KKR Credit

Q4 2021
Market Review

Great Market Expectations

"Take nothing on its looks; take everything on evidence. There's no better rule."

Charles Dickens, *Great Expectations*

Written by:

Christopher A. Sheldon

Tal Reback

Kristopher Novell

Originally published in serial form in 1860, and released as a book in 1861, *Great Expectations* by Charles Dickens remains today a brilliant and relevant depiction of the passage of time, growth, and the role that socio-economic dynamics plays in our pursuit of prosperity amidst the ultimate tempering of expectation.

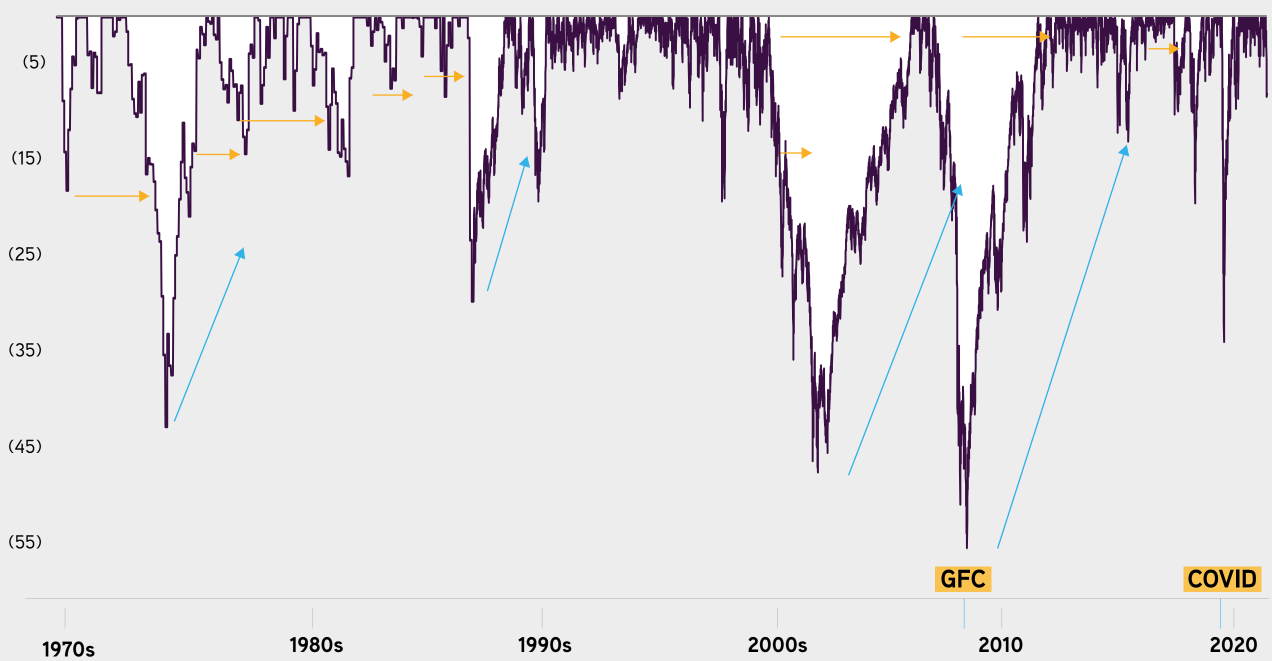
As the protagonist Pip learns over the course of his journey, the intangible takeaways of life's lessons learned often paid a greater dividend in his knowledge portfolio than the ephemeral triumphs. Ultimately, Pip's journey portrays a struggle we all know too well: the eternal balancing act of managing a fleeting euphoric high and the gravitational pull back to earth. Dickens reminds us that we should "Take nothing on its looks; take everything on evidence." As fundamental credit investors, we could not agree more with that sentiment, having watched as the markets closed out 2021 on a high, but then experienced a reality check when volatility made a comeback and spiked in January 2022.

There is no doubt that the past 24 months have been a memorable ride for the credit markets as demand for yield and income met record levels of issuance against a continuing conducive monetary policy backdrop. The market has continued to flourish off of the seeds sown by the Fed in March 2020, and as we have seen with the recent January volatility, we continue to be squarely operating in a Fed inspired market. The January volatility is also a prudent reminder that market expectations are not always what they seem and that as vicious as the volatility can be on the way down — the snap back can be equally, if not more, destabilizing given the speed at which the markets move. There have been many instances in history where expectations have diverged from reality, but in today's market there is no longer the same amount of white space between chapters. Today's market roars in a different tone, which underscores the value of having a robust bottom up credit investment process and seamless integration of flexible multi-strategy capabilities across the market and capital structures.

S&P 500 Total Return

Drawdowns no longer have any white space — velocity has taken over with volatility

Over history the average duration of a drawdown has become much shorter reinforcing our view that an agile and flexible toolkit is invaluable at a moment's notice as the market no longer affords investors the luxury of time.



Source: Bloomberg and KKR Credit Analysis as of January 30, 2022

Key Themes

As one looks across the market landscape today, the differences between expectation and reality seem clear, we believe:

01

Incognito Investment Grade ("IG"); You Can't Hide from Duration

IG experienced a rollercoaster year and a half as the Fed stepped in and corporates leaned into historically low borrowing costs to extend their liabilities. But what we have started to see is that IG is no longer "core" and while the asset class has been known to be stable and positive during good economic times, as of the end of January 2022, IG posted its second worst monthly total return since the end of the GFC, -3.13%, with yields re-approaching spring 2020 levels. High yield ("HY") also experienced a robust run over the course of the market's recovery. However, we would remind investors not to discount duration risk given the extended maturity profile HY inherited as a result of 2020's "fallen angels" and new issuances.

02

Beware Judging a Credit by its CCC Cover

We have always believed one cannot fully judge a credit solely by its rating; it is also about relative value and the fundamentals. Both HY and leveraged loan CCCs have outperformed their constituents in 2021 and continue to offer compelling risk reward profiles in a world of tight yields.

03

Duality in Credit

We have begun to see the decoupling of bonds and loans in the market. In January, leveraged loans posted the largest outperformance, 300bps, over high yield, the first time we have seen that occur since the U.S. downgrade in 2011.

04

Goodbye LIBOR, Hello SOFR

For over a decade, whispers of LIBOR's demise was merely contemplated to be a rumor. The market faced a reality check in Q4 as the no new LIBOR clock officially started its count down to 12/31/21 cessation and the market began to navigate pricing risk in the Secured Overnight Financing Rate ("SOFR").

05

Captain Capital Solutions

Despite an increasingly competitive backdrop, lenders remain open to a diverse array of financing solutions — small, medium, or large. With elevated levels of dry powder still on the sidelines, there has been a shift to offer more creative structures and a desire to differentiate product offerings with a wider range of solutions.

06

Creative Canvas Asia Credit

Given many domestic financing providers may be policy constrained, this less mature market has broad potential in need of creatively structured capital solutions. The supply/demand pendulum has drastically swung as a result of the pandemic and with the region being the largest contributor to global GDP, we believe the time to lean in is now.

Reflection

Looking back on 2021, we saw U.S. institutional loan supply break its prior 2017 record high by over $100 billion, with $615 billion in issuance, and the European loan market following in its stead with €117.7 billion.[1]

Global high yield followed the same route, with the U.S. topping its respective 2020 high with $465 billion in issuance and European high yield with €125 billion.[2] In the U.S., the combined leveraged finance issuance total reached $1.08 trillion in December 31, 2021, which is the first time issuance has crossed $1 trillion in a calendar year — a great new market expectation. To put that into perspective, the U.S. market started 2021 off with roughly ~$2.6+ trillion[3] of product, which equates to ~41% of market activity being driven by new issuance in 2021. European leveraged finance volume also shattered records in 2021 with €254.7 billion[4] across loans and bonds, which represents an all-time high for supply. Credit remained resilient and displayed healthy performance throughout the year despite some bouts of volatility across rates, variant headlines, and macroeconomic drivers such as rising inflation concerns. In particular, European leveraged loans displayed a broader immunity to mark-to-market volatility and their returns outpaced high-grade and sub-IG fixed income markets. On the whole, U.S. Bank Loans closed out the year +5.20%,[5] European Bank Loans +4.67%,[6] U.S. High Yield +5.36%,[7] and European High Yield +3.35%[8] on a total return basis as of December 31, 2021.

Across the credit spectrum, we continued to witness the evolution of the market themes we first highlighted in our Q1 2020 letter, *V for Volatility*. These credit thematics made for an attractive risk-on environment throughout the last year and a half, but also concurrently defined new market dynamics across the risk rating and duration spectrum that we will discuss further. We are now beginning to see the full feedback loop of network effects catalyzed by a sharp and rapid fiscal response from the Fed, while toggling a yearn for back to "normal" as rising labor wages and inflationary pressures consume Main Street against an increasingly hawkish Fed tone.

Market Segment	Yield	Q4 2021 Total Return	2021 Total Return	2021 Price Return	Jan 2022 Total Return
Investment Grade	2.36%	0.17%	-0.95%	-4.16%	-3.13%
U.S. High Yield	4.32%	0.66%	5.36%	-0.21%	-2.75%
Fallen Angels	3.40%	1.14%	7.73%	2.79%	-4.27%
Distressed	20.88%	-5.99%	23.91%	12.07%	-1.71%
Asia High Yield	12.22%	-10.14%	-17.54%	-22.99%	-4.81%
Euro High Yield	2.88%	-0.33%	3.35%	-0.01%	-1.53%
U.S. Bank Loans	4.20%	0.75%	5.20%	1.07%	0.36%
Euro Banks Loans	3.99%	0.76%	4.67%	4.67%	0.35%

Source: KKR Credit Analysis, ICE BofAML, S&P LSTA as of January 30, 2022

Market	Q4 2021 Total Return	2021 Total Return	Jan 2022 Total Return
Treasuries	0.14%	-2.58%	-1.84%
S&P 500	10.65%	26.89%	-5.26%
NASDAQ	8.28%	21.39%	-11.98%
DJIA	7.37%	18.73%	-4.44%
SPAC	-7.44%	-16.34%	-14.40%
Russell 2000	1.86%	13.70%	-12.33%

Source: KKR Credit Analysis and Bloomberg as of January 30, 2022

Aside from potential amnesia and an $8.7 trillion Federal Reserve balance sheet, we believe the market is now facing *A Different Type of Recovery,* as Henry McVey, KKR's Head of Global Macro & Asset Allocation, outlined in his December 2021 Insights piece, one that will continue to require a deep and expansive toolkit of credit capabilities. Across the KKR Credit platform, we have always incorporated a diversified approach in a top-down, bottom up investment and asset allocation process as the ability to stay agile and thematic in this ever-evolving market has remained priceless.

As 2022 continues to unfold, we would be remiss if we did not remind our readers to be mindful of potential market swing factors that may lie outside of one's control. As we have already started to see, the market's expectations are diverging from reality, and we do believe there will continue to be volatility along the way. The volatile start to 2022 halted new issue, triggered outflows across fixed rate products, stalled the IPO and SPAC pipeline, and ultimately spooked markets globally. There continues to be a rapidly changing macroeconomic backdrop that warrants opportunistic capital solutions. However, it is important to acknowledge that the markets have been awash with a substantial amount of liquidity and zero interest rates for almost two years — masking any fragility beneath the surface. Akin to Pip's journey, investing is a learning business that not only relies on the lessons of history, but also on how we use those lessons in preparation for the future.

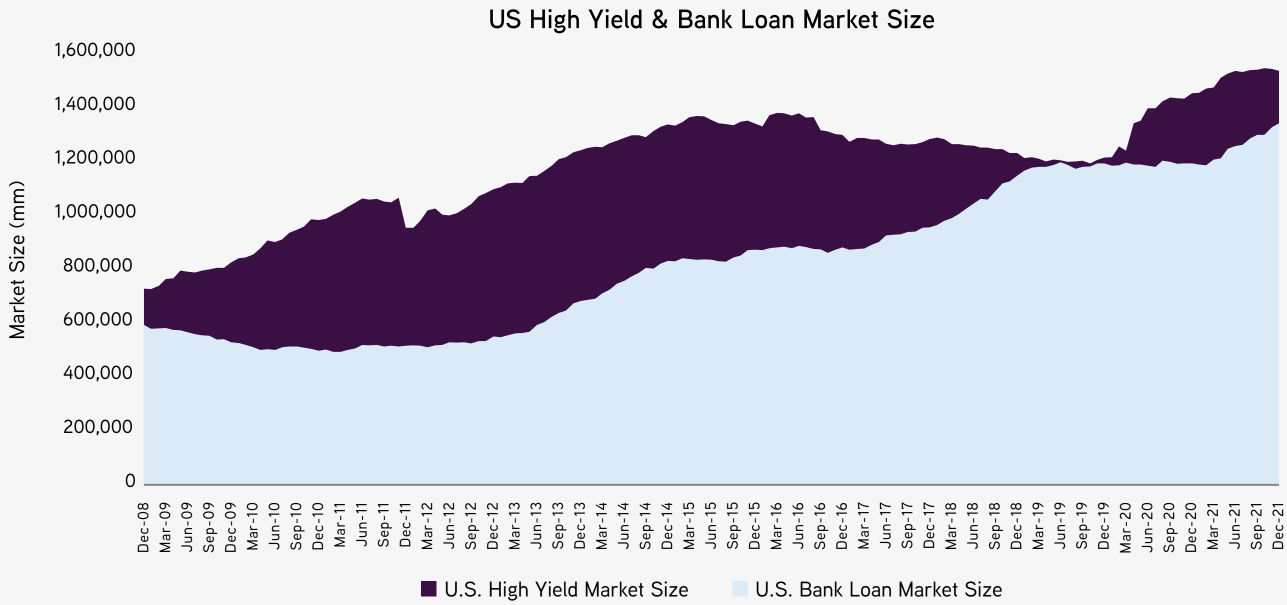
Pip's Perspective

Dickens was known to give his characters names with meanings: a pip is a small seed often found in fruit that needs thoughtful care to grow and prosper.

It is no coincidence that Dickens' protagonist carries the name as he evolves through the *Great Expectations* storyline. In fact, our gravitation to Dickens' novel as a metaphor for the credit markets lies within a theme we have discussed with our readers before: the evolution of markets and perception versus reality. The market has a powerful way of distorting things on its surface as we have witnessed in recent times through the duplicity of the risk reward spectrum across the IG and sub-IG continuum. Investment grade has always had the reputation of being safe, but currently faces meaningful duration risk with rising rates: thus it has been underperforming the market. We witnessed more volatility in IG this January versus its counterpart high yield, which ironically has always carried the reputation of being "junk." As we have highlighted previously, the composition of the high yield segment of the market looks very different today: the credit risk has vastly improved as a result of its high concentration in BB rated bonds, making up 54.2%[9] of the index. Yet BB's also carry the most extended duration risk as a result of 2020's barrage of downgraded IG bonds, known as fallen angels, as well as new issuance. With duration selling off, shorter dated CCC have been the best performing assets in the corporate credit and municipal bond markets. CCCs also outperformed equities and investment grade in January.

If we layer a macro lens, we would also highlight that IG's total return for 2021 was negative, returning -0.95%[10] as of December 31, 2021, while nominal GDP grew by 10.2%[11] for the year. At the moment, IG could potentially be on track to yield a negative total return for a second consecutive year, which would be a first in history. On January 12th,

The credit markets continue to grow making a more prominent stance across portfolio asset allocations and the risk spectrum



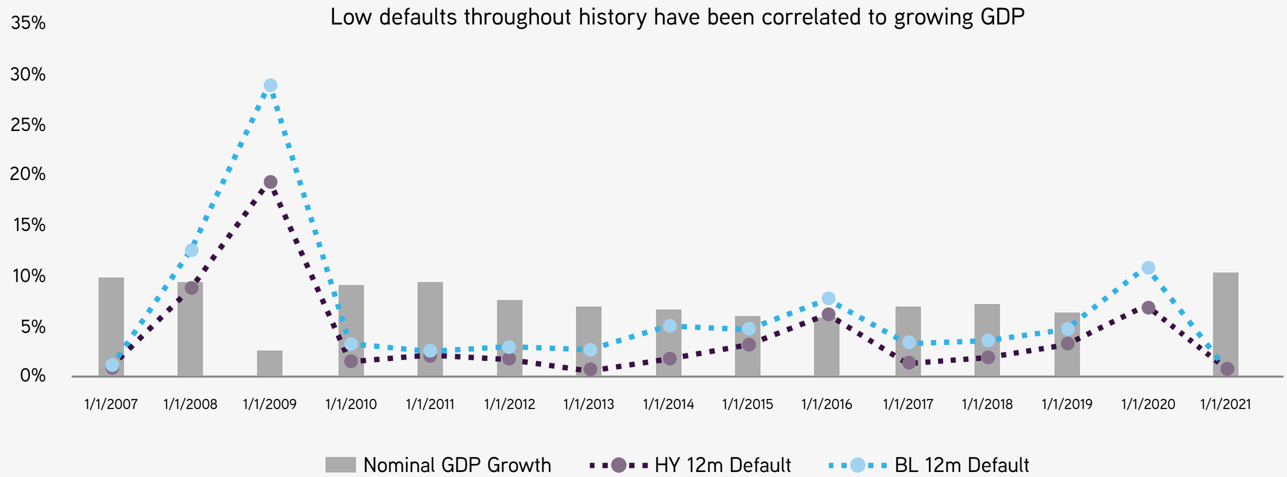
Source: ICE BofAML, S&P LCD, and KKR Credit Analysis as of December 31, 2021

headline U.S. CPI came in at 7.0%[12] year-over-year, in line with consensus, but marking the highest reading since 1982. Core CPI was also elevated at 5.5%[13] year-over-year, which was +10bps above consensus and the highest reading since 1991. Concurrently, conditions in the labor markets are tighter than the unemployment rate has suggested and, as a result, we believe real wages are on an upward trajectory. The market is going to continue to pay very close attention to how this story unfolds.

Rising rates have been top of mind for some time now, and although we knew the day would come when the Fed would begin tightening, it seemed as though the market woke up aghast in response to the recent more hawkish tone from Federal Reserve Chair Jerome Powell. At the January 26th FOMC meeting, Powell remarked, "the economy is in a very different place than it was when we began raising rates in 2015," which is "likely to have important implications for the appropriate pace of policy adjustments."[14] It is clear that the Fed no longer sees inflation as transitory, but rather as persistent. With this change in tone came a change in the market's reality. Expecting an accelerated Fed withdrawal this cycle, the market ultimately pre-empted the committee meeting with volatility. While Powell acknowledged that the Fed would continue to proactively communicate ahead of committee meetings, remarking that market participants should expect a number of rate increases and a balance sheet runoff this year, the risk-off sentiment across the market was stark.

Looking back in history, every time the Fed has indicated it would, or has begun to raise rates — the market has reacted with a tantrum to the shift, with equities leading the pack. The expectation of the Fed's actions versus the reality of what the Fed needs to do is apparent in today's market. We are also seeing the same phenomenon in Europe as the European Central Bank's President

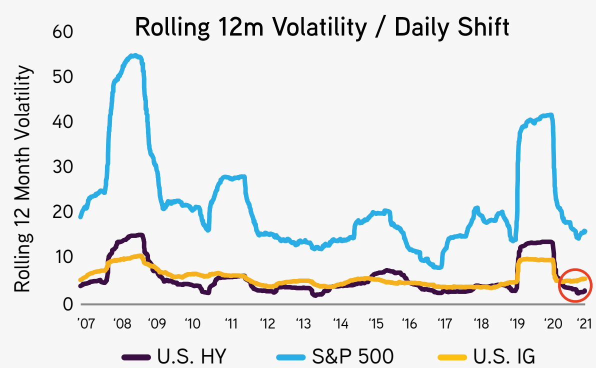
We believe these leading indicators reinforce our view to rotate into credit now



Source: ICE BofAML, S&P LCD, and KKR Credit Analysis as of December 31, 2021

Christine Lagarde has tried to calm markets by promising a "gradual" adjustment to monetary policy. When looking at the historical annual GDP growth rates by quarter, we found that the market has a pattern of reacting poorly anytime there was a decline. Even to this day, we see the market following the same pattern. The question is, how do we temper the expectation and consequent volatility if the market knows this is imminent? Overall, credit has held in better than equities during the January volatility with a slight spread widening beginning to seep through after Powell's January 26th remarks. We believe the volatility in the equity markets will continue and have already begun to witness IG and HY betas declining, leading us to lean-in further on flexibly rotating and toggling across credit assets within our portfolios.

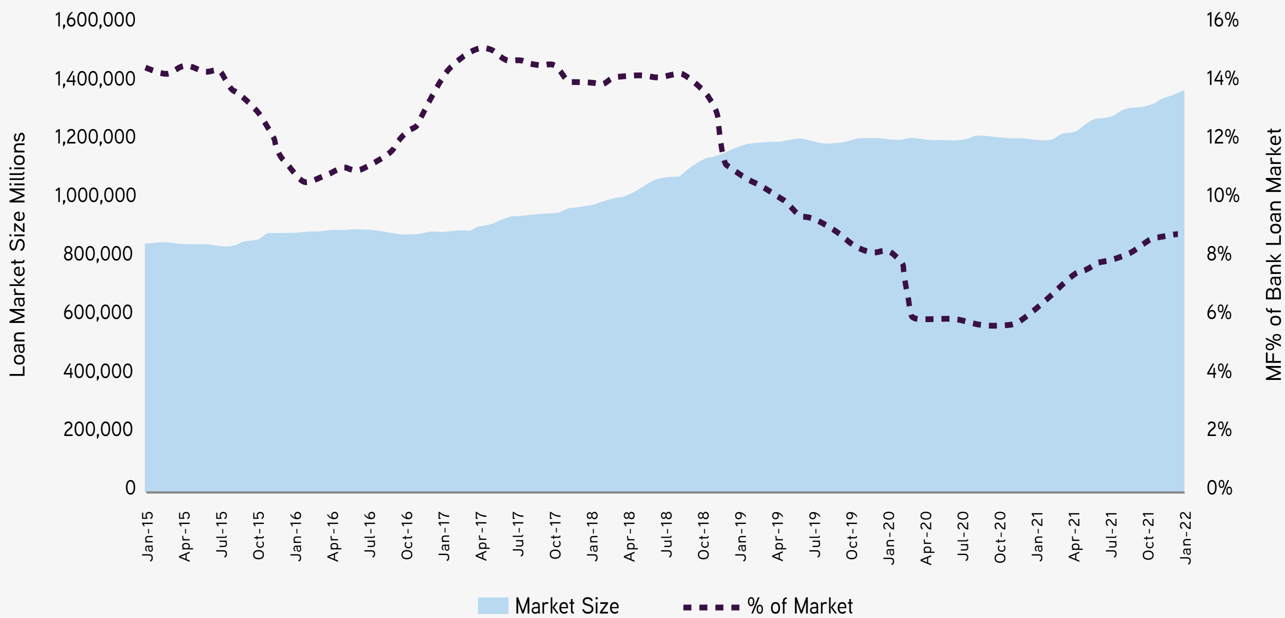
High Yield is susceptible to less rate induced volatility



Source: KKR Credit Analysis, ICE BofAML, S&P LCD, Bloomberg as of December 31, 2021

Rates will continue to be at the front and center of this great market expectation story. A burst of rate driven volatility spurred approximately $3bn in outflows from retail investors for the week of January 24th and was the third consecutive week of high yield outflows, putting total outflows at $8.7bn[15] for the month of January. On the other hand, we started to see retail investors step back into floating rate assets, with loan inflows amounting to $7.5 billion[16] for the month of January, and inflows into loan mutual funds and ETFs swinging back to $33.9 billion[17] as of December 31, 2021 versus the $19.6 billion[18] in outflows the market saw in 2020 for this asset class.

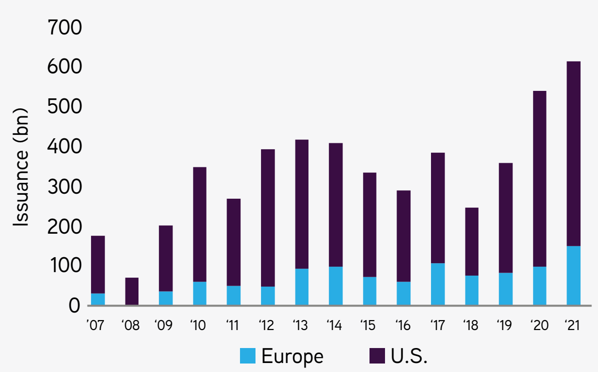
Retail investors have been rotating back into the loan market and leaning into floating rate assets



Source: Morningstar and KKR Credit Analysis as of January 30, 2022

As we have seen over the last 20 months, corporates leaned into a borrower friendly rate environment and spurred record levels of issuance across bonds and leveraged loans. Specifically for the global high yield market, we began to see a more temperate tone for the asset class as the signs of a more hawkish Fed amid global growth headwinds pressured risk premiums and pivoted deeper concessions to lenders. December 2021 issuance for U.S. HY stood at $9.5 billion[19] and was the lowest monthly total since 2018. The fourth quarter marked the third sequential decline from the record setting $149.2 billion in Q1 2021. In Europe, the late November volatility proved to be a momentary slowdown as high-yield volume printed €27.7 billion[20] for the quarter representing a solid showing for the asset class. However, notwithstanding a mildly bumpy year-end, high-yield bond issuance projections for 2022 range from $400 billion to $435 billion.[21] We will continue to see sector re-allocation across high yield assets, but believe the core focus should remain on managing duration risk. As the rate volatility plays through the market segment, we think high yield could become more attractive very quickly.

Global High Yield Issuance



Source: S&P LCD and KKR Credit Analysis as of December 31, 2021

The Marshes

Not only did Dickens craft complex characters but he was also a master at creating atmospheric environments that are rich with imagery and symbolic prose.

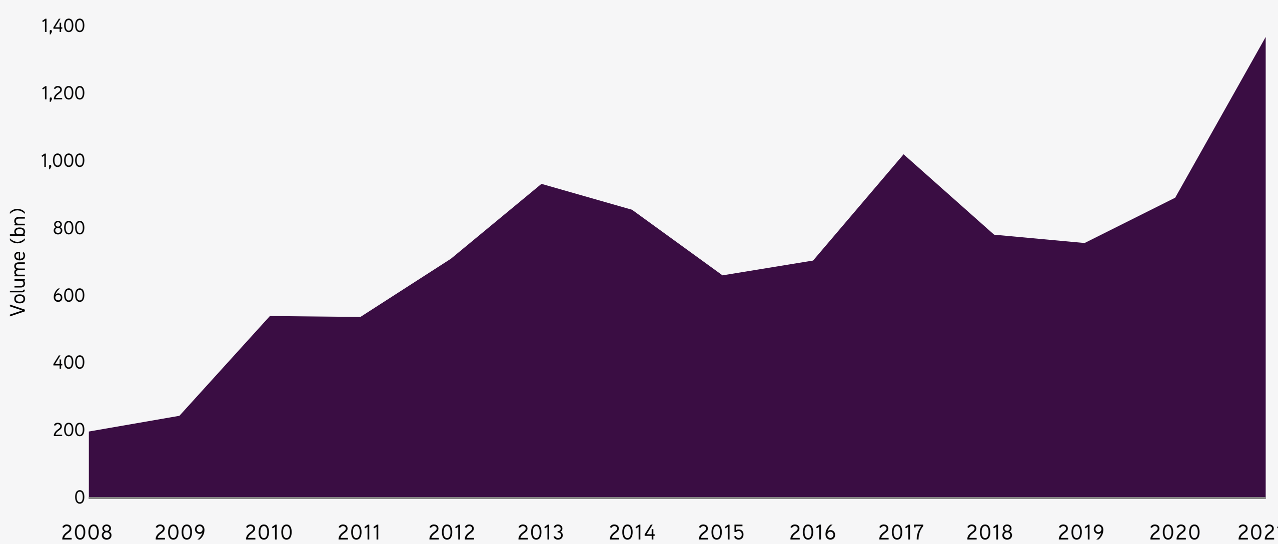
The marsh country — a misty dank overgrown wilderness on the north side of Kent, with the Thames River in the distant horizon, is where much of Pip's story and history resides. The significance of the location is Dickens' approach to symbolizing the complexity and mystery of Pip's evolution as the marshes tend to obscure perception. The parallel that we see from the marshes to credit is the fundamental need to always be aware of the surrounding environment and what may lie beneath. You can never truly judge a credit solely by its surface.

As noted earlier, for most segments of the loan market, 2021 was a record breaking year. Notably new issuance in single B rated loans (B+/B/B-) accounted for 72%, or $444 billion,[22] of U.S. loans issued for the year. Borrowers with a single B- rating on one side accounted for 40% of total issuance up from the 23%[23] average level since the Global Financial Crisis ("GFC"). The composition of the loan market continues to skew heavily towards single B with 62.24%[24] of the leveraged loan market attributed to that rating segment. The growth in single B borrowers reinforces our previous statement that while the leveraged loan market continues to grow in size, +12% for the year bringing it to $1.35 trillion,[25] credit risk has also been increasing.

In a similar vein, the middle market has also been growing as direct lenders and capital solution providers have stepped in with more structurally creative financing

It is without a doubt investors, issuers, and sponsors have leaned into the leveraged finance market heavily over the last 24 months

Global Leveraged Finance Volumes Soar in 2021



Source: S&P LCD and KKR Credit Analysis as of December 31, 2021 options to serve a growing cohort of first time borrowers. We at KKR have been following, as well as participating in, the large unitranche trend across the middle market, and believe we could be in for more record breaking tranche sizes. For example in 2021 we were lead or co-lead lender of 5 unitranche deals of over $1bn each. The growth in direct lending and the demand for this type of capital is apparent. Indeed, the market for buyouts and M&A was ripe in 2021 and the certainty of the pipeline contributed to a very memorable year of activity. With the large array of deals across a market with increasing players, including founder-led and family-owned businesses, we have seen the sea of structural solutions become rich with diversity across structures including subordinated, preferred, and convertible solutions to name a few. The lending market has shifted to be more agile with capital solutions more oriented towards engineering the right structure for the borrower and capital structure versus a one-size fits all approach. This trend has been especially visible in the growing technology sector. The tech sector trickling into private credit middle market lending is a further demonstration of how the market continues to evolve thematically vis-à-vis compelling pricing power and structurally malleable solutions — the momentum tends to shift where the best relative value is for both borrower and lender. However, as investors pivot towards floating rate assets amidst rising rates, we continue to emphasize the need for fundamental credit analysis as a pillar of security selection.

After the market was virtually starved with no net supply in 2020, in 2021 the M&A engine turned back on and spurred record issuance. As funding costs remained suppressed, leveraged loans funding new M&A reached a high in the U.S. of $331 billion,[26] with sponsors accounting for 72% of the M&A activity for 2021 — and also representing a 19% increase to the previous record. The trend in Europe was the same, with M&A driven supply accounting for €68 billion, or 61% of total European institutional issuance, which is the highest level since 2007. In tandem with the loan market's 2021 momentum, CLOs cemented a new record-setting level with $187 billion[27] in issuance, a 45% increase from the prior record high in 2018.[28] CLO creation was truly a dominant force for leveraged loan demand throughout the year. The year brought forth an expanding credit investor base that was attracted to the long-term yields that CLOs offer over other investment grade products. We saw the multiplier effect take place across the loan market: increased leveraged loan issuance fueled institutional supply to feed asset pools for CLOs, and the virtuous cycle ensued. Any moment of softness in the secondary market prompted CLO managers to buy on the dip and take advantage of ramping their portfolios. Additionally, refinancings and resets set new record levels for the year at $109.3 billion and $135.5[29] billion of volume respectively. KKR was one of the top five active managers for new-issue CLOs with 11 vehicles issued representing $5.3bn of issuance volume across the U.S. and Europe.

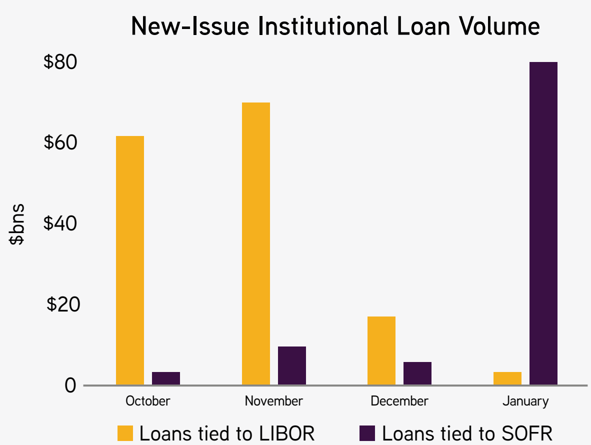
Learning

Importantly, Q4 ushered in leveraged loan issuance in LIBOR's successor rate, SOFR.

The market welcomed just over $16 billion[30] of leveraged loans issued in SOFR ahead of the December 31, 2021 deadline (for no new LIBOR origination in any currencies globally), while CLO activity peaked in the quarter as managers were up against the count-down clock for printing new LIBOR deals. In January 2022, we saw a healthy pivot to the SOFR with nearly $8bn in CLO SOFR issuance and just shy of $60bn in SOFR leveraged loans. The momentum gained in Q4 was important, serving to demystify the transition which had been discussed in theory for years but had not yet been put into execution mode until late last year. The perception of LIBOR transition spanned from a non-event akin to Y2K to performing open heart surgery on the financial system. As the sluggish start of Q4 SOFR activity demonstrated, getting market participants to adopt a new rate was always going to be an uphill battle. But thanks to years of incredible work by the industry groups led by the New York Fed and Federal Reserve Board Alternative Reference Rates Committee ("ARRC"), the market was able to successfully wean itself off of the world's most ubiquitously used rate.

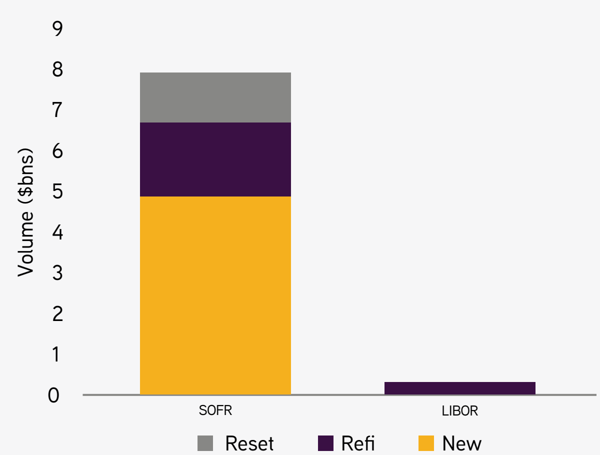
Additionally, we highlighted last quarter in *Credit Royale* that the loan market would undergo healthy price discovery with newly originated SOFR risk. In fact, we witnessed a diverse array of pricing structures going into year-end, namely with various applications of a credit spread adjustment ("CSA") as borrowers and lenders co-existed in a LIBOR and SOFR world simultaneously. As we are now squarely on the other side of the January 1st 2022 "No New LIBOR" rule, the market has begun to price risk the way we have always believed would be most efficient — SOFR plus margin. New issue CLOs have already migrated to an all-in spread over SOFR with no CSA and, as rate hikes loom, floor levels will

The new year has brought in the new dawn of SOFR loans: we are squarely in a SOFR world now



Source: S&P LCD and KKR Credit Analysis as of December 31, 2021

2022 CLOs Emerge..and Embrace SOFR

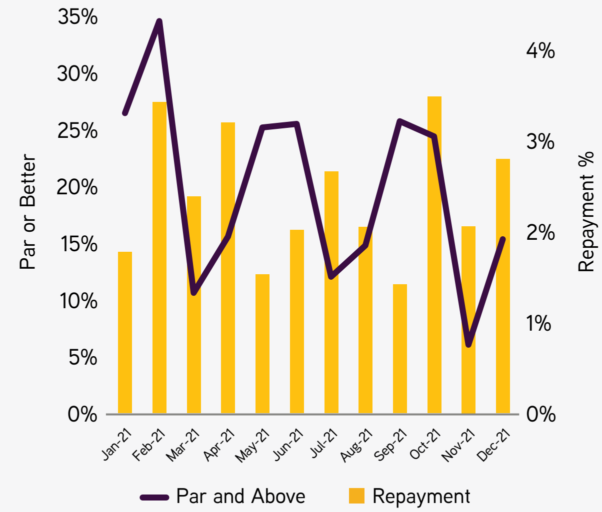


Source: KKR Credit Analysis and S&P LCD as of January 31, 2022 be met, and detract the need for a standalone CSA. While the CSA continues to appear in certain scenarios, it appears to be getting more concentrated around converting LIBOR debt facilities to SOFR debt facilities, which was the intended spirit of the original methodology as noted in [Never Say LIBOR Again.] We continue to believe the concept of a CSA will become moot in the near-future as LIBOR becomes more illiquid (given dealers are no longer able to make markets in the rate) and the vast majority of market participants are prohibited from transacting or originating new LIBOR risk. This all begs the question — what are you adjusting to?

Our involvement in the transition has been extensive and we have been fortunate to have a role in representing the loan market across our Private Equity, Credit and Capital Markets franchises. We leaned into the transition to demonstrate the industry significance as well as our understanding of the economics by syndicating our last U.S. LBO of 2021, Bettcher Industries, directly in SOFR in December. At the start of 2022, we have already been very active in SOFR — originating, investing, syndicating and arranging SOFR loans across our platform.

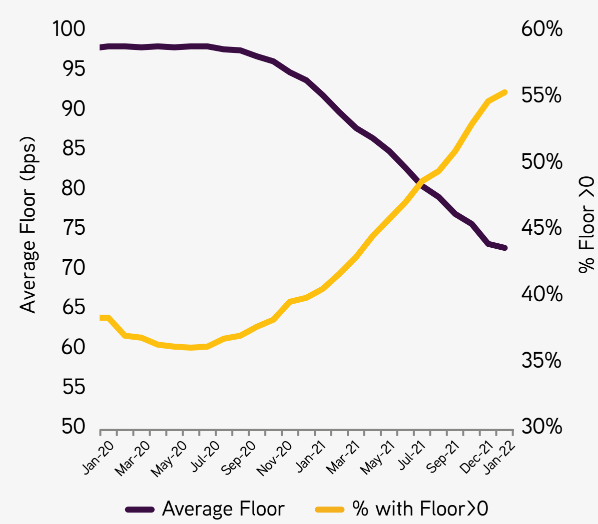
With rates backing up and a rotation into floating rate assets, we could envision leveraged loan floors potentially rising again. The average floor of the leveraged loan index has hovered at 100bps for the better part of a decade. However, today's floor levels on average sit below 73bps[31] and there could be inertia upward should the Fed continue to accelerate its tightening.

Loans Above Par and Repayment



Source: KKR Credit Analysis and S&P LCD as of December 31, 2021

Leveraged Loan Index Floors



Source: KKR Credit Analysis and S&P LCD as of December 31, 2021

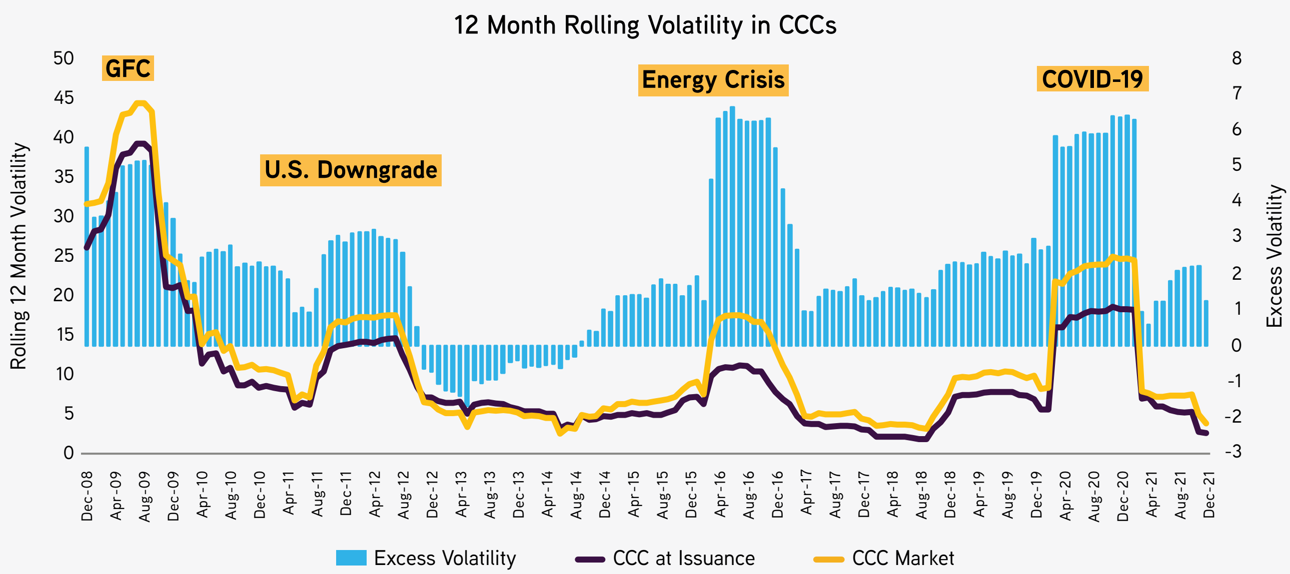
Identity

As we have seen in January, loans have weathered rate induced market volatility and in fact, CCC loans have been the strongest performers.

In our research, we compared CCC loans and bonds at issuance versus credits that had been downgraded to CCC. What we found was an interesting fact pattern of CCC risk at issuance displaying less volatility in times of distress than CCCs that had been downgraded to the CCC rating cohort. This rang true across both leveraged loans and high yield. We also examined the drawdown and down capture for risk issued at a CCC rating versus the broader market. The down capture for high yield CCCs is approximately 60% compared to the broader market, indicating to us that the yield for the right CCC asset has an attractive risk reward value proposition compared to many other areas of the market. We view this as compelling bellwether for credit selection and relative value in today's market. There are often times where a rating could skew the perception of the actual risk and it takes getting deep in the marshes to ascertain where the relative value truly lies. We do think rate driven volatility is here to stay for the moment and having shorter duration across the portfolio, with average life of CCCs typically three years, could increase alpha generation.

In January, while broader credit markets started to weaken under pressure, CCCs, the perceived riskiest part of the market, weathered the storm best. Year-to-date, CCC-rated bonds have outperformed equities by more than 1.3%, on a risk-adjusted and excess return basis. This is the widest margin of CCC outperformance for any month in which equities sold off by at least 5% since the GFC.[32]

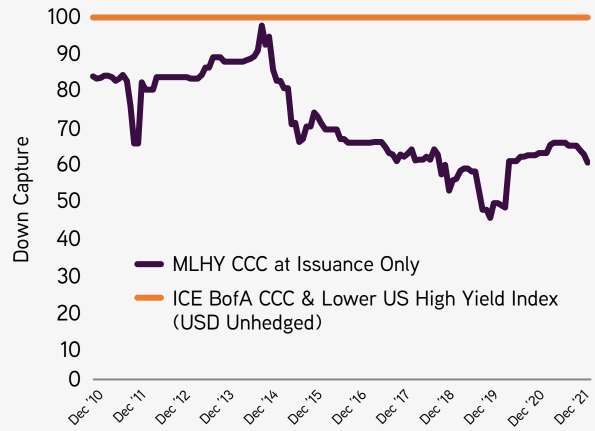
The misperception of CCC assets is one of the market's most powerful dualities: assets issued at CCC have historically displayed less volatility than assets that were downgraded into CCC territory



Source: ICE BofAML, FactSet, KKR Credit Analysis as of December 31, 2021

We often have spoken about a territory of the market we like to call "No Man's Land" where the credits may appear to be more storied or riskier than they truly are based on their *credit appearance*, but it is in this intersection of the market where one finds scarcity value and relative fundamental value. Given the dramatic shift in the composition of credit markets since the onset of COVID-19, we believe there has been a silent level of dispersion created at the underbelly of credit ratings, especially in high yield. The overall size of high carry securities coupled with low U.S. default rates has resulted in a reduced opportunity set.[32] On its face, this section of the market was perhaps overlooked as many investors shy away from the surface of a CCC rating; however to us, the CCC outperformance during the market's volatility has been a validation of our thesis that credit selection will always remain the number one priority for our platform.

CCC Issuance vs. Broader Market Downcapture



Source: ICE BofAML and KKR Credit Analysis as of December 31, 2021

Snap back to reality

Illustration by: Jerry Capria, KKR Credit.

Ambition

"We changed again, and yet again, and it was now too late and too far to go back... And the mists had all solemnly risen now, and the world lay spread before me."

To paraphrase the words of Dickens, we have seen the world change, and change again, and we know the path forward is going to look inevitably different. However, we remain incredibly excited about the forthcoming credit and capital markets opportunities. Our view remains steadfast: this is the time to be even more forward thinking and structurally creative across the corporate credit spectrum. In order to truly see where the market expectation lies, and determine where it may diverge, one needs to be in the markets day in and day out, curating exposure across the credit spectrum and gaining perspective on the multiple market segments. We have seen over the last two years the intense symbiosis that exists across the global market — that is here to stay. Thus, understanding relative value, having the ability to see beyond the surface, venturing into untapped portions of the market that are misperceived, are all attributes that make our team incredibly excited for the growth of our platform and the investment opportunities we believe lie ahead.

We have already started to see the market shift in an unambiguous fashion towards credit and we believe the time for increased credit exposure is now. The great rotation is underway as the market looks to recalibrate risk after a colossal run and we are ready for it. Our thesis remains the same — the market is more fragmented, fragile, and concentrated then it seems on its face and this will present opportunities. We will continue to learn with this market and pivot where the road takes us.

Thank you to our investors for your continued trust throughout 2021 as we navigated through our version of the marshes. We know it has been a long road for many over these last two years and we feel fortunate to have such a deep partnership with you all across our platform.

Christopher A. Sheldon

REFERENCES

1. S&P LCD and KKR Credit Analysis as of December 31, 2021
2. S&P LCD and KKR Credit Analysis as of December 31, 2021
3. ICE BofAML, S&P LSTA, and KKR Credit Analysis as of December 31, 2021
4. S&P European Leveraged Loan Index (ELLI) and KKR Credit Analysis as of December 31, 2021
5. S&P LSTA and KKR Credit Analysis as of December 31, 2021
6. S&P LCD and KKR Credit Analysis as of December 31, 2021
7. ICE BofAML and KKR Credit Analysis as of December 31, 2021
8. S&P LCD and KKR Credit Analysis as of December 31, 2021
9. ICE BofAML and KKR Credit Analysis as of December 31, 2021
10. ICE BofAML and KKR Credit Analysis as of December 31, 2021
11. KKR Global Macro Asset Allocation, KKR Credit Analysis, Bloomberg IGDCWRLD Index as of December 31, 2021
12. Bureau of Labor Statistics Consumer Price Index Summary
13. Bureau of Labor Statistics Consumer Price Index Summary
14. FOMC Statement page 5 on January 26, 2022
15. Refinitiv Lipper Research, JPMorgan Research, and KKR Credit Analysis as of February 1, 2022
16. Refinitiv Lipper Research, JPMorgan Research, and KKR Credit Analysis as of February 1, 2022
17. Morningstar, Bloomberg, and KKR Credit Analysis as of January 30, 2022
18. Morningstar, Bloomberg, and KKR Credit Analysis as of January 30, 2022
19. S&P LCD and KKR Credit Analysis as of December 31, 2021
20. S&P LCD and KKR Credit Analysis as of December 31, 2021
21. S&P LCD and KKR Credit Analysis as of December 31, 2021
22. S&P LCD and KKR Credit Analysis as of December 31, 2021
23. S&P LCD and KKR Credit Analysis as of December 31, 2021
24. S&P LSTA and KKR Credit Analysis as of December 31, 2021
25. S&P LSTA and KKR Credit Analysis as of December 31, 2021
26. S&P LCD and KKR Credit Analysis as of December 31, 2021
27. S&P LCD and KKR Credit Analysis as of December 31, 2021
28. S&P LCD and KKR Credit Analysis as of December 31, 2021
29. S&P LCD and KKR Credit Analysis as of December 31, 2021
30. S&P LCD and KKR Credit Analysis as of December 31, 2021
31. S&P LCD and KKR Credit Analysis as of December 31, 2021
32. Goldman Sachs Research and KKR Credit Analysis

DISCLAIMER

The views expressed in this material are the personal views of Christopher A. Sheldon and the Leveraged Credit Team of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of KKR itself. The views expressed reflect the current views of Mr. Sheldon and the Leveraged Credit Team as of the date hereof and neither Mr. Sheldon and the Leveraged Credit Team nor KKR undertakes to advise you of any changes in the views expressed herein. In addition, the views expressed do not necessarily reflect the opinions of any investment professional at KKR, and may not be reflected in the strategies and products that KKR offers. KKR and its affiliates may have positions or engage in securities transactions that are not consistent with the information and views expressed in this material. This material has been prepared solely for informational purposes. The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this material has been developed internally and/or obtained from sources believed to be reliable; however, neither KKR nor Mr. Sheldon and the Leveraged Credit Team guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. The information in this material may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this material, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Performance of all cited indices is calculated on a total return basis with dividends reinvested. The indices do not include any expenses, fees or charges and are unmanaged and should not be considered investments. The investment strategy and themes discussed herein may be unsuitable for investors depending on their specific investment objectives and financial situation. Please note that changes in the rate of exchange of a currency may affect the value, price or income of an investment adversely. Participation of, and discussions with, KKR private markets personnel, KKR Capital Markets and KKR Capstone personnel, Senior Advisors, Industry Advisors and, if applicable, RPM and other Technical Consultants, in KKR Credit's investment activities is subject to applicable law and inside information barrier policies and procedures, which can limit or restrict the involvement of, and discussions with, such personnel in certain circumstances and the ability of KKR Credit to leverage such integration with KKR.

KKR

Kohlberg Kravis Roberts & Co. L.P.
30 Hudson Yards
New York, New York 10001
212-750-8300
www.kkr.com

Twitter: @KKR_Co

Linkedin: /company/kkr

Visit us on **YouTube**