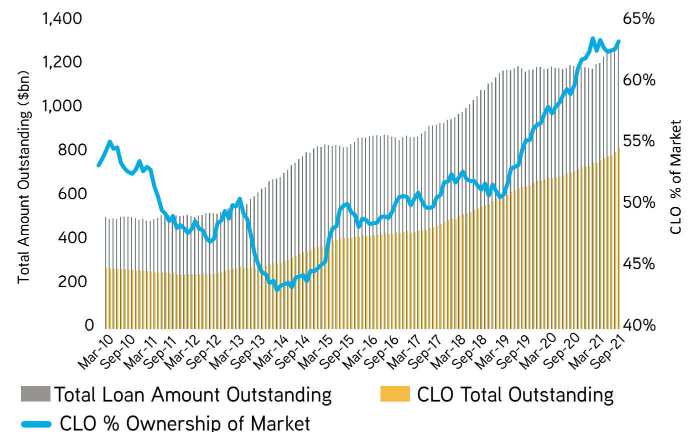
The leveraged loan market has seen the longest consecutive stretch of growth this year with total loans outstanding growing to $1.3 trillion.

A good deal of the surge in activity in the loan market this year can also be attributed to the volume of primary CLO issuance, which set a new record at $46.7bn[16] as of September 30, 2021. In fact, every quarter of 2021 saw a new CLO issuance record, with deal flow at $130bn[17] year-to-date across 262 new issue deals from 109 managers inching by the previous high of $129bn in 2018.[18]

KKR Credit leaned into this momentum and believed it was an attractive opportunity to be active on both debt and equity including with the pricing of six new issue CLOs in the U.S. totaling $2.75bn and three new issue CLOs in Europe totaling €1.2bn as of September 30, 2021. Favorable market spread conditions also continue to ensue coupled with strong CLO equity returns to support elevated CLO refinancings and resets, even amongst older vintages. We believe this momentum continues into year-end.

Additionally, the trailing twelve month leveraged loan default stands at less than 1% at 0.35%[19] as of September 24, 2021, which is a 9.5[20] year low. The suppressed default rate, alongside increased levels of liquidity amidst sponsors has also inspired added confidence across the CLO manager community. We would, however, remind our readers that the share of single B loans outstanding has grown to 55% since the onset of the pandemic and the cohort continues to lead the pack in new issue volume accounting for 72% or $352bn,[21] of total institutional deals done year-to-date as of September 30, 2021.

CLO Ownership of the Market



Source: KKR Credit Analysis & S&P LCD as of September 30, 2021.

The growth of issuance has undoubtedly had an effect on overall asset allocation in credit markets. In the U.S., bank ownership of CLOs has increased by 35%[22] alone in the first half of 2021. We have also seen a notable trend amongst insurers given regulatory considerations, potential changes in capital charges across the risk spectrum, and the overall growth of their balance sheets — ultimately impacting their portfolio allocation considerations. In an October 7, 2021 report published by The National Association of Insurance Commissioners ("NAIC"), the publication cites that at year-end 2020, U.S. Insurers' CLO exposure increased by approximately 23% to $192.9bn[23] of which almost 80% of total CLO insurer exposure is held by large life companies with $10bn in assets under management or more. Earlier this year, the NAIC rolled out proposed changes to their risk-based capital charge scale that will provide greater granularity within rating cohorts of fixed income assets. These changes could potentially be technical drivers as it would shift a Life Co's risk appetite down the credit spectrum based on new relative value for the most efficient use of their capital. As a result of this potential shift, the credit markets could continue to see a deepening of silo's amongst rating buckets and products. As Henry McVey, Head of Global Macro, Balance Sheet and Risk and CIO of KKR's Balance Sheet, notes in *Dream Big*, alternatives continue to be

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Leveraged Loan Factor Monitor: GFC vs. Last 5 Years

	GFC 2008	2017	2018	2019	2020	2021 YTD
LTM M&A Loan Volumes ($bn)	27.9	142.9	154.7	76.9	80.4	147.1
LTM LBO Loan Volumes ($bn)	25.7	95.2	120.0	89.2	66.7	147.2
LTM Refi Loan Volumes ($bn)	7.8	186.2	115.9	97.7	79.2	165.7
LTM US CLO Gross Volume ($bn)	13.5	118.1	128.9	118.3	93.1	161.6
LTM CLO Gross Issuance % of Market Size	3.2%	12.7%	12.7%	12.7%	12.7%	12.7%
LTM Loan Repayment Rate	8.8%	38.1%	24.1%	21.7%	18.3%	27.6%
Loan Distressed Ratio	80.3%	3.1%	2.7%	3.8%	2.2%	0.7%

Source: KKR Credit Analysis, S&P LSTA LLI, and S&P LCD as of September 30, 2021.

an increasing allocation for Insurance CIOs and in the last five years we have seen an increasing allocation to Private Credit, Structured Credit, and High Yield strategies.

Favorable market conditions continue to ensue accelerating heightened activity levels going into year-end.

With strong and persistent tailwinds, there is no doubt that the loan market was in full throttle during the third quarter. The M&A engine was humming with $92.4bn[24] of supply launched in the quarter for acquisitions and buyouts, another record, as Medline's $7.2bn term loan B led the way with the largest LBO post the Global Financial Crisis ("GFC"). With CLOs continuing to be active on all fronts: issuance, refi's and resets, we believe the continued demand for paper going into year-end will remain steadfast. We would be remiss if we did not mention the year-end looming deadline for LIBOR is one element that loan market participants are watching with a forensic eye.

SOFR Another Day

What do rates, Bond, and credit all have in common? LIBOR. The Bank of England, U.K. Financial Conduct Authority ("FCA"), and the Fed's decade-long mission is quickly coming to a sunset date as January 1, 2022 begins the dawn of no new origination in LIBOR globally. Years of under the hood work is now culminating in a critical moment for the loan market: SOFR issuance.

The loan market is one of the most nuanced, complex, and critical segments of the broader market. As we mentioned earlier, it is imperative for the lending markets to function at full capacity for the broader health of the markets. At KKR, we have made it our mission to look at the transition holistically across both sides of the balance sheet and bring a representative voice to the loan market.

We are encouraged to see the momentum gaining in the syndicated loan market with new SOFR term loan B issuances hitting the market in October. We believe it is important, however, for market constituents to understand all the mechanics of this transition and how to think about the economics of new originated SOFR risk going forward. We believe price discovery is healthy for markets.

The first couple of transactions we have seen have included the concept of a credit spread adjustment ("CSA") as a standalone addition to the base rate, i.e.: Walker Dunlop priced at SOFR + CSA (10bps for 1M, 15bps for 3M, 25bps for 6M) + 225bps spread. In our view, this three part construct with the addition of a CSA creates exponentially more complexity for the loan market and could be solved efficiently with exercising traditional pricing methods.

To bring it all together, the concept of a spread adjustment was a mechanic borne out of converting existing and legacy LIBOR paper to SOFR when the rate ceases to be published, which for U.S. Dollar is June 20, 2023. This was driven by the $200+ trillion derivatives market through ISDA's methodology to seamlessly create a mechanic to auto-convert OTC paper when LIBOR ceased.

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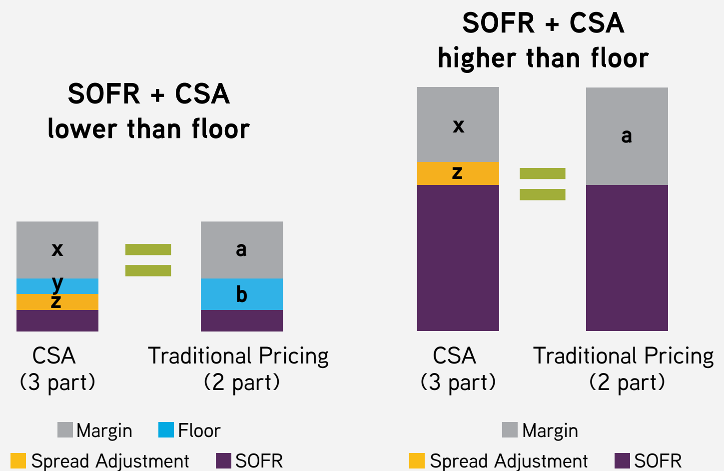
We believe traditional two part pricing structure should continue to be the standard with SOFR issuance: one can obtain a fixed margin and floor to make both approaches value neutral regardless of SOFR levels



Source: KKR Credit Analysis as of October 31, 2021.

These spreads were locked on March 5, 2021 when global regulators announced the final cessation date and the market adopted the aforementioned spreads into hardwired fallbacks as a result of the benchmark transition event.[25]

We would like to emphasize that the concept of a spread adjustment is not a reflection of new risk going forward nor was it ever intended to be a construct for the future state of SOFR loans. As we represent both borrowers and lenders, we do think it is important for the market to differentiate between the conversion mechanics for existing facilities and new transactions and to price risk accordingly.

As market participants become more familiar with all the mechanics of the transition going into year-end and the New Year, we expect there could be a short-lived and minor slowdown in CLO issuance next quarter as managers begin to balance managing legacy liabilities and an evolving underlying collateral pool of loans. As CLOs represent +65% of leveraged loan market, their ability to digest the transition in conjunction with how the market clears new deals will be a significant driver of asset demand. Our view is that the remainder of the year will remain critical for the transition off of LIBOR and the time to lean into the transition is now.

For Your High Yield Eyes Only

The precedent setting trends in high yield continued in the third quarter as funding costs remained low and the pace of issuance seemingly unbothered despite an increasingly hawkish tone from the Fed. Third quarter new issue volume in high yield was lighter compared to the first and second quarter of 2021 totaling $107bn;[26] however, year-to-date new issuance reached $394bn[27] as of September 30, 2021 putting this year's volume 17% ahead of the comparable 2020 period total.

As mentioned earlier, the Fed has been signaling towards an upcoming start to a more meaningful taper as well as the forecast of rising rates, perpetuating the well-known interplay between balancing loans and bond exposure in investors' portfolios. Demand for high yield remained strong with $393bn[28] in new issue year-to-date with ~67% attributed to refinancing activity and ~22% to fueling M&A.

Alongside the sustained volume of activity, we witnessed increased demand for pricing concessions amid inflationary headwinds, heavier fund outflows, and a hawkish Fed tone with 22[29] new issue deals pricing at the wide end of talk. High yield spreads did not move drastically as we experienced a number of short rate movements in the third quarter; however, with the prospect of rising rates the longer duration high quality paper, the leaders of the performance pack in 2020, ultimately will be impacted.

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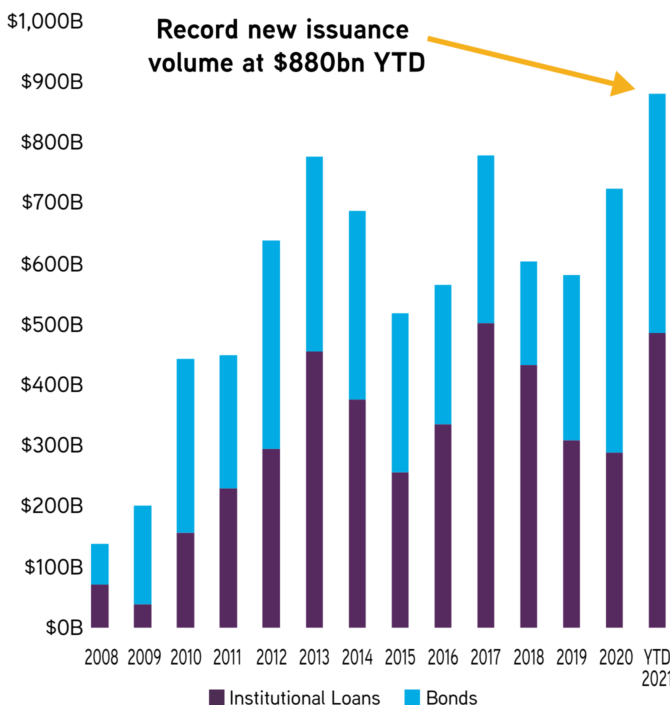
September was the weakest performing month for high yield as a result of the sell-off in rates and continued supply headwinds. U.S. high yield BBs underperformed in September as a result returning -0.21%[30] for the month, but still positive overall for the quarter returning +0.94%.[31] On the other hand, CCCs outperformed for the month of September returning +0.69%[32] fueled by compression on growth tailwinds and continue to be one of the biggest beneficiaries of the Fed induced rally returning +57.47% since March 23, 2020.[33] In Europe, the high yield market took an extended summer vacation slowing down in August with bond issuance decreasing by 50%[34] quarter over quarter. Globally, despite third quarter volumes decreasing to $130bn across the U.S. and Europe compared to $195bn in the first quarter, and $184bn[35] in the second quarter of 2021, overall there has still been +24%[36] more high yield issuance globally this year than in 2020. The quarter also ushered in new debut issuers, bringing the year-to-date count of new tranches priced by first-time borrowers to 130 as of September 30, 2021 a new record ultimately illustrating to us the relentless appetite to lean into this market environment now and evolving market landscape.

We would also like to highlight that the issuer default rate in high yield has dropped to 2.3%[37] in September and is now below pre-COVID levels. Aligning with this trend, we believe there is a possibility for the high yield market to shrink over time as a result of the growing proportion of high quality higher rated issuers getting upgraded. As we detailed across our letters in 2020, the composition of the high yield market dramatically shifted with the record number of "fallen angels" that now comprise the bulk of high yield index. The high yield market is comprised of 55%[38] BB credit, and with increasing recovery we could envision a scenario where there are more upgrade candidates back to investment grade versus downgrade candidates. An estimated 41 issuers representing $277bn[39] of debt are likely "rising star" candidates to be upgraded from high yield to investment grade over the next year and a half.

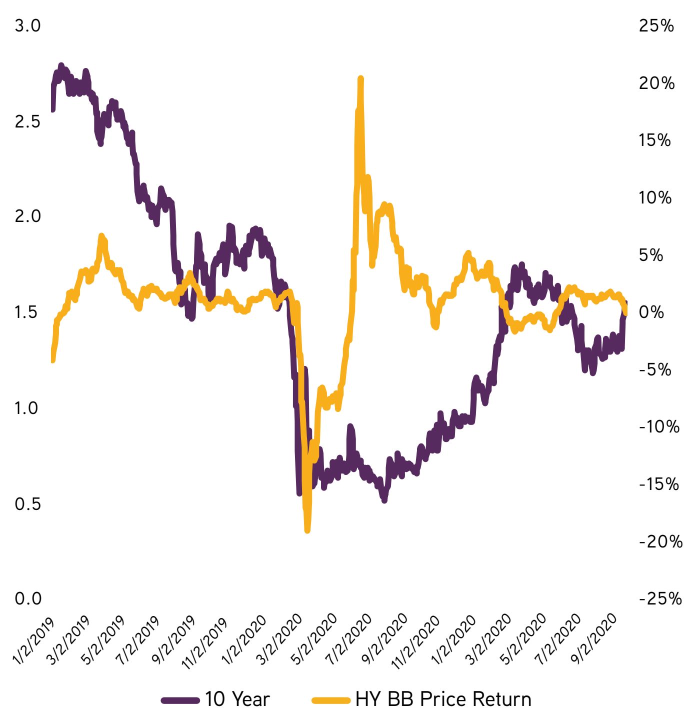
On a sector basis, the likely upgrade candidates span the Energy, Auto, Food & Beverage, Healthcare and Utilities sectors. Energy notably is only 7bps[40] off of its 2021 tights demonstrating the fulsome rally in the sector. Overall, on a year-to-date basis, we have seen a healthy amount of upgrades

Total Leveraged Finance Volume since 2008



Source: KKR Credit Analysis and S&P LCD as of September 30, 2021.

10 Year Treasury vs. HY BB Px Return



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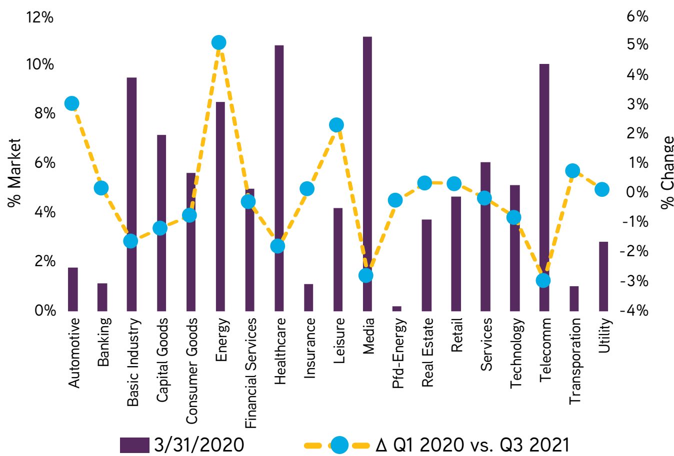
within high yield at $530bn but no significant swings upward from high yield to investment grade, only $27bn.[41]

Bond Only Issuance and Federal Stimulus have Inspired Sectoral Evolution in High Yield



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Q's Gadgets: "Field operatives must often use every means at their disposal to achieve their objectives"

We have discussed the concept of growing silos taking shape across the credit markets globally and their potential impacts to asset allocators and or investors. This is a trend that has been growing with time as the market's ecosystem is constantly evolving. Some of the best performing assets of 2020 are the under-performers of 2021. One aspect of this trend that we think will be critical for investors to grasp is that the market tends to move with rapid flashes and opportunity windows. As such, our philosophy remains that constant portfolio curation and credit selection should be married to a vast breadth of tools that enable one to lean in swiftly at a moment's notice.

We think of this credit toolkit akin to Q's gadgets as Bond never truly knows what he may need at a moment's notice on a mission. The tool could be a vintage radio transmitter or a laser Omega Seamaster, but a vast toolkit and continued reps through a full credit process and cycles will remain paramount in identifying value and generating alpha. We are not only credit investors but also students who take the experiences and lessons of prior deals and cycles and apply them to new underwriting and situations. Remember, Bond cannot be a successful 007 agent without the necessary value-add his tools bring him.

Across the KKR Credit platform, our investing philosophy has always been deeply rooted in fundamental credit underwriting, downside protection, portfolio construction and asset allocation from both a top down and bottoms up vantage point.

As the market silos become wider and deeper, we believe that the level of connectivity and coordination across scaled players becomes a true differentiator in the credit markets. Scale has always mattered in this industry, but connectivity as the backbone of a scaled organization is much rarer. We have seen it first hand as KKR Credit has grown and how our collaborative culture and integrated strategies have enabled us act quickly and execute across an increasingly crowded field.

A great demonstration of this is through the market's growing competitive landscape, both in the broadly syndicated market and middle market direct lending; being a counterparty's first call is crucial. Take the syndicated market for example, dealers no longer sit on excess inventory as part of prudent balance sheet risk management post GFC, so when matching up buyers and sellers, dealers are most likely to call and transact with their most frequent customers reinforcing the fact that agility and scale of a platform really does matter. Another demonstration of this is the ability to drive outcomes vis-à-vis reverse inquiries and creating your own issuance by proactively pitching a capital solution. Often times this may occur before the borrower may realize they are in need of a new structural solution. For us, this comes through the connectivity of our knowledge across an expansive rolodex of publicly traded credits, as well as capital solutions providers across our credit platform. We have leaned into this model across many of our strategies and tailored creative structural and capital solutions across both public and private credit pools of capital. The "New Active" is here to stay.

As lenders to privately placed direct lending deals, investors in syndicated loans, and an arranger, we are in the global markets everyday. In fact, the symbiosis between our leveraged credit, private credit, and capital markets platforms are so integrated that many deals we have seen over the last eighteen-months

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have been borne out of one strategy — but then morphed into another as large deals that came down the syndicated route ended up being structured as unitranches. We are also seeing sustained investor appetite and elevated levels of deal activity admist elevated cash levels.

On the lender side, hold sizes continue to grow and with increased competition still at play, but terms have loosened. The number of clubbed up second lien term loan deals continues to rise as well as the number of mega large unitranche structures ($1–3bn in size). The market has seen unitranche volume surge over the last five years climbing from approximately $3bn in 2016 to $21.6bn as of June 30, 2021[42] and it is estimated that first lien/unitranche deals accounted for 87% of deals in 2020.[43] We believe this trend is here to stay and that it most likely toggles between various structural forms which doubles down on the need for agility and connectivity across a credit platform.

Credit. Shaken, Not Stirred.

Perhaps the stakes are a bit too high for your liking

I see your CCC and will raise you BB spread compression

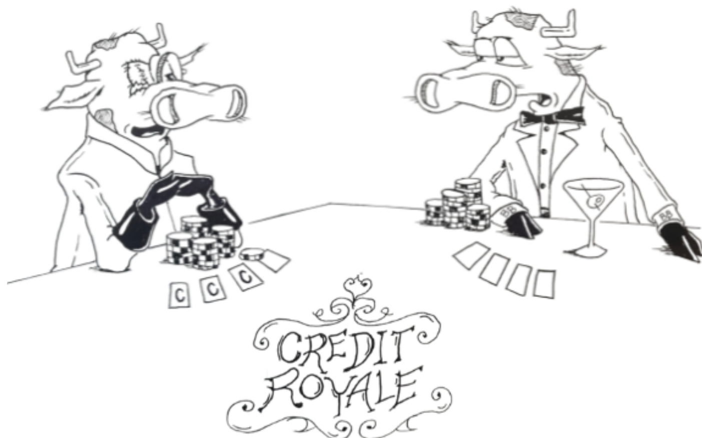

Illustration by: Jerry Capria, KKR Credit.

Credit Re-Imagined

It has been another incredibly strong quarter globally for the credit markets. Global year-to-date loan volume stands at $749bn[44] and global high yield volume at $509bn[45] across U.S. and Europe as of September 30, 2021. KKR Credit has been equally as busy inching towards $30bn in gross deployment year-to-date with ~$9bn for the quarter across our privately originated strategies, and $17bn for the year in our publicly traded strategies. We continue to have strong conviction across the credit landscape, albeit not without elevated awareness of external factors such as the macro-economic landscape amidst real-time evolving policy changes, in addition to what we believe will be long-term ripple effects catalyzed by the pandemic.

As the market continues to shift and re-formulate its composition, we want to emphasize that we truly believe connectivity amongst scale, agility, and credit fundamentals will be a differentiator. If we take a step back, it is hard to imagine that this is the market that we are in given the widespread disruption we all experienced as a society over the last twenty plus months. That should not be ignored. As credit investors we are constantly arming our portfolio against the potential downside risk. We continue to be prudent risk managers searching for pockets of idiosyncratic and opportunistic risk/reward opportunities.

Overall, we are proud of the progress and resilience we have shown as a team and a platform. Our priority will always remain to strive to deliver best-in-class performance and best-in-class solutions for our investors, shareholders and portfolio companies. The foundation of our operating model has always been one of partnership and has been on display over the last seven quarters with our collective execution carried by our one-firm approach. At KKR Credit, we continue to use our version of Q's gadgets and toolkit to cross pollinate and source proprietary opportunities with our colleagues in Private Equity, Real Estate, Infrastructure, and Global Atlantic.

In closing, our thesis remains the same as the market continues to become even more fragmented and concentrated, breadth of knowledge, toolkit, speed and agility are paramount. We anticipate there will continue to be more twists and turns,

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and as the double-O unit at KKR Credit knows, there is never a dull moment when on active duty, and we are excited to see what the future holds and the value we can produce for our investors and partners.

Thank you to our investors for your continued trust and partnership. As always, we welcome your feedback on our letter and are grateful for the opportunity to discuss our market views with our readers.

Christopher A. Sheldon

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