



KKR

Global Wealth Investment Playbook

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Quarterly Takeaways

01

While we expect disinflation to continue this year, our thesis around Tectonic Shifts driving a higher inflation bias leading to higher rates remains intact. This Regime Change requires a shift from the traditional 60/40 asset allocation to meet return goals, hedge against inflation, and achieve diversification.

02

Tectonic Shifts (energy transition, geopolitical tensions, labor shortages and massive investments in AI) as well as a combination of loose fiscal policy resulting in higher deficits and tight monetary policy have driven the creation of a new regime of higher and more volatile rates and slower, though positive, real GDP relative to the pre-Covid average.

03

While we expect elevated rates to lead to disinflation and a growth slowdown ultimately resulting in central bank rate cuts by the end of this year, we expect the new regime to persist in the long term.

04

Even in 2024, the stock-bond correlation will likely remain elevated as fixed income instruments continue to perform amid the disinflationary impulse and higher yields, while public equity performance remains positive, but slows. Cash appears to have attractive current returns relative to risk assets but exhibits large reinvestment risk as front-end rates fall.

05

Against this backdrop, private market Alternatives become even more critical to boost returns, hedge against inflation, reduce volatility, and increase diversification.



The New Regime

The New Investing Environment

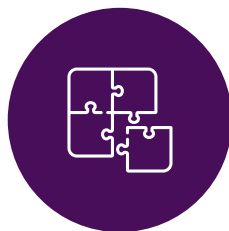
New Macro Regime

- Higher Inflation And Rates
- Asynchronous Regional Cycle
- Slower Real Economic Growth



Implications For Asset Allocation

- Lower Asset Class Returns
- Shifts In Asset Class Correlations



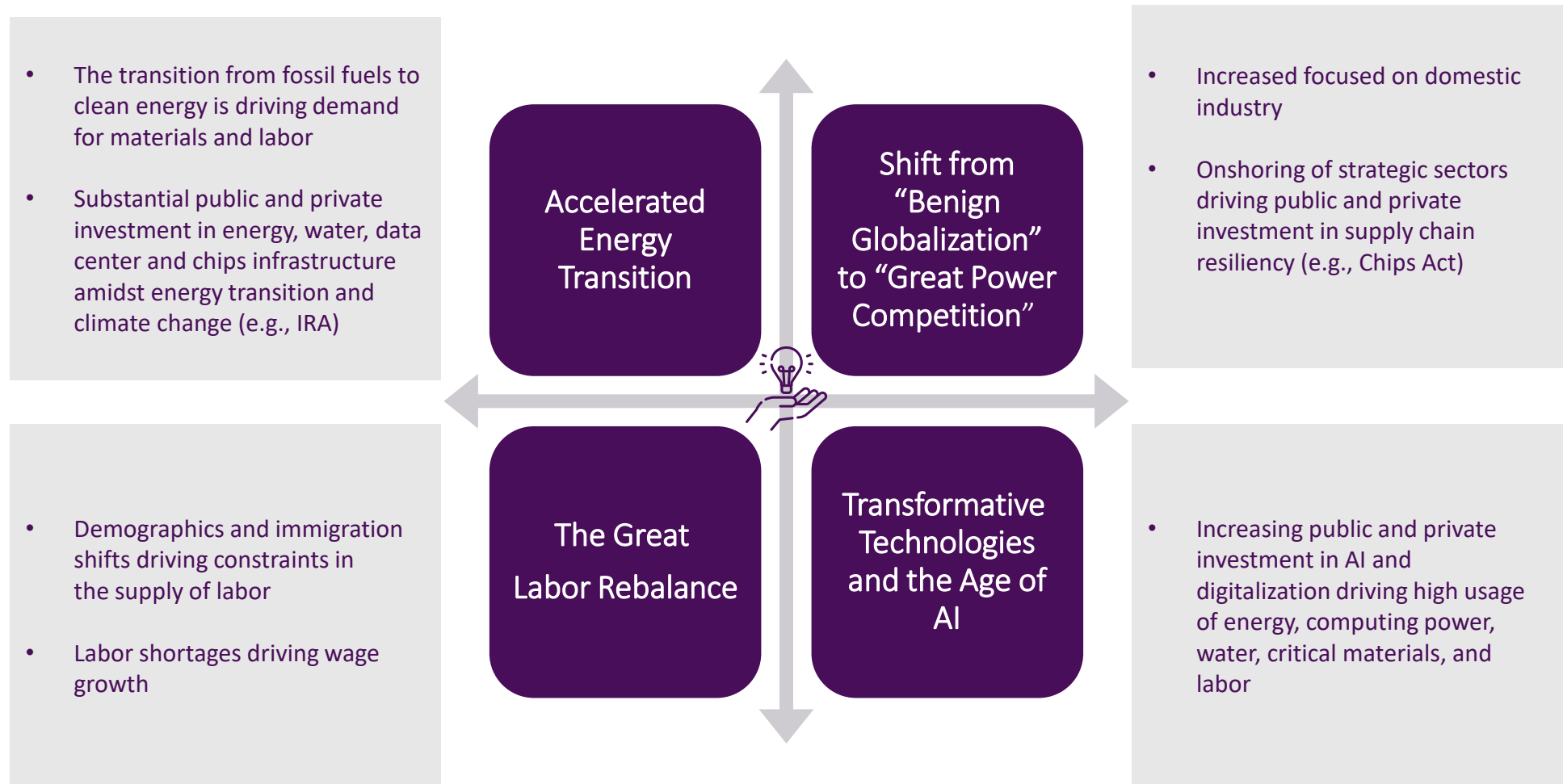
Opportunities In Private Assets

- Increased Importance Of Alternatives
- Control-Equity/Real Assets Outperformance
- Regional Diversification



We Believe The Tectonic Shifts Continue To Support A Higher Inflation Bias

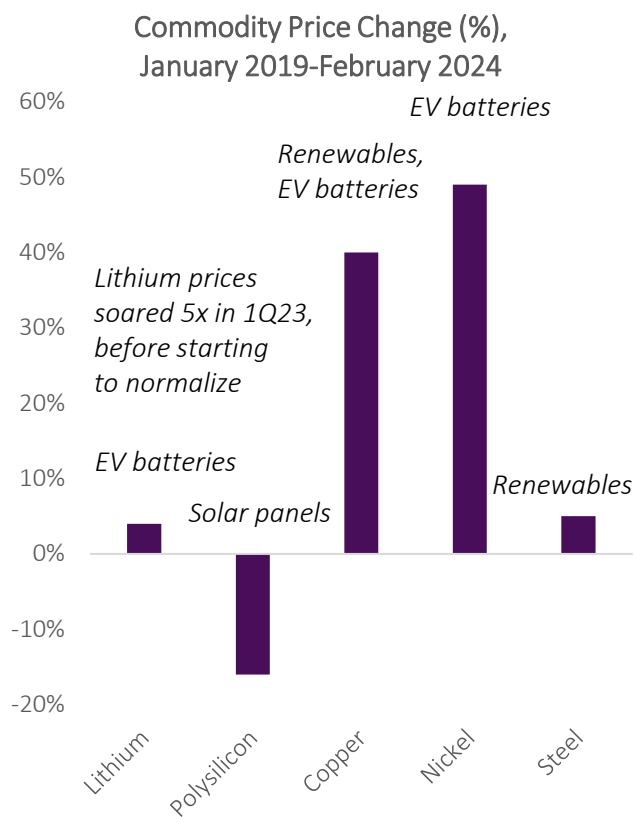
Major Shifts That Have Emerged From The Covid-19 Disruption And Russia's Invasion Of Ukraine Are Upholding A Higher Inflationary Bias In The System



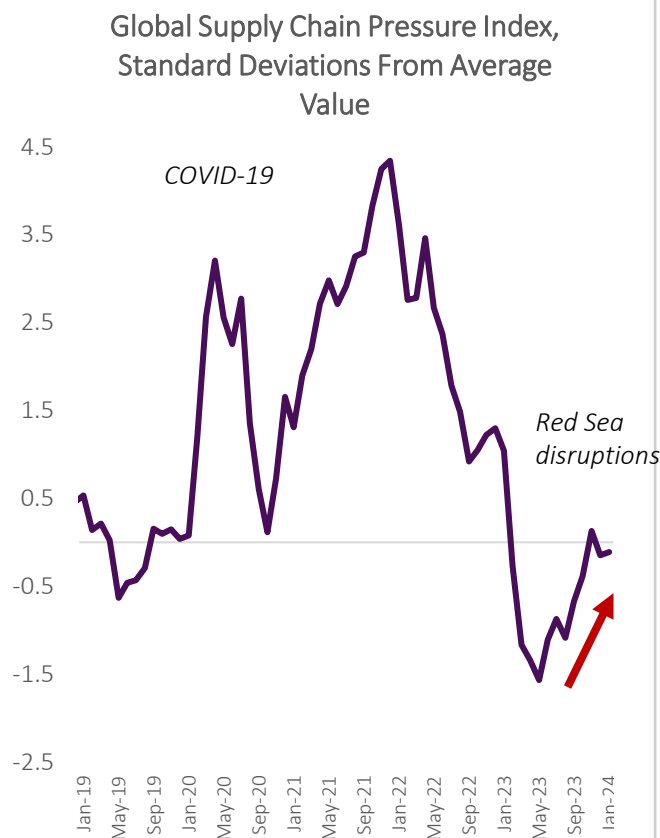
On Net Climate Change And The Energy Transition Are Inflationary In The Short Term

- While China deflation will likely continue to lead to lower prices for some critical materials like lithium (as well as electronics, apparel and furniture, for example), prices for copper and nickel remain elevated, and supply chain disruptions arising from geopolitical conflicts will on net support elevated core goods inflation.
- Moreover, we expect the trillions in capex required to green the economy as well as the increased frequency of extreme weather events to result in a higher inflationary bias through 2030. Competition for labor supporting green energy, construction, and manufacturing jobs, will likely drive higher labor costs. More frequently occurring extreme weather events are also likely to lead to increased infrastructure spending, higher insurance costs, and potentially agricultural losses resulting in higher food prices.

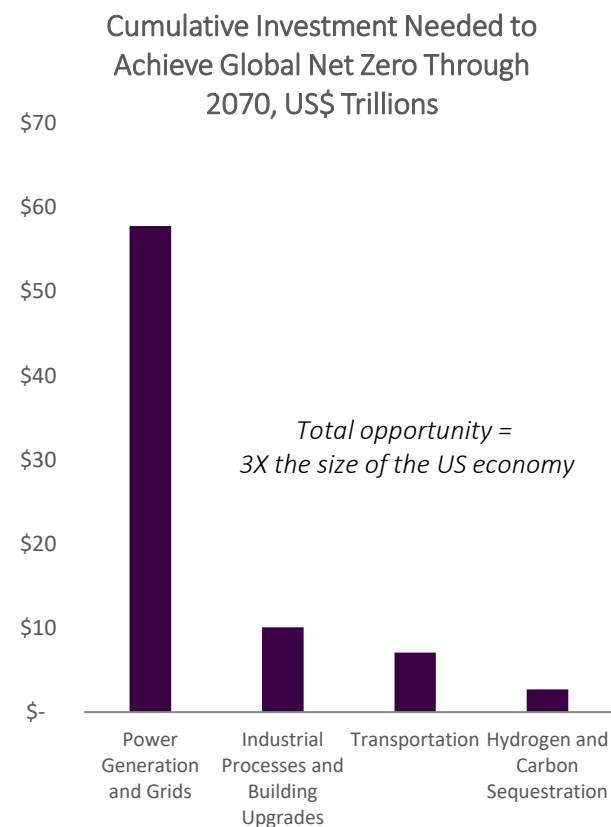
We Expect Deflation In Critical Materials Heavily Sourced In China To Persist (e.g., Lithium, Polysilicon) To Impact Core Goods Prices



Deflation In China Has Spillover Effects, But Supply Chain Dynamics Have Become More Important Drivers



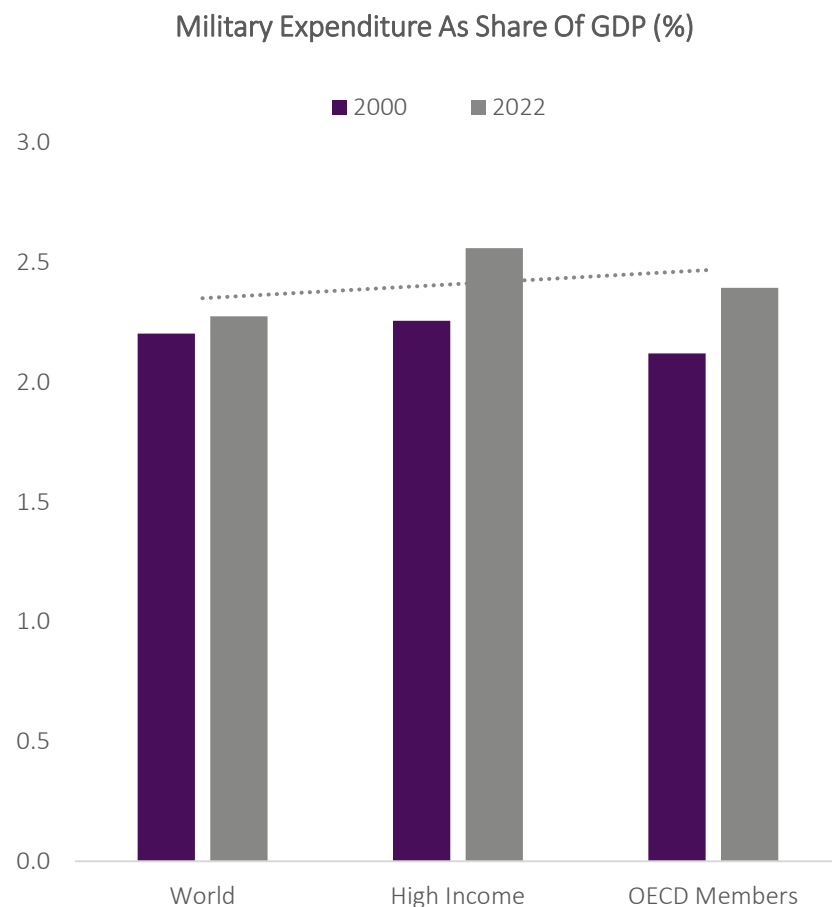
In the Short Term, Private And Public Spending On Net-Zero Continues To Drive Prices Higher—Until The Cost Of Energy Declines Substantially



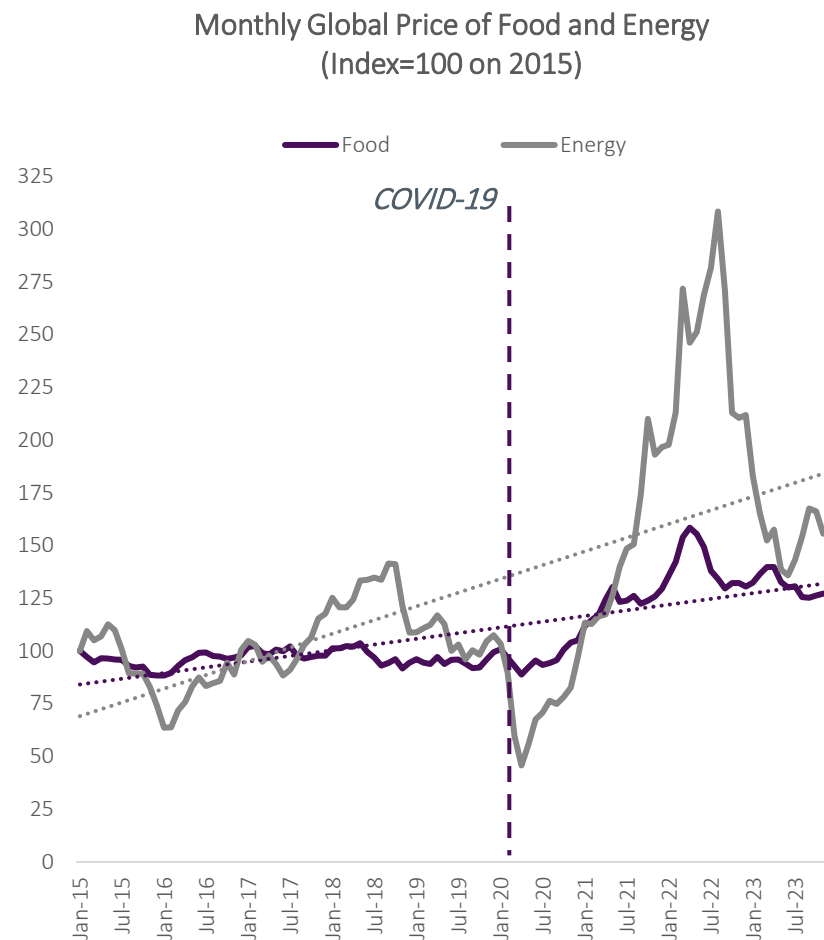
Increased Geopolitical Tensions Suggest Higher Commodity Prices And A Sticky Uptick In Defense Spending

- Geopolitical tensions have prompted corporates and public entities to onshore facilities and source products closer to home, driving higher infrastructure spending and higher goods prices in the short term. In the U.S., approximately two millions jobs have been reshored since 2010— about 40% of what the U.S. lost to offshoring over the last 40 years, according to the Reshoring Initiative.
- Nearshoring has also been picking up pace to shorten freight times and complexities. The share of companies nearshoring has increased from 11% in 2021 to 42% in 2023 as per McKinsey's supply chain survey. Mexico and Canada are popular destinations for U.S. corporates.

Global Defense Spending Has Been Increasing For The Last Two Decades

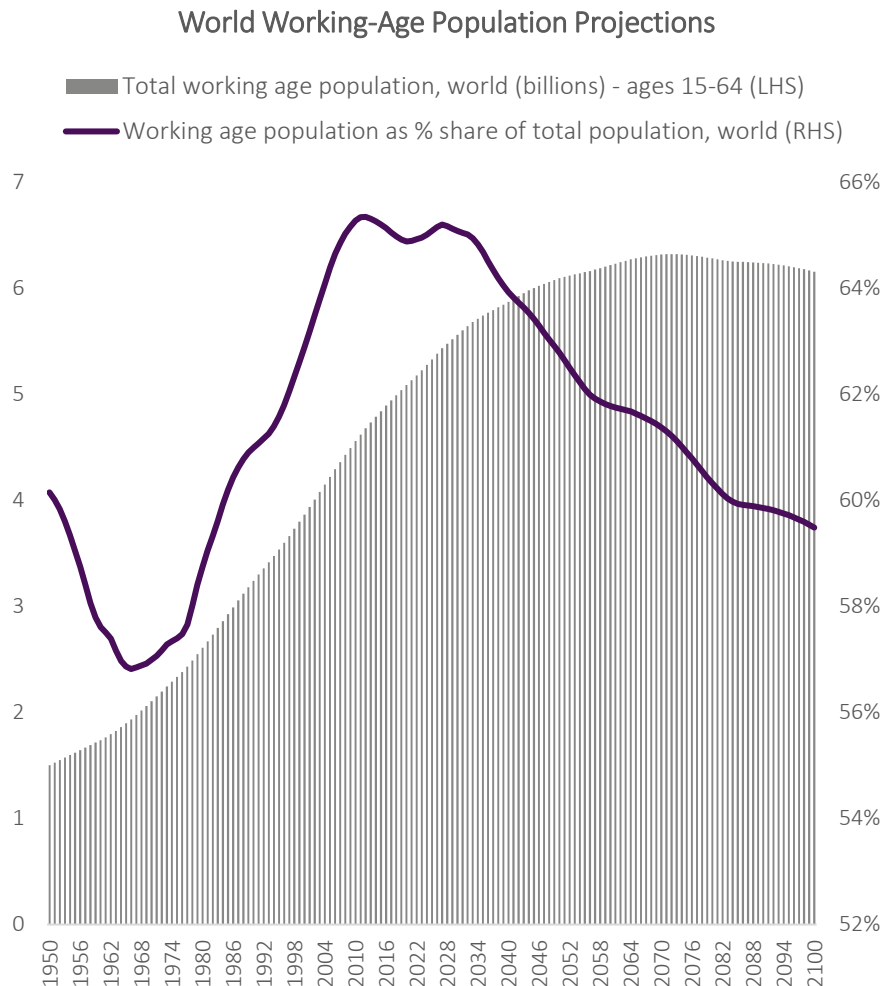


Global Prices Of Food And Energy Remain ~30-45% Higher Than Before The Pandemic

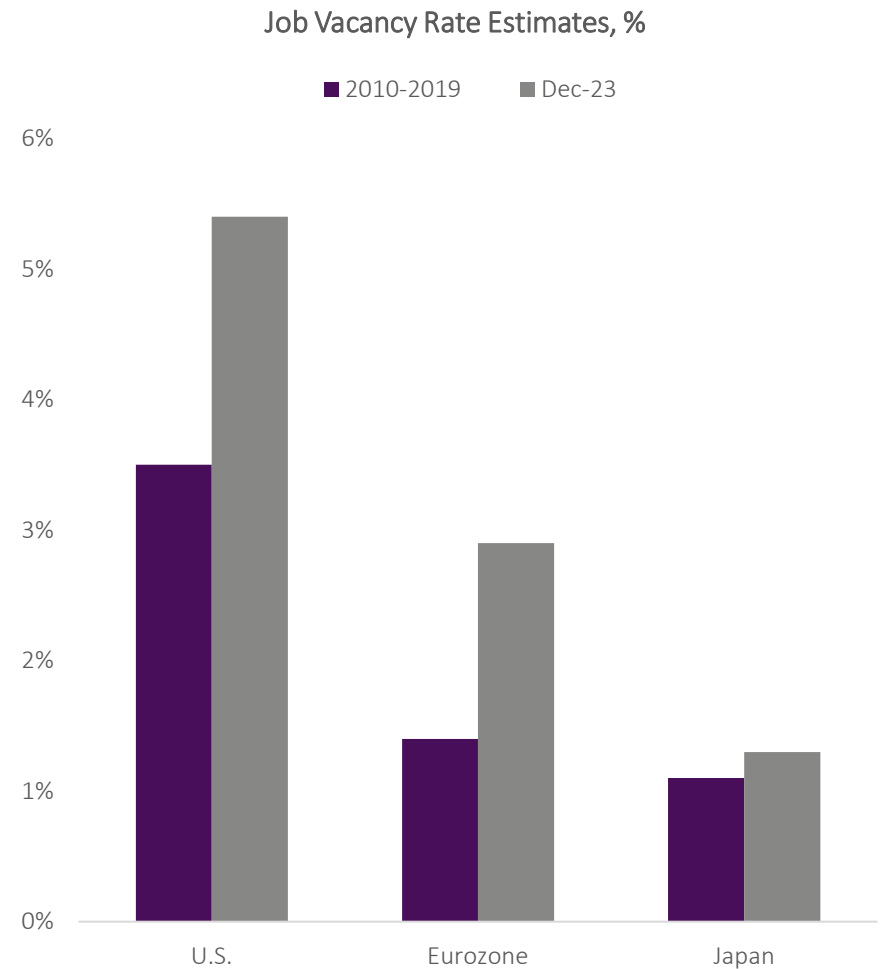


Global Demographics Look Inflationary Over The Next Decade

An Aging Population And Low Birth Rates Are Limiting The Supply Of Workers



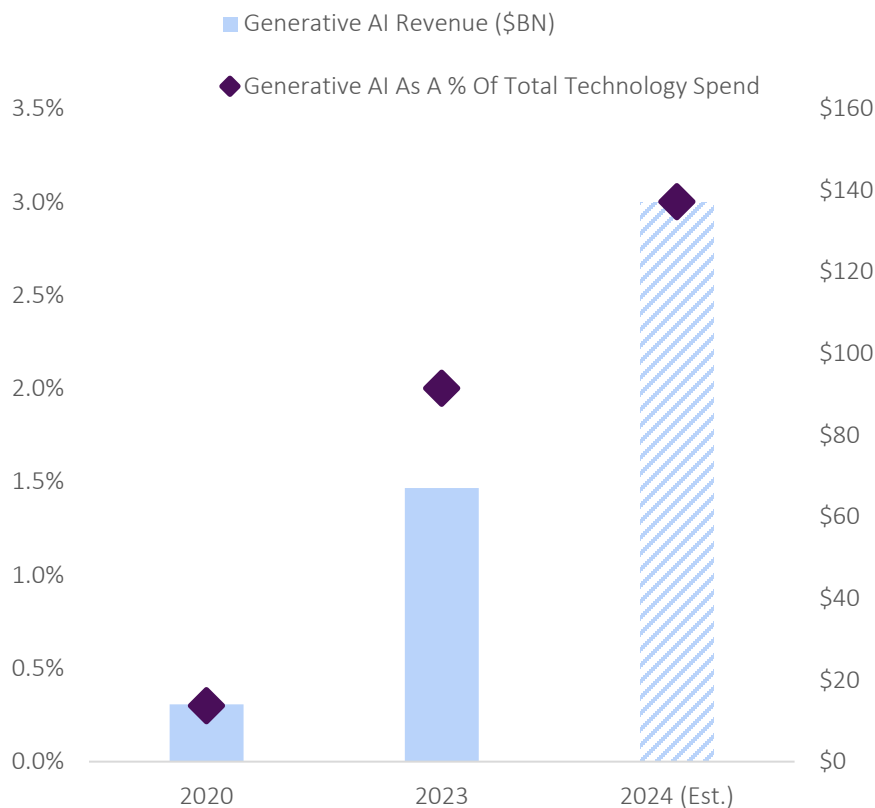
Job Vacancy Rates Remains Elevated Relative To Pre-Pandemic Levels, Putting Pressure On Wages



AI And Transformative Tech Require Massive Investment In Infrastructure To Scale

Globally Corporate Spending On AI Surged In 2023 And The Boom Is Likely To Continue, We Believe

Global Generative AI Expenditures And Revenue Estimates



Scaling Of Transformative Tech Entails Substantial Investment In Energy, Semiconductor, And Water Infrastructure

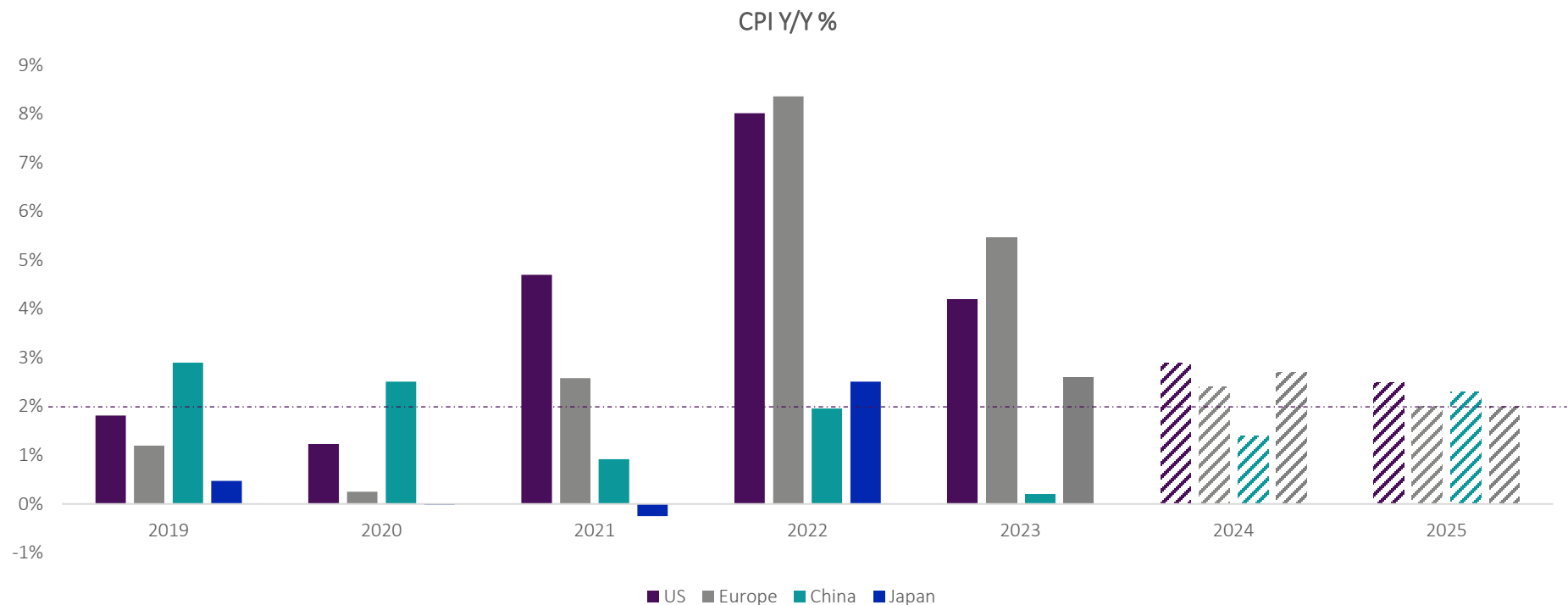
Global Trends In Energy Usage, 2015-2022

Indicator	2015	2022	% Delta
Internet users	3 billion	5.3 billion	+78%
Internet traffic	0.6 ZB	4.4 ZB	+600%
Data center workloads	180 million	800 million	+340%
Data center energy use (excluding crypto)	200 TWh	240-340 TWh	+20-70%
Crypto mining energy use	4 TWh	100-150 TWh	+2300-3500%
Data transmission network energy use	220 TWh	260-360 TWh	+18-64%

Left –Data as at June 2023. Source: Bloomberg Intelligence, IDC. Right–Data as at December 2022. Sources: IEA, Internet users [ITU (2023)]; internet traffic [IEA analysis based on Cisco (2015); TeleGeography (2022); TeleGeography (2023); Cisco (2019), Cisco Visual Networking Index]; data centre workloads [Cisco (2018), Cisco Global Cloud Index]; data centre energy use [IEA analysis based on Malmodyn & Lundén (2018); ITU (2020); Masanet et al. (2020); Malmodyn (2020); Hintemann & Hinterholzer (2022); Malmodyn et al. (2023)]; cryptocurrency mining energy use [IEA analysis based on Cambridge Centre for Alternative Finance (2023); Gallersdörfer, Klaaßen and Stoll (2020); McDonald (2022)]; data transmission network energy use [Malmodyn & Lundén (2018); Malmodyn (2020); ITU (2020); Coroama (2021); GSMA (2022); GSMA (2023); Malmodyn et al. (2023)].

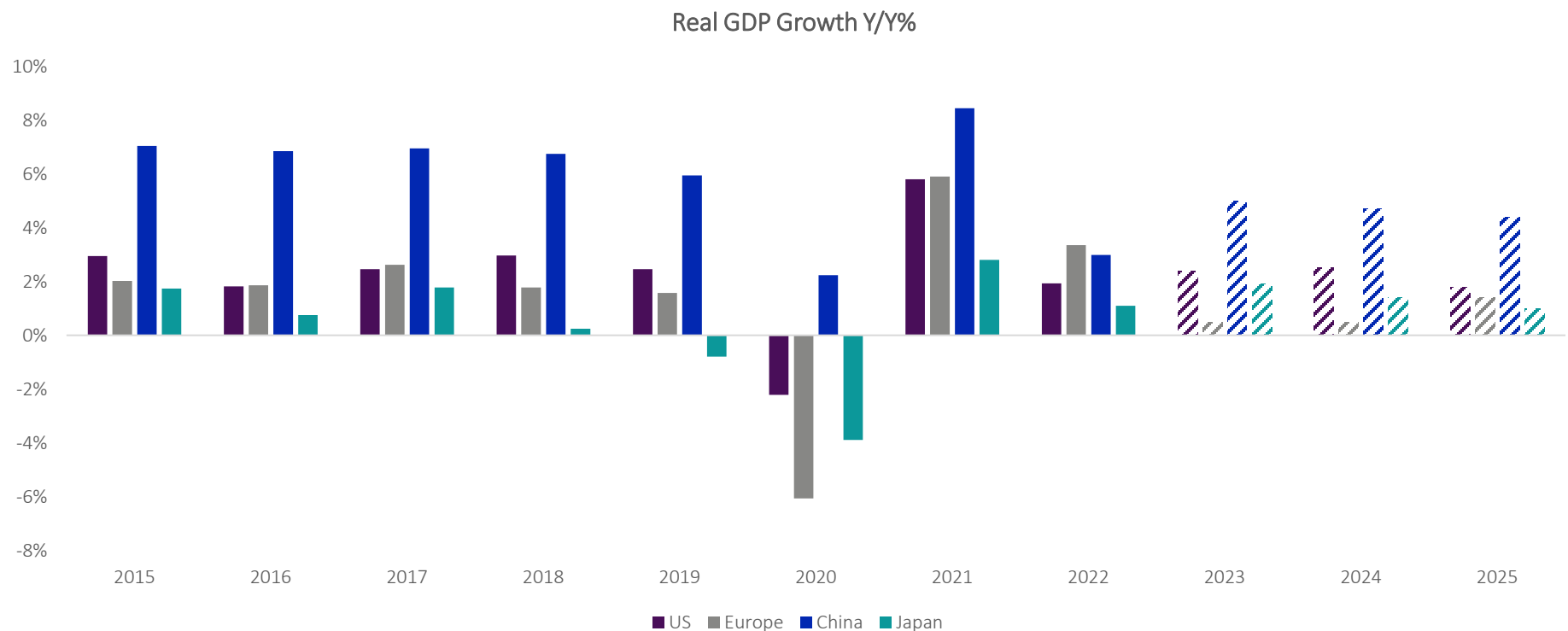
So, While We Expect Further Disinflation, We Expect Price Growth to Remain Volatile with Surprises to the Upside

- Our Global Macro team expects inflation to fall next year in the US and Europe, but the path will be volatile. The structural labor shortage, insufficient housing supply, ongoing geopolitical conflicts and the energy transition are drivers of elevated inflation.
- **US:** While we expect inflation to continue to trend lower, we see inflation remaining above the Fed's 2% inflation target over the next 5 years.
- **Europe:** We expect falling energy prices and rising labor market slack to drive disinflation though sticky core inflation driven by stronger than expected real wage growth, higher energy prices, or the green transition present upside risks.
- **Asia:** We see a disinflationary impulse in China with upside risk from higher oil and food prices while Japan is now transitioning from a long period of deflation to one of inflation, led by labor shortages and higher wages.



Inflation is Supporting Nominal GDP Growth in this Asynchronous Global Cycle

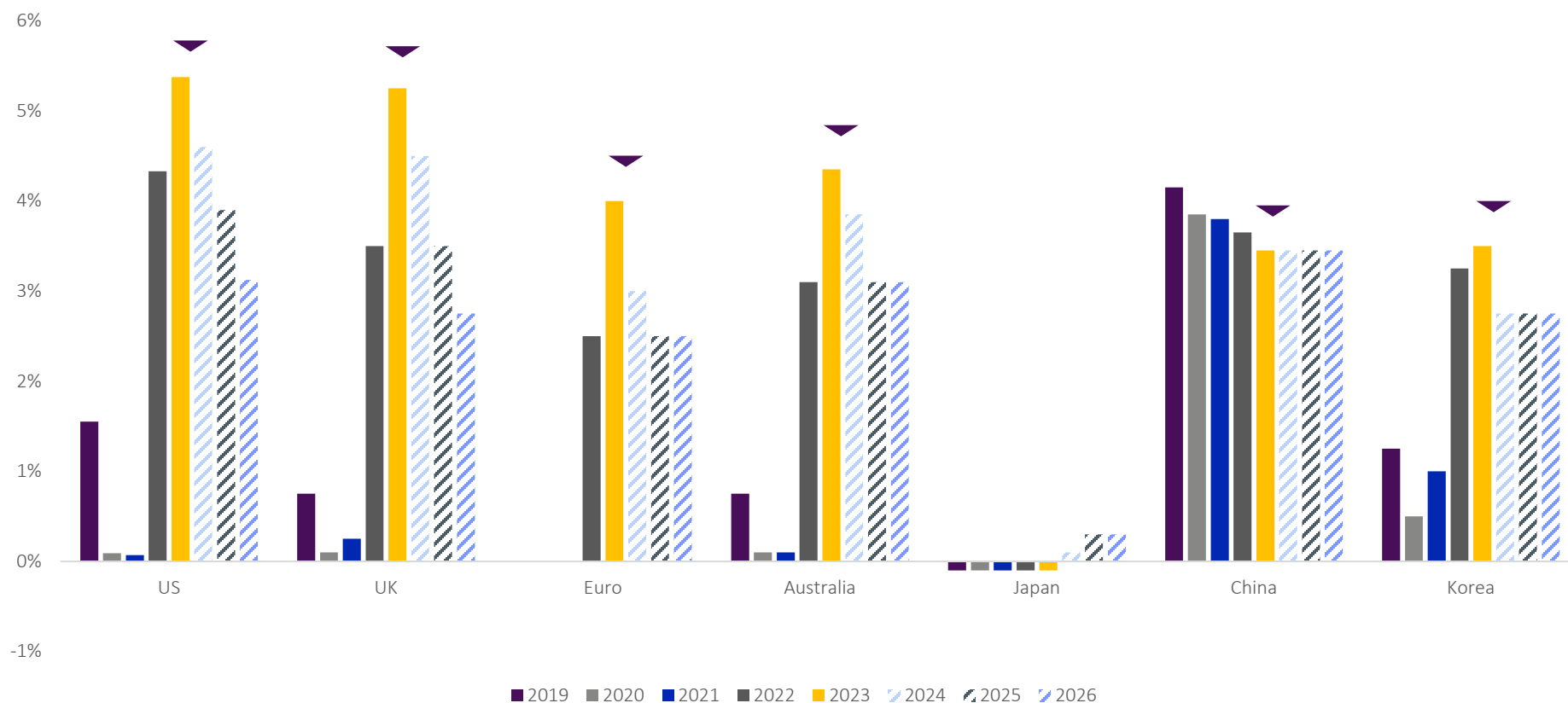
- Our Global Macro team continues to see an asynchronous cycle with Europe and China experiencing slower growth while US and Japan reflect above-average nominal growth.
- **US:** The impact of higher interest rates will likely lead to a mild US downturn over the next 12 months but both real and nominal GDP growth should remain positive amid relatively low corporate default risk and solid labor markets.
- **Europe:** We expect growth in the Euro Area to bottom this year, with a modest rebound beginning to bear fruit amid disinflation and rate normalization. We have seen a reversal in relative performance between periphery and core countries, with Germany in recession but Portugal/Greece exhibiting stronger growth.
- **Asia:** We expect range bound growth in Asia with slowing and weaker than expected growth in China - given continued weakness in the property sector, sluggish goods exports and a weaker consumer, mitigated by better than expected, albeit also slowing growth in Japan driven by rising wages and a recovery in tourism.



Central Banks Will Likely Be Able To Cut Rates In The Back Half Of This Year

- Following an aggressive central bank tightening cycle to combat sticky inflation, we see global policy rates starting to fall this year, supporting risk assets.
- In the US, we believe the Fed is at the end of its hiking campaign and will begin cutting rates this year. Despite these moves at the short end of the curve, resilient growth and inflation imply a term premium for treasury yields, we see 10-year Treasury yields ending 2024 near current levels, at 4.25%.
- We expect the Bank of Japan to continue to normalize policy rates amidst elevated inflation, albeit from a low base. Elsewhere, our colleagues expect further policy easing in China via quantitative easing amid a disinflationary backdrop and higher bond yields, hurting the property sector.

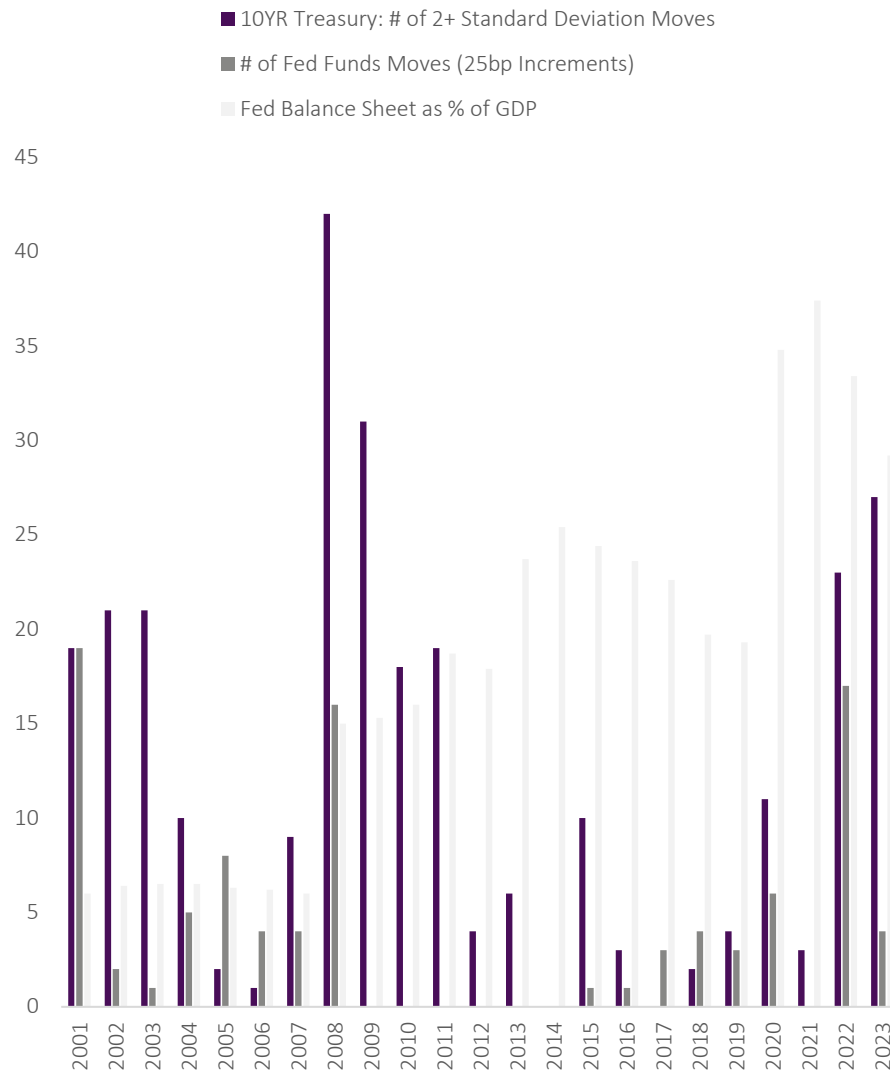
Policy Rate Expectations



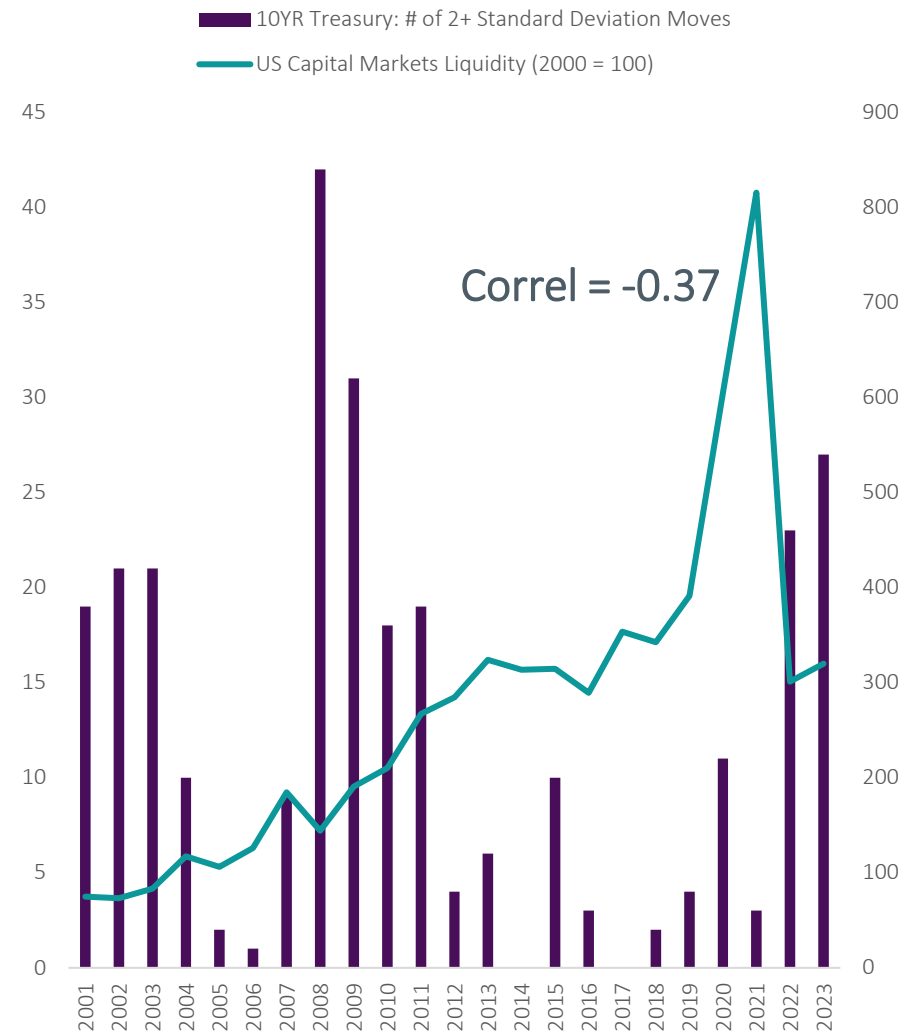
Extremely High Rate Volatility Should Subside And Support Markets

- As the Fed switched to a tighter monetary policy stance from an era of loose financial conditions, rate volatility has jumped upwards.
- High rate volatility makes investment decisions more difficult, given the increased uncertainty over valuations, which should support better capital markets activity as volatility comes off its highs in 2024.

Treasury Market Volatility Influenced By Monetary Policy



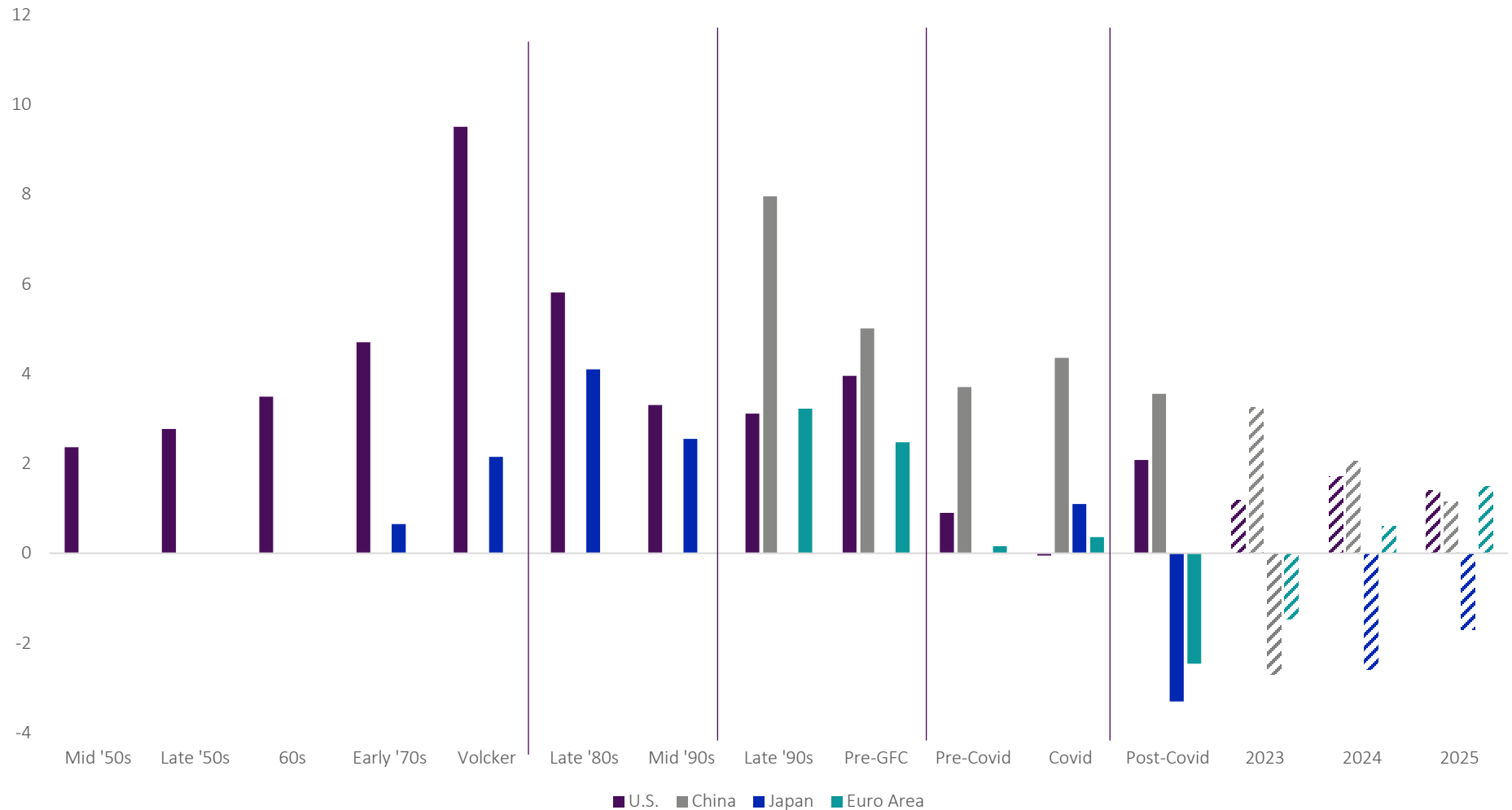
High Rate Volatility Creates Difficult And Uncertain Investing Environments



Real Rates Will Peak This Year But Remain Historically Low

































- Importantly, we expect real yields to remain relatively low – particularly in many Asian countries, versus a typical central bank hiking cycle. A low inflation adjusted interest rate encourages more risk taking as investors seek to generate a return that exceeds inflation.

Peak Real Rates During U.S. Federal Funds Rate Hiking Cycles



In Terms Of Current Consumer Health, There Is Some Divergence Across Geographies And Income Levels

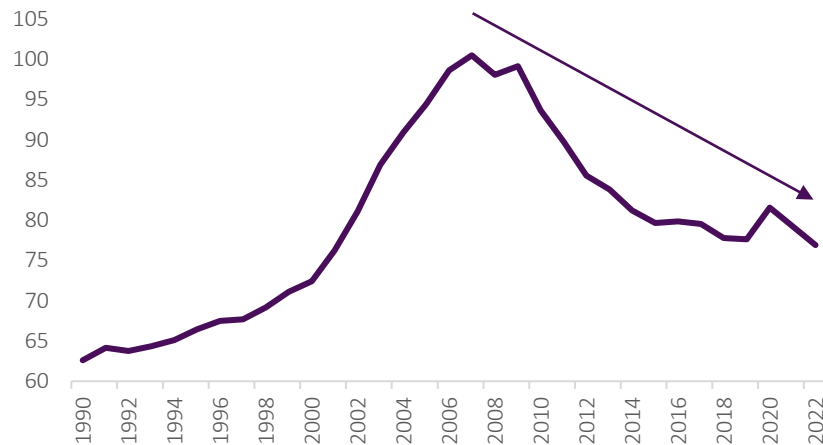
- The **U.S.** consumer has proven stronger than expected on the back of cooling inflation, a resilient labor market, decent housing activity, and solid public equity returns in 2023. However, low- to middle-income consumers appear stretched, weighing on overall sentiment.
- Consumers in the **Eurozone** are also in solid shape testament to a buffer of excess savings, very low unemployment, and signs of positive real wage growth slowly surfacing. That said, the Middle East conflict and troubles in the Red Sea raise additional inflationary risks.
- **Japanese** consumers are faring decently; however, Japan is likely exiting deflation, which may put some pressure on future consumer dynamics. Chinese consumers remain weaker relative to history (2010 onwards) and as compared to other regions. **China** faces continued housing woes and COVID scarring.

	US	Eurozone	Japan	China
Current Composite Score <i>(Relative to 2010-onwards history)</i>				
Momentum Trajectory <i>(Relative to June 2023)</i>				
Unemployment				
Real Wage Growth				
Real Spending				
Home Prices				
Sentiment				
Equity Market Volatility				

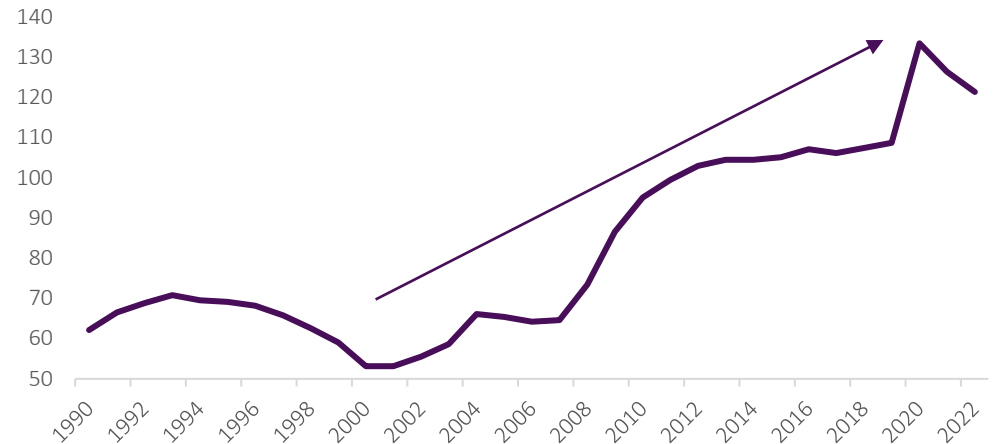
This Cycle, Leverage In The System Is Concentrated In The Government

- Unlike previous cycles where corporates or consumers were over levered, this cycle is marked by an indebted government.
- Net issuance has contracted massively, except when it comes to government bonds.
- This backdrop requires, we believe, a dramatic shift in one's asset allocation towards assets more linked to nominal GDP, not to over-indebted financial assets like government bonds linked to the low inflation, low growth world we are leaving.

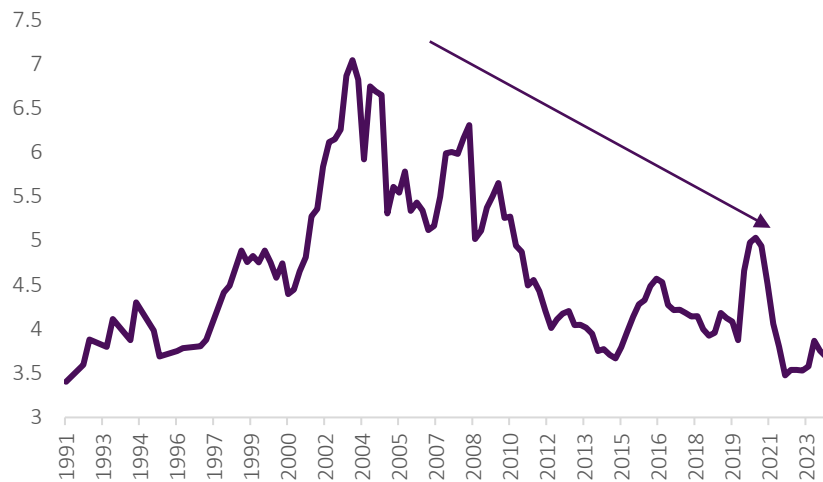
Household Debt as % of US GDP



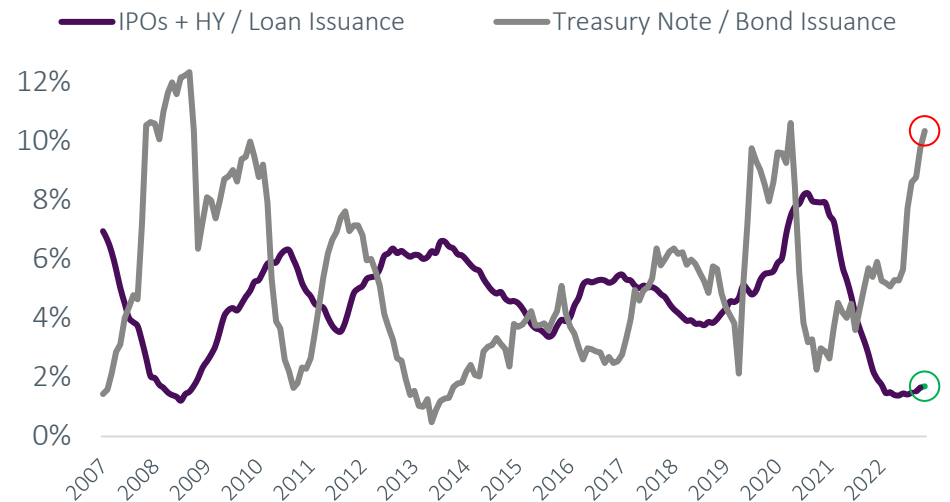
US Gov Debt as % of GDP



S&P 500 Total Debt-to-EBITDA



Capital Markets Liquidity, Trailing Twelve Months, as a % of GDP



Globally 2024 Will Be A Historical Year For Public Policy, And Another Source Of Volatility In Public Markets

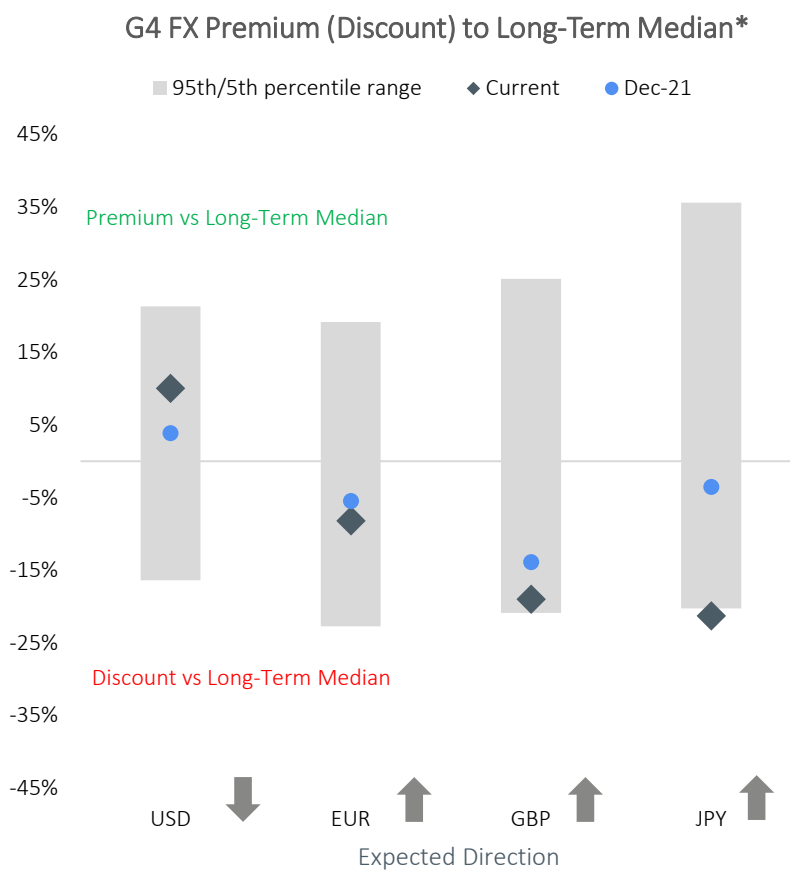
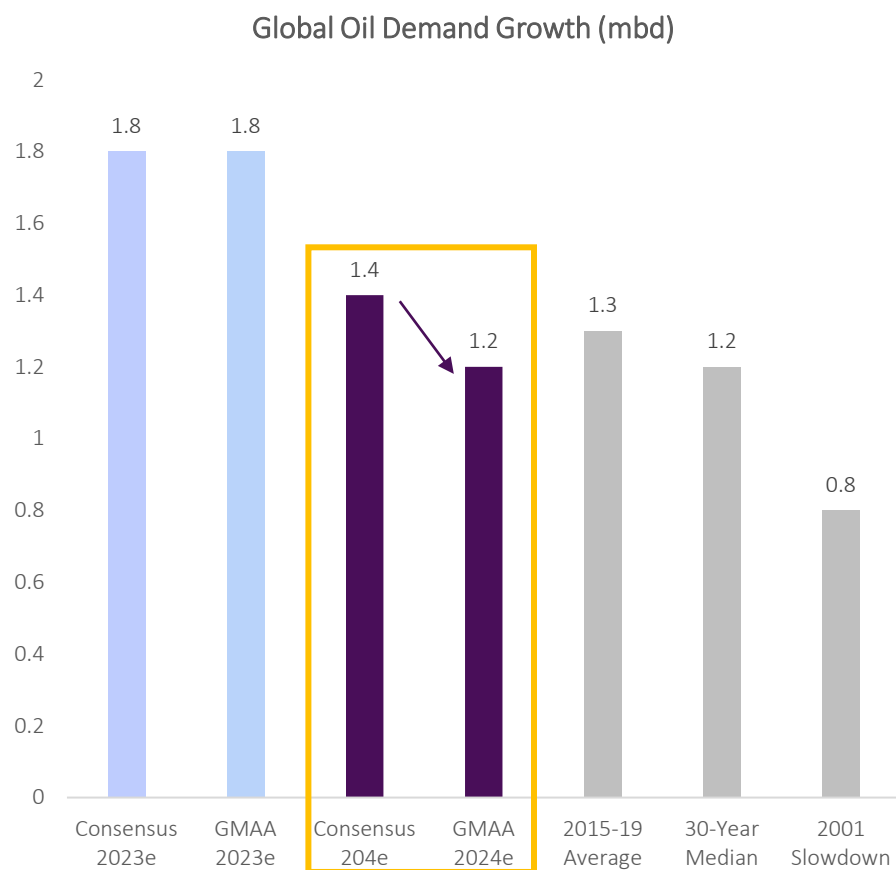
- In 2024, elections will occur in countries that make up over 60% of global GDP including in four of the world's largest countries (US, India, European Parliament, Russia). We expect some common themes and policy areas of focus across many of these elections, including geopolitical issues, homeland economics, migration issues, populism and institutional distrust, and social media & AI distortions.
- Importantly, the 2024 U.S. election will likely be the most significant fiscal event globally in 2024. Policy uncertainty will likely lead to increased volatility in public markets. In times of heightened volatility and “short-termism,” exposure to long-term structural trends (like Tectonic Shifts) could prove a defining edge in generating outperformance. Alternatives, which offer regional and asset class diversification benefits, can mute some volatility. Returns of many Private asset classes tend to rely more heavily on longer-term value-creation levers, such as operational improvement, and are less exposed to the daily repricing seen in traditional asset classes.

2024 Election Map



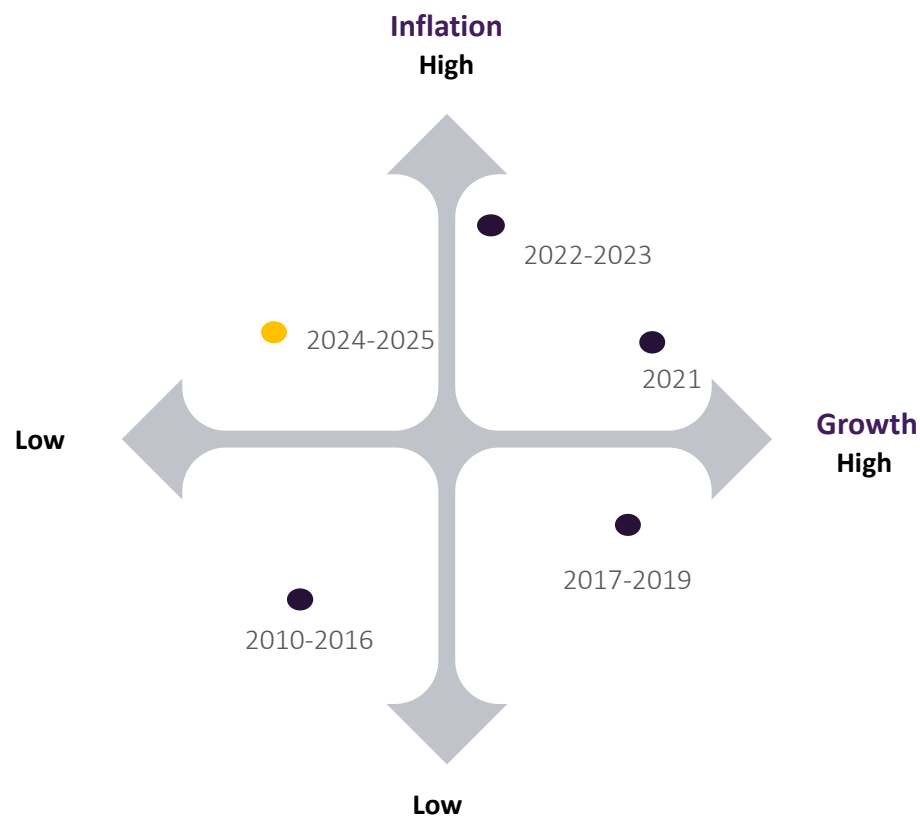
Dollar Softening Should Follow As Policy Eases, Supporting Financial Conditions Globally

- We expect oil prices to settle in the mid-\$70-80 range in 2024 amid slower global demand and better global supply. Longer term, though, we still think '\$80 is the new \$60.' As such, our longer-term forecasts remain well above futures, which continue to embed prices falling to mid-\$60-70 in 2025 and beyond.
- Driven by the rapid pace of Fed tightening over last 24 months, as higher yields attracted global investors, the USD has surged but dollar softening/stabilization should follow as policy eases, supporting financial conditions globally.

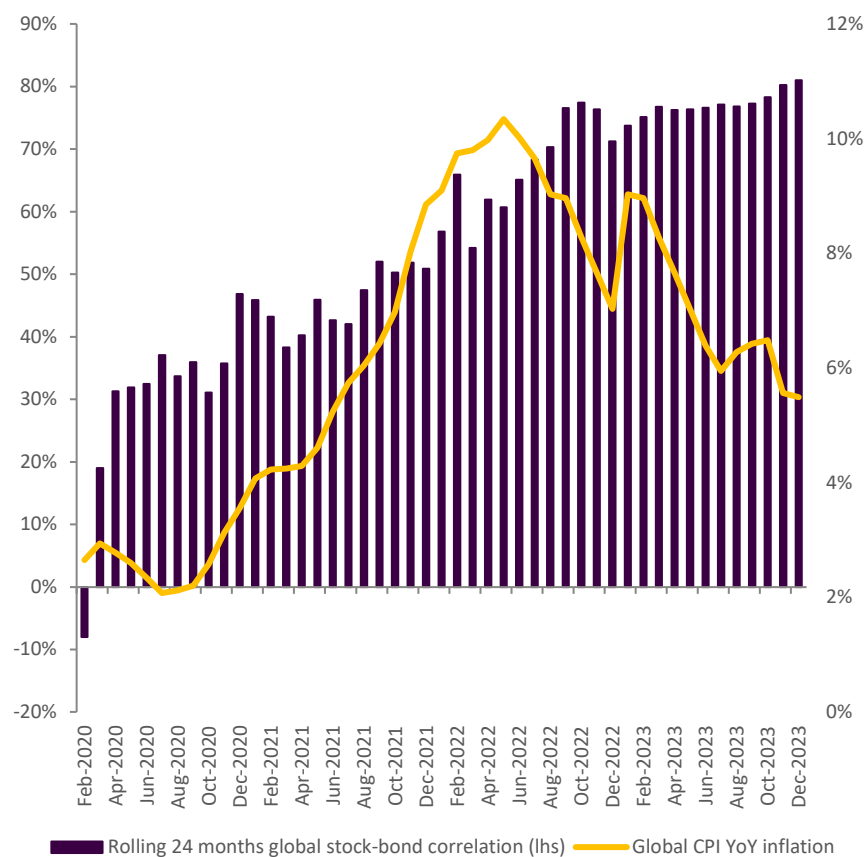


We Believe Investors Need To Re-Assess Their Portfolios In This New Regime

A Regime Change Has Occurred



The Correlation Between Global Stocks and Bonds Remains Elevated in This Inflationary Environment

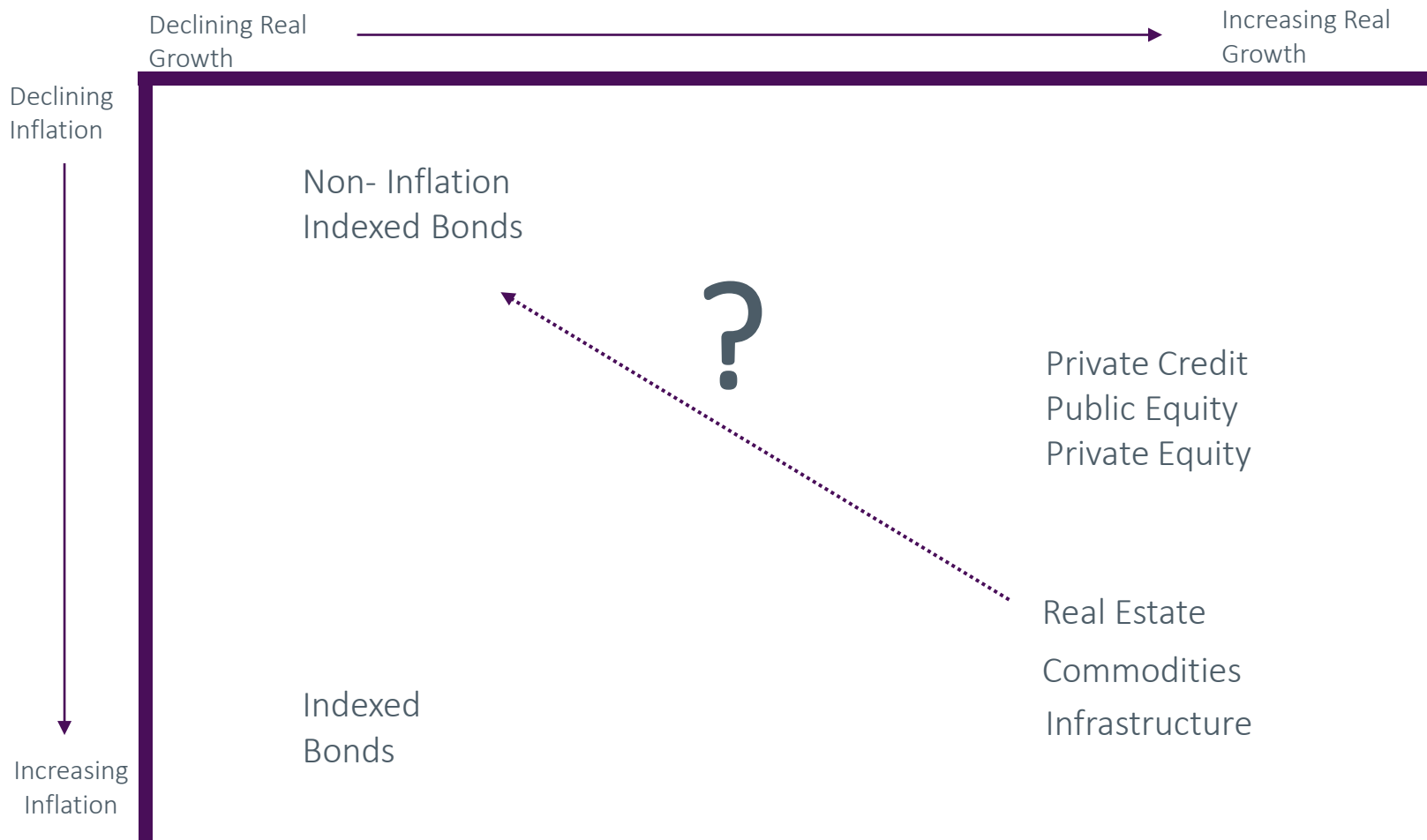


Investment Implications

The background of the slide features a light gray field with two prominent, stylized, white curved line patterns. One pattern is located in the upper right quadrant, and the other is in the lower right quadrant. Both patterns consist of multiple parallel, slightly wavy lines that sweep across the frame, creating a sense of motion and depth.

Conventional Wisdom Is That You Would Move Out Real Assets In A Disinflationary, Slowing Growth Environment – We Believe Investors Should Rethink This Reallocation

- Infrastructure was well positioned to benefit from the higher growth/higher inflation we have experienced.
- While conventional theory would suggest moving into fixed income with growth and inflation slowing a higher inflation bias will remain in the system, leading to higher rates and an elevated correlation between bonds and equities eroding the value of longer-duration fixed cash flows.



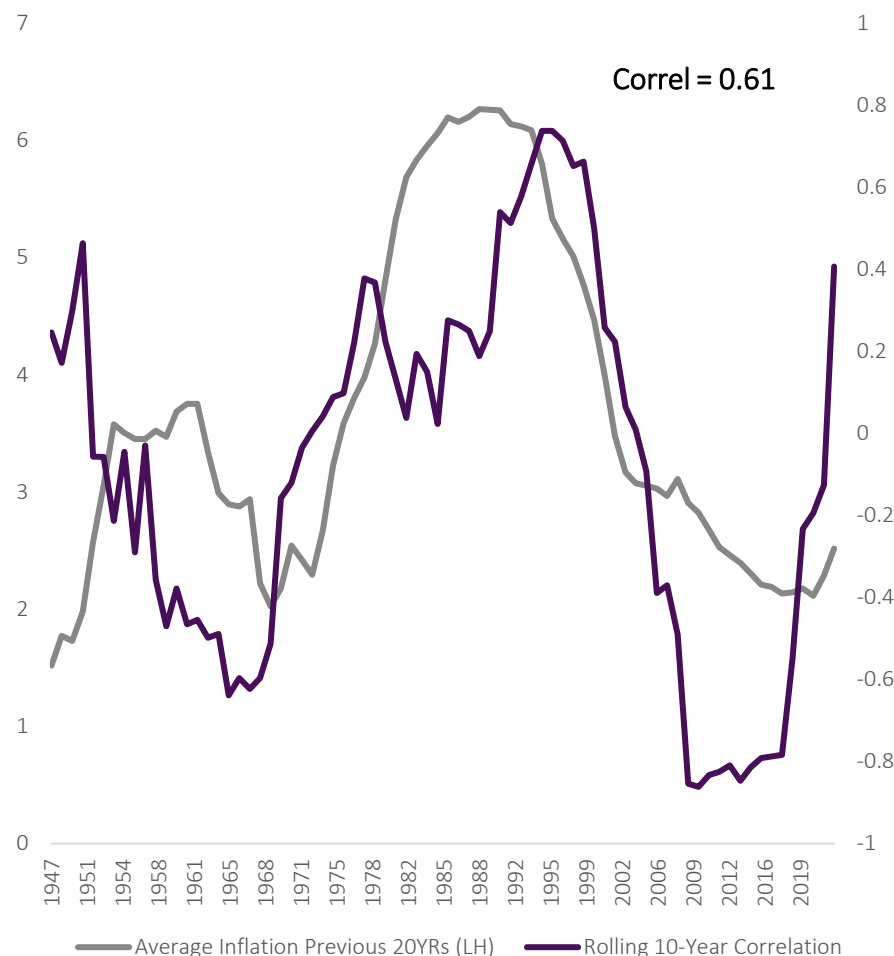
Note – Illustrative analysis based on subjective views. Source: CFA Institute, KKR GBR.

Stock/Bond Correlations Likely To Remain High Given Margin Improvement And Lower Discount Rates

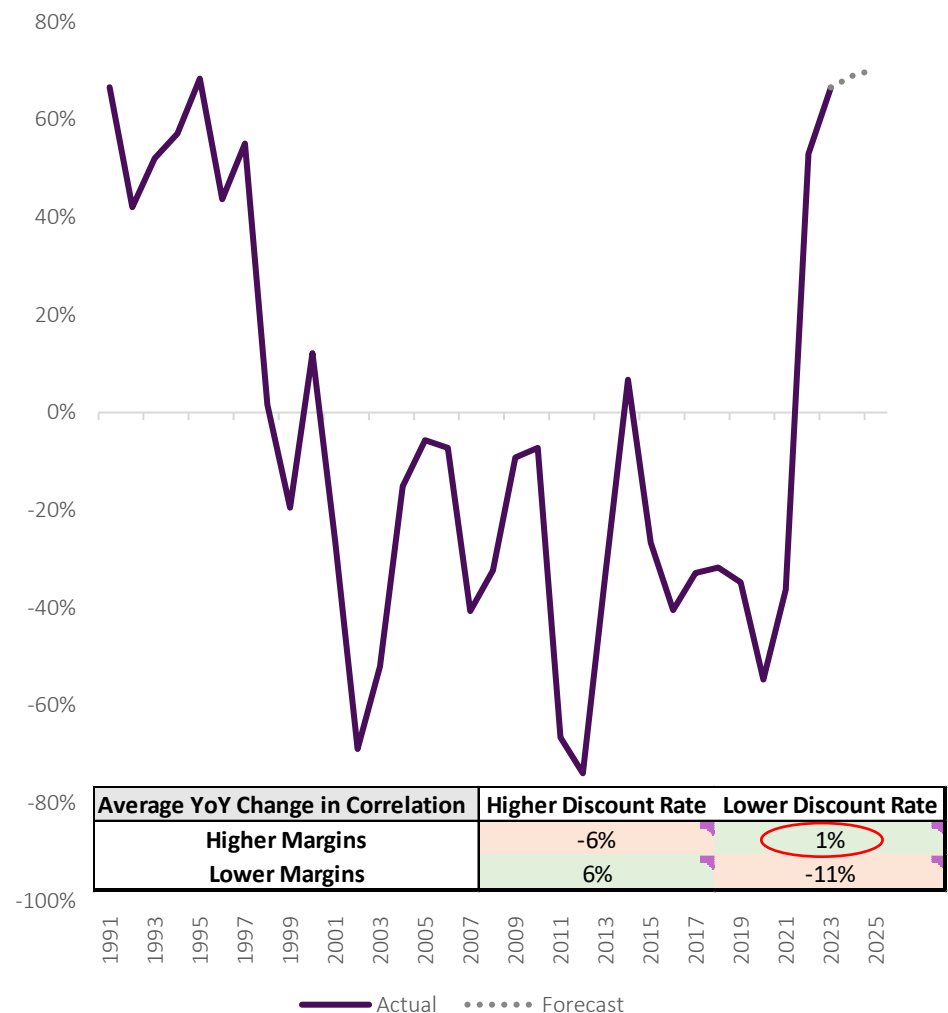
Following Periods of Elevated Inflation, An 'Inflation Bias' May Continue to Influence Correlations For Long Periods Of Time

Both Discount Rates and Corporate Margins Are Important Drivers of the Stock/Bond Correlation. Given our expectations for rates to fall and corporate margins to improve on the back of solid top line growth.

'Inflation Bias' Is Highly Correlated With Medium-Term Stock/Bond Correlations



Stock/Bond Correlation (Rolling 24-Month)

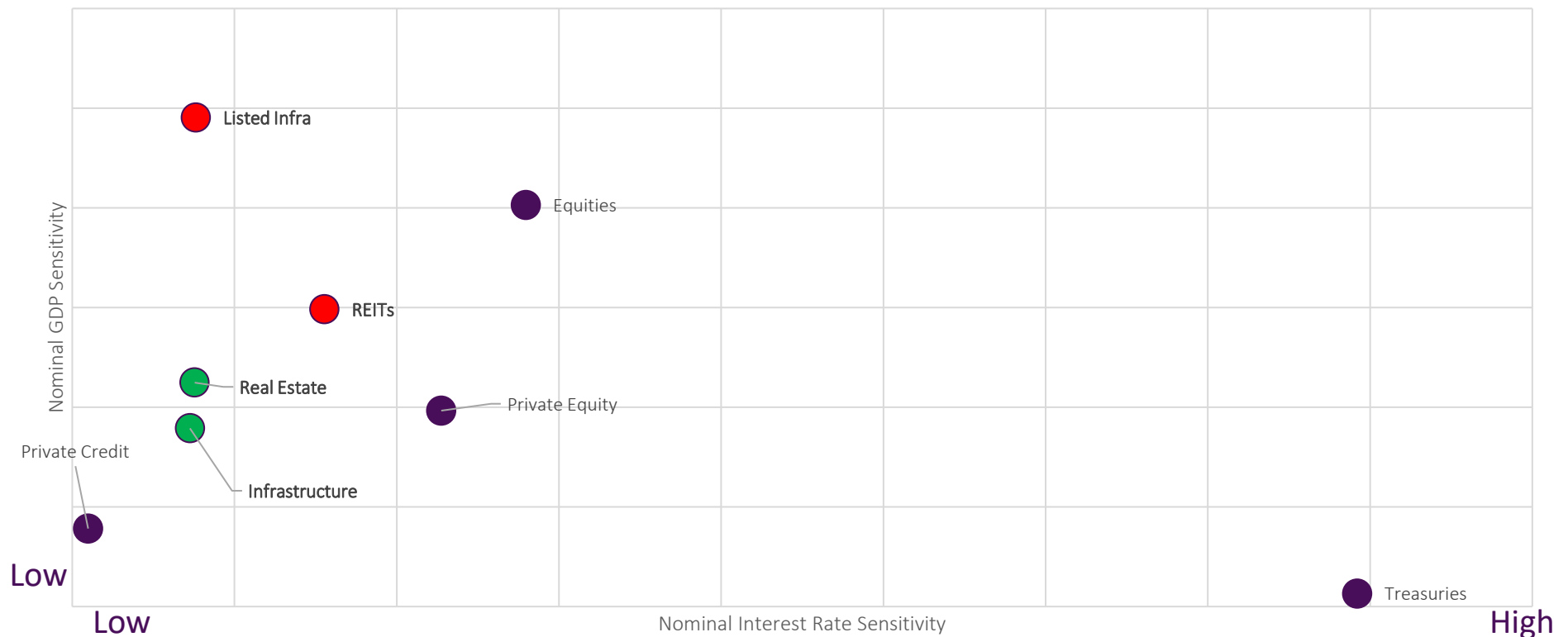


And, Empirically, Real Assets Are Much More Stable Relative To Other Asset Classes – A Valuable Trait In An Uncertain, Volatile Backdrop

- Private Infrastructure and Real Estate exhibit relatively low sensitivity to changes in both Nominal GDP and Interest Rates, especially relative to Listed Infra which is particularly sensitive to changes in Nominal GDP (likely attributed to the GDP-sensitive Energy exposure).
- The annual cash flow available from investing in Real Assets enables reinvestment into assets at the current market yield, reducing the risk of missing out on higher yields if rates increase. This current cash generation and the growth of this income, reduces the sensitivity to interest rate moves.

High

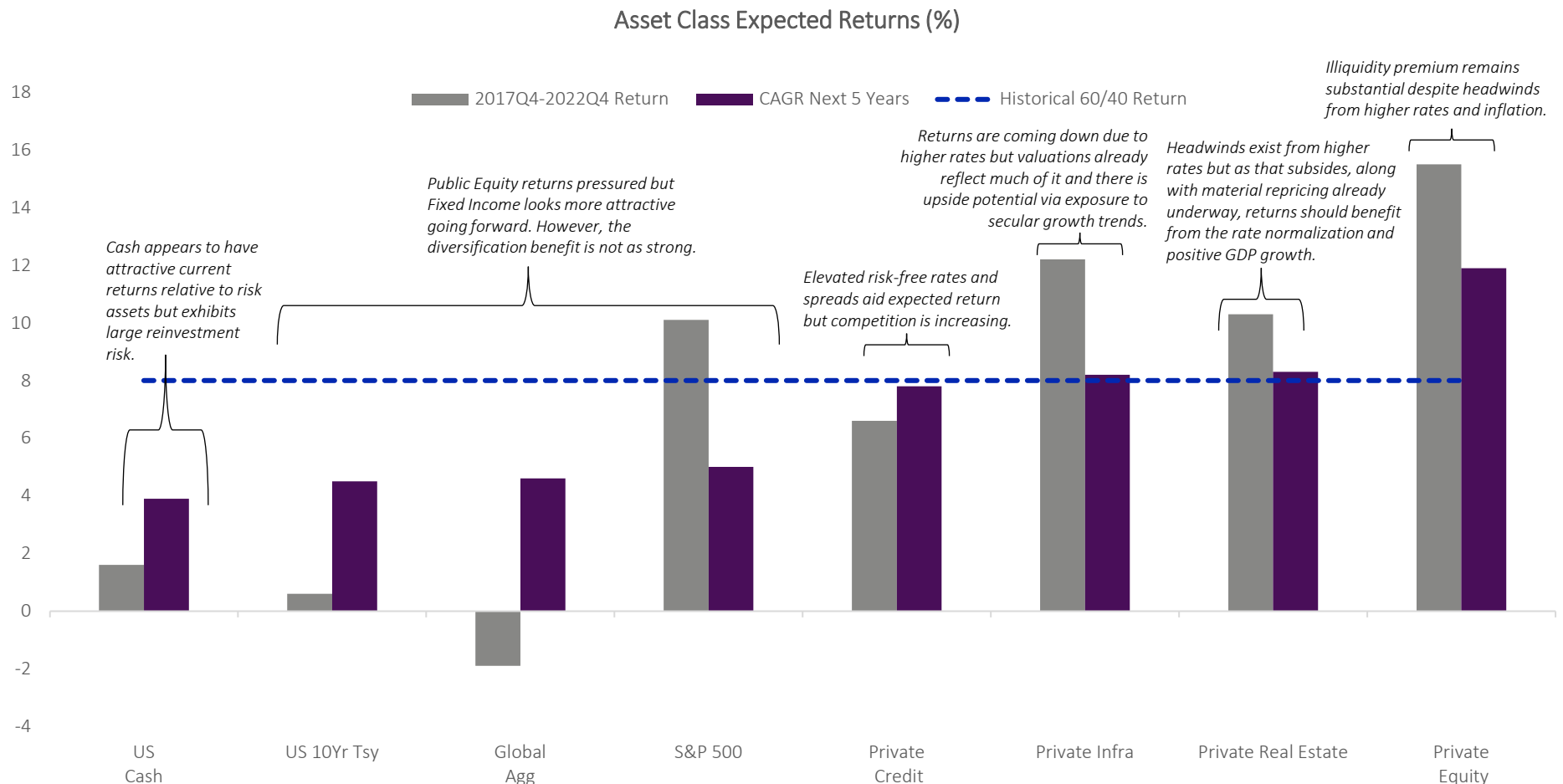
Asset Class Sensitivity To Nominal GDP And Rates (Beta Scatterplot)



Note – Quarterly returns used since data available. Source: Bloomberg, Cambridge, Cliffwater, KKR GBR analysis.

We Believe This Will Be An Opportune Time to Adjust Portfolio Construction And Lean into Private Markets

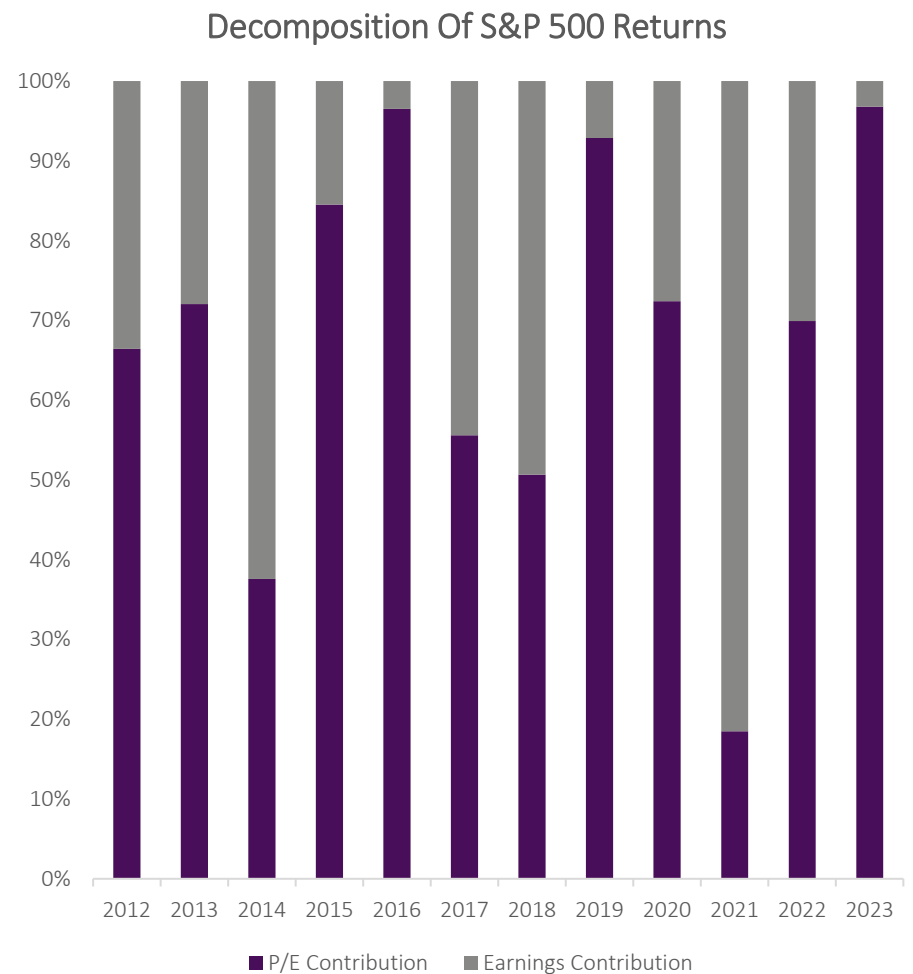
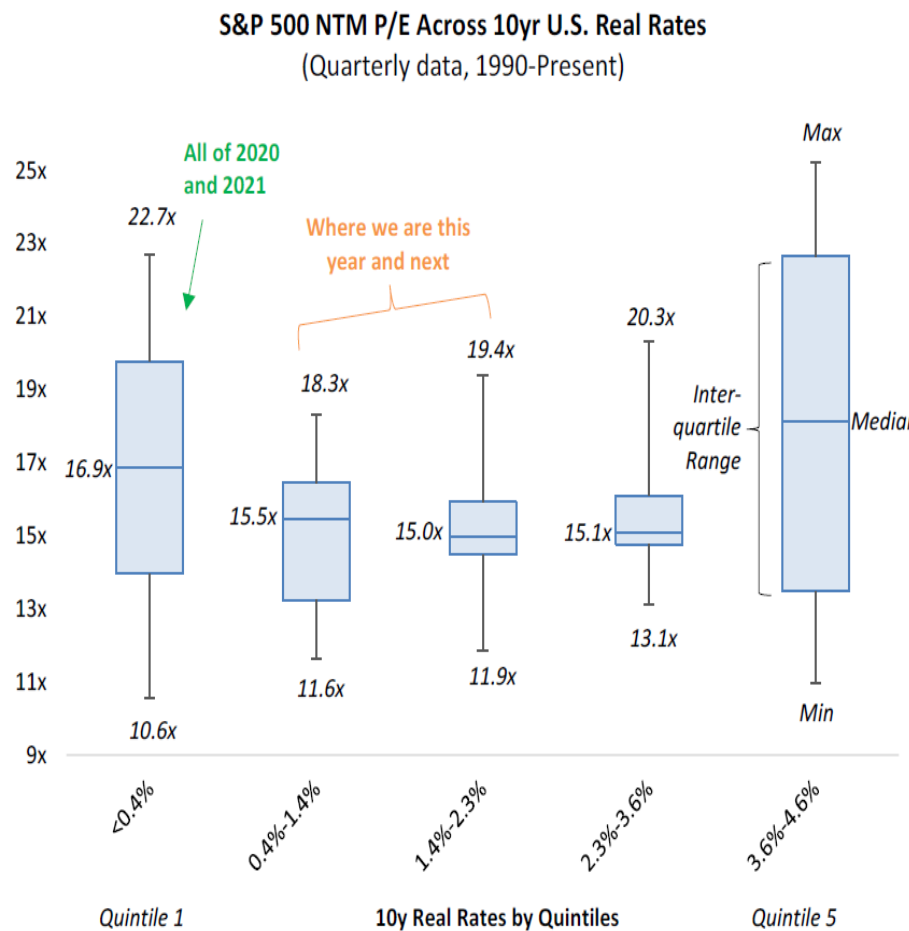
- Over the past 10 years, 60/40 portfolios returned an average of ~8%.
- To achieve close to that return over the next five years amid elevated inflation, higher borrowing costs, and slower real economic growth, investors may need to diversify into alternative asset classes.



Data as at 12/31/2023. Note: Capital markets assumptions are average across all quartiles annualized total returns. Forecasts represent five-year annualized total return expectations. For private asset classes (Private Credit, Private Infra, Private Real Estate, and Private Equity), returns are net of Fee/Carry. Note that we have altered our Private Credit methodology to exclude fund-level leverage, which has lowered total return on a go forward basis. Source: Cambridge Associates, Bloomberg, KKR Global Macro, Balance Sheet and Risk analysis. Compound Annual Growth Rate (CAGR) measures an investment's growth rate, assuming profits are reinvested at the end of each period. Private Real Estate modeled using the Cambridge Associates Real Estate Index. Private Infrastructure modeled using the Cambridge Associates Infrastructure Index. Private Equity modeled using the Cambridge Associates Private Equity Index. Private Credit modeled using the Cliffwater Direct Lending Index. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only.

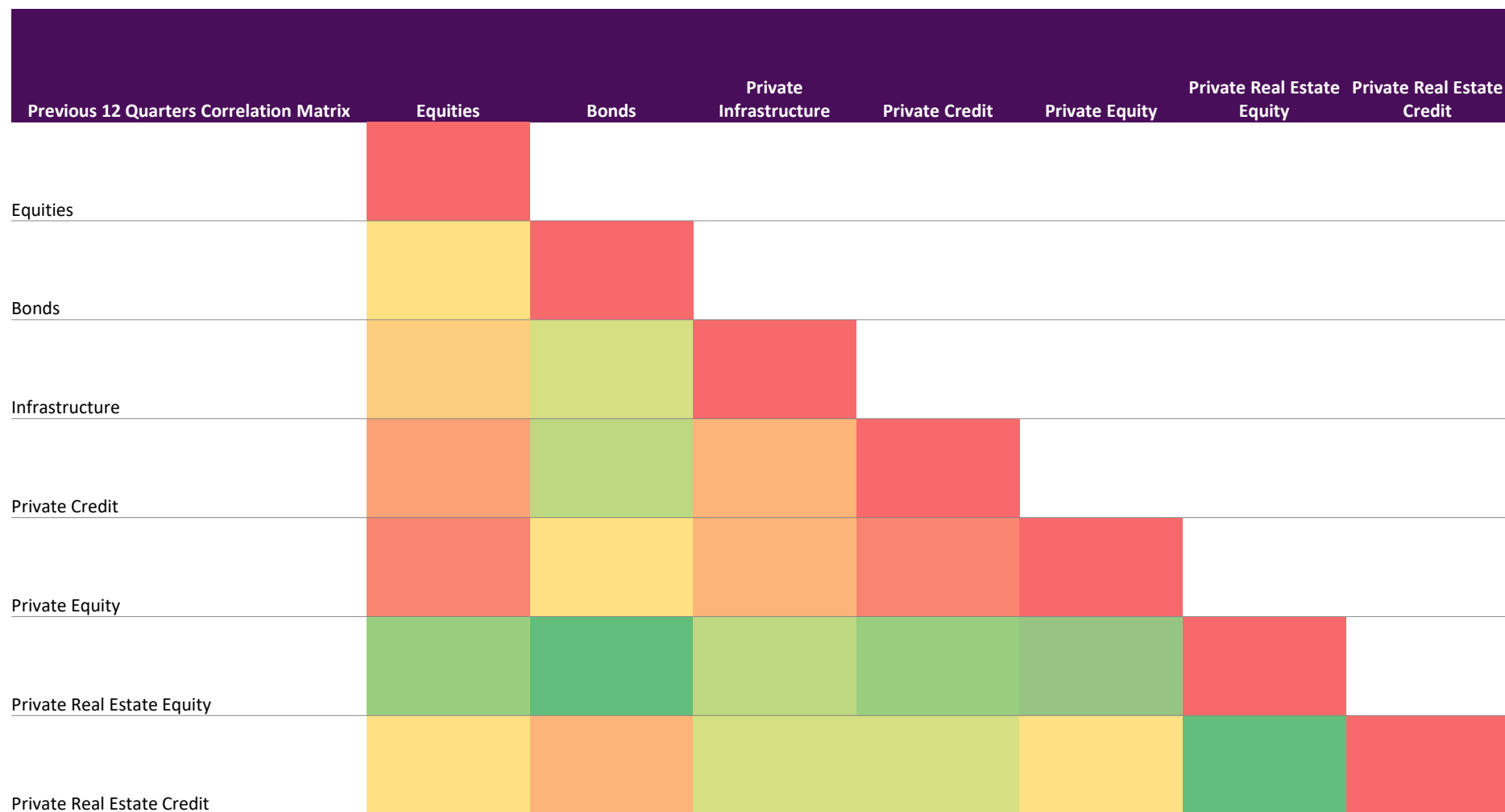
60/40 Portfolio Performed Well In 2023 But Public Equity Returns Face Pressure From High Starting Valuations At This Level Of Real Rates

- If 10yr real rates stay in the 1.5-2.5% zip code, our base case P/E of ~18.8x is consistent with equities trading at the high end of the range.
- On average, since 2012, nearly 70% of the annual return in the S&P 500 has been driven by changes in P/E multiples instead of earnings growth. With multiples at already stretched levels for this level of real rates, equity investors will be counting on earnings growth to carry the bulk of the returns.



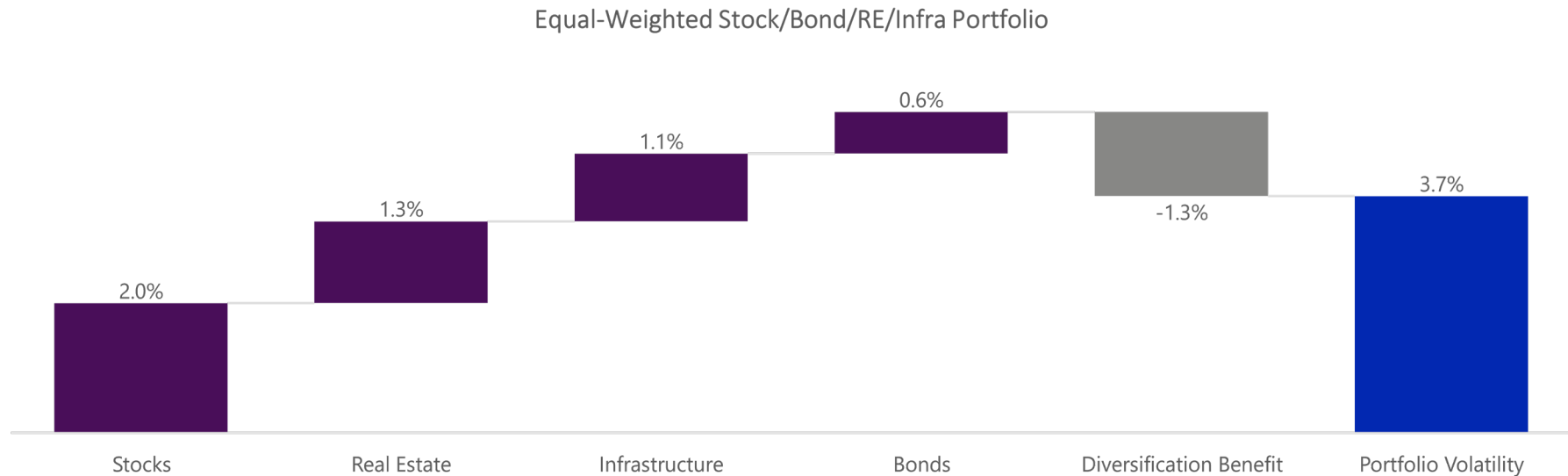
Investors Are Seeking New Sources of Diversification Amid the Elevated Correlation Between Stocks and Bonds

- Diversification can allow investors to increase returns without increasing risk.
- Equities are currently exhibiting a high correlation across asset classes except Private Real Estate Equity, which is exhibiting low correlations across many asset classes.
- Low correlations between Infrastructure and both Real Estate Equity & Credit suggest there is value to incorporating both in a Real Assets allocation.

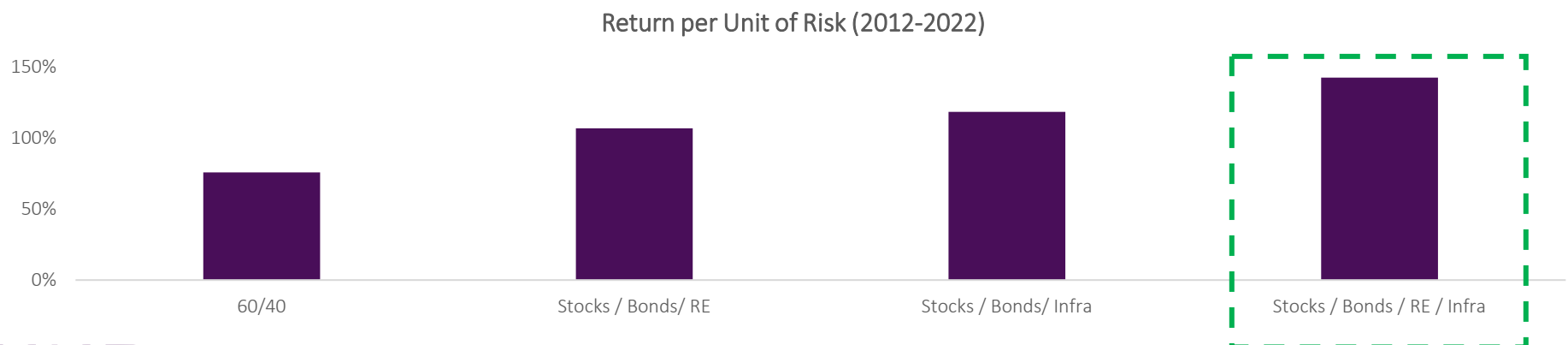


Diversification Helps Protect The Portfolio From Economic Surprises, Thereby Improving Risk-Adjusted Performance

- Portfolio volatility is less than the weighted average of the individual asset volatilities because the correlation between the assets is less than 1. Correlations are less than 1 because the assets react to macroeconomic factors differently.

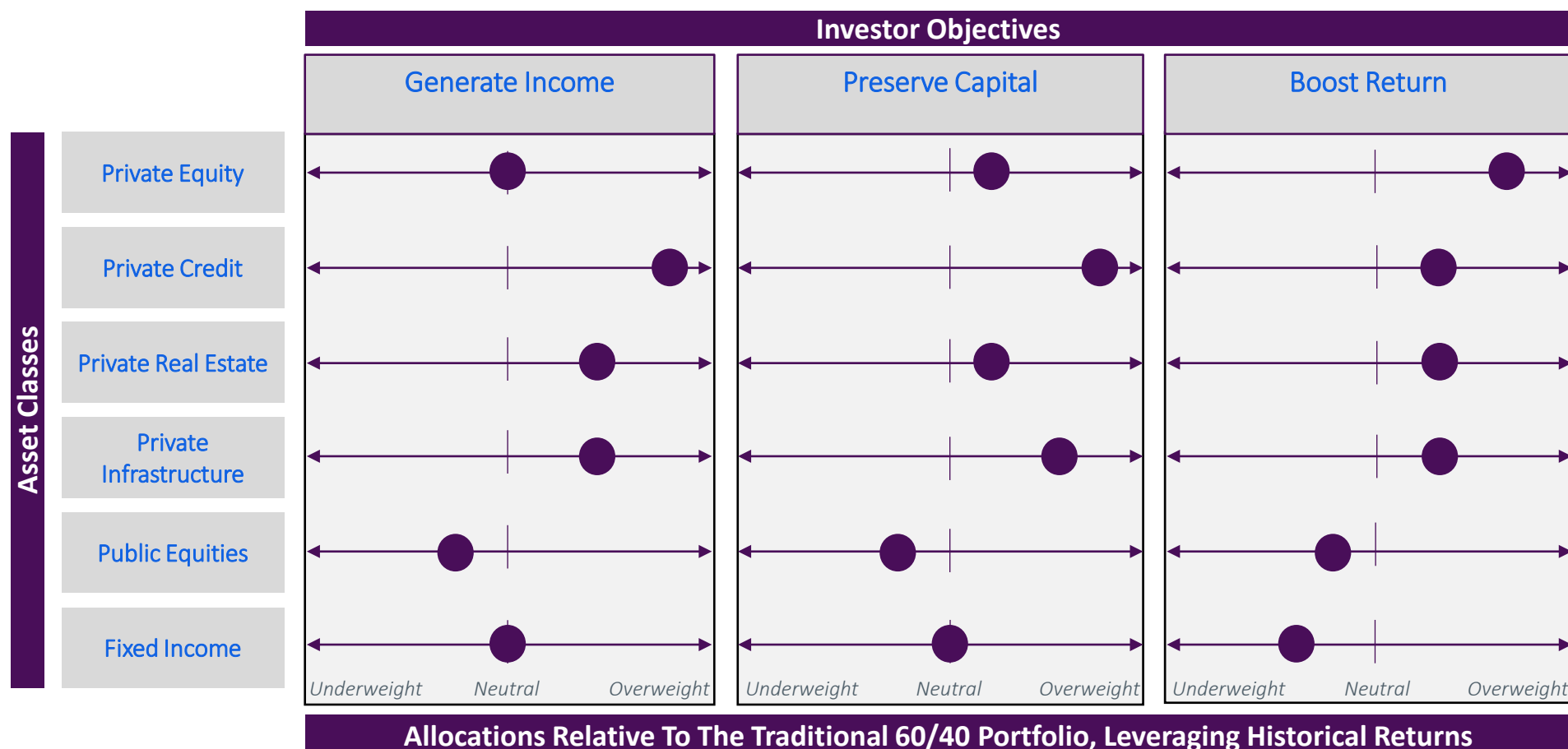


- Real Assets should be held together in a portfolio because holding assets that react differently to economic surprises helps protect the performance of the portfolio over time and as shown below, is why the risk-adjusted performance improves as additional assets are added.



Relative to the Traditional 60/40 Portfolio, Investors Can Tilt Asset Class Exposure To Increase Return And Reduce Vol

- The incorporation of investor preferences is an integral step in the strategic asset allocation process.
- To incorporate Alternatives into an existing traditional 60/40 portfolio, it is important to thoughtfully reduce allocations to equities and fixed income in a manner consistent with portfolio objectives (i.e. reducing fixed income more than equities when incorporating Alternatives into the 'Boost Return' objective) and to consider asset class performance, volatility, and correlations between asset classes.



Alternative Asset Classes Have Historically Helped Investors Generate Income, Preserve Capital, And Boost Returns

- Today, many investor portfolios still resemble the traditional 60/40 portfolio, but investors are increasingly looking to enhance their portfolios with Alternatives to achieve their investment objectives in this new macroeconomic regime.
- Through optimization techniques applied to historical asset class returns, return volatility, and cross-correlations, we back tested the output confirming the incorporation of Alternatives, aligning with investor preferences, has historically enhanced the relevant objective.

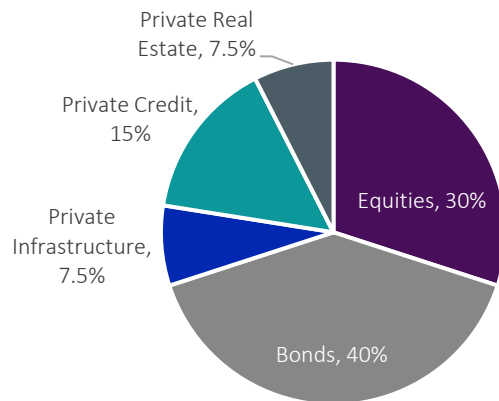
KKR Alts Enhanced Framework For Wealth

Objective: Increase income potential of portfolio while maintaining liquidity

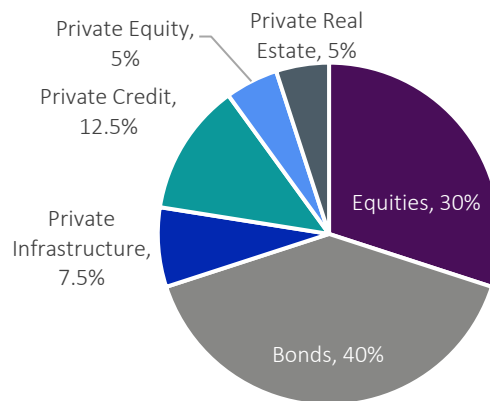
Objective: Receive loss protection and inflation hedging benefits

Objective: Boost the return potential of the portfolio

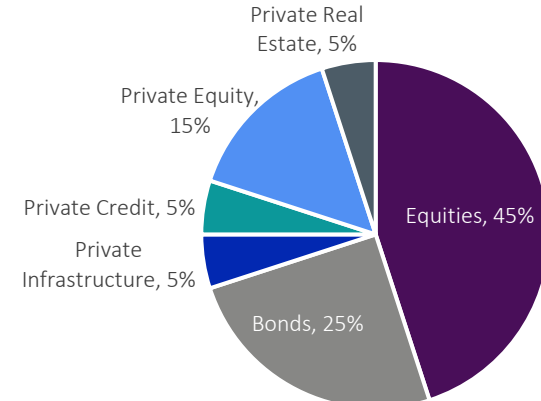
Alts Enhanced – Generate Income



Alts Enhanced – Preserve Capital



Alts Enhanced - Boost Return



Historical Performance vs 60 / 40:

- Income +1.6%
- Liquidity ↓

- Volatility -2.4%
- Liquidity ↓

- Return +1.1%
- Liquidity ↓

Traditional

- Reallocate from the Public Equity tranche to more yield, inflation protection and diversification in Alternatives. Maintain substantial Bond allocation

- Reduce portfolio volatility by tilting some Public Equities exposure to Alts. Maintain substantial Bond allocation given downside protection

- Increase the return potential of the portfolio by tilting Bond allocation towards Equities

Alts

- Increase Private Credit allocation given predictable and high streams of cash flow, followed by Infra & Private Real Estate (yield may emanate from RE Credit vs Equity) for both additional yield and diversification

- Increase allocation to Private Credit given potential for downside protection followed by Private Infrastructure which benefits from lower volatility and inflation-hedging attributes

- Overweight Private Equity to boost total return, followed by Real Assets

KKR

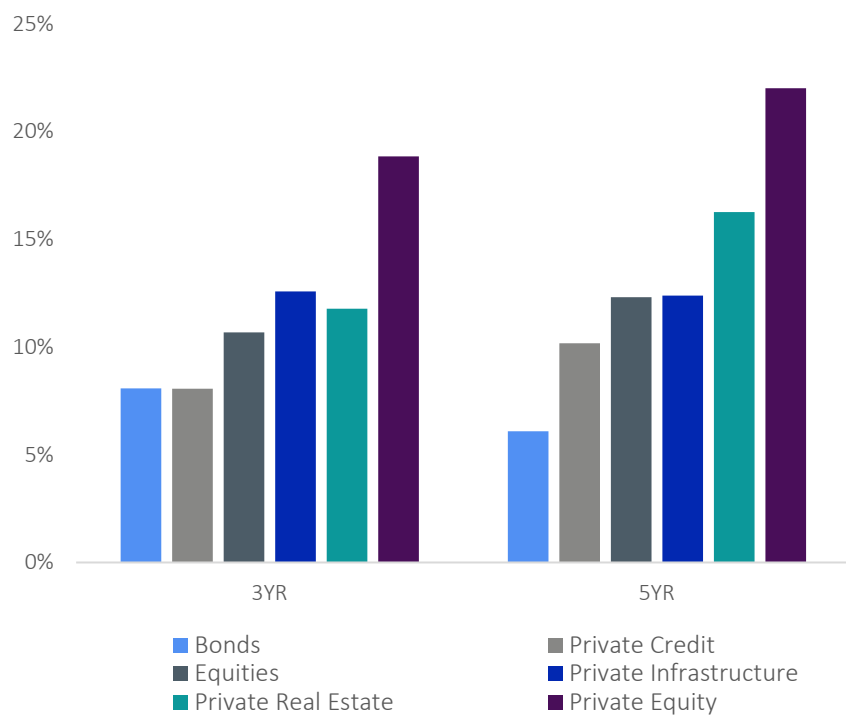
Source: KKR GBR analysis. **Note:** Optimization and historical analysis performed using the S&P 500 for Public Equities, the Bloomberg Global Aggregate for Fixed Income, the Cambridge Associates Benchmark for Private Equity, the Cliffwater Direct Lending Index for Private Credit, the Cambridge Associate Global Infrastructure Benchmark for Private Infrastructure, and the Cambridge Associates Real Estate Index for Private Real Estate. Income modeled for Public Equity using S&P 500 12M gross dividend yield, Private Equity proxied using S&P Small Cap 12M gross dividend yield, Private Infrastructure proxied using S&P Infrastructure 12M gross dividend yield from 2006 onwards and 1990-2006 back filled using S&P Utilities, Public Credit based on Bloomberg US Agg yield to worst, Private Credit using Cliffwater Direct Lending Index Income Return, Private Real Estate based on Green Street All-sector Equal-weighted cap rate. Source: Cambridge, Bloomberg, KKR GBR analysis. No specific KKR products referenced. For Financial Advisor Use Only.

Now May Be The Opportune Time As Leaning Into Dislocation Has Served Investors Well Historically

- Following large market drawdowns, longer-term investors are generally rewarded for leaning into dislocations.
- Fundamentals tend to trough after asset prices which means investors miss out on returns if they wait for the skies to clear.

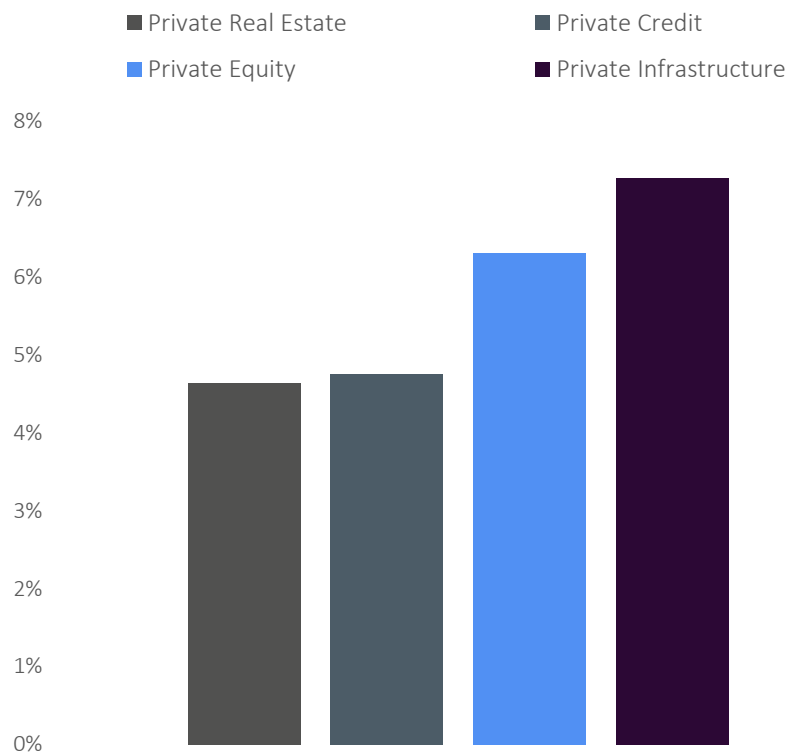
Historical Performance Has Been Particularly Strong Following Public Market Dislocation...

Performance Following 10% Drawdown In Public Equities



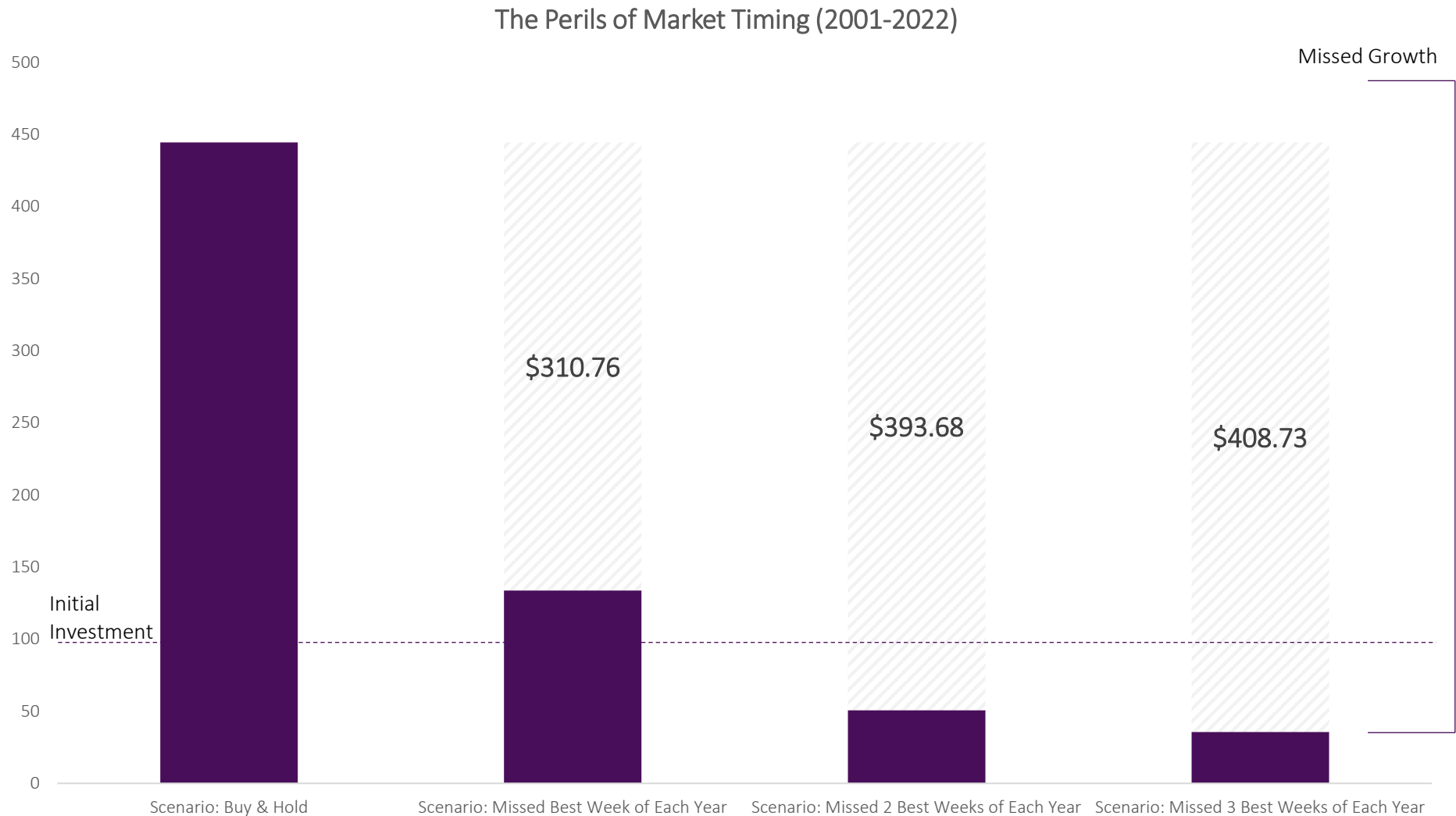
...And It Is Costly To Wait Until A Recession Is Over To Lean In

Return 1YR Before And During Recessions



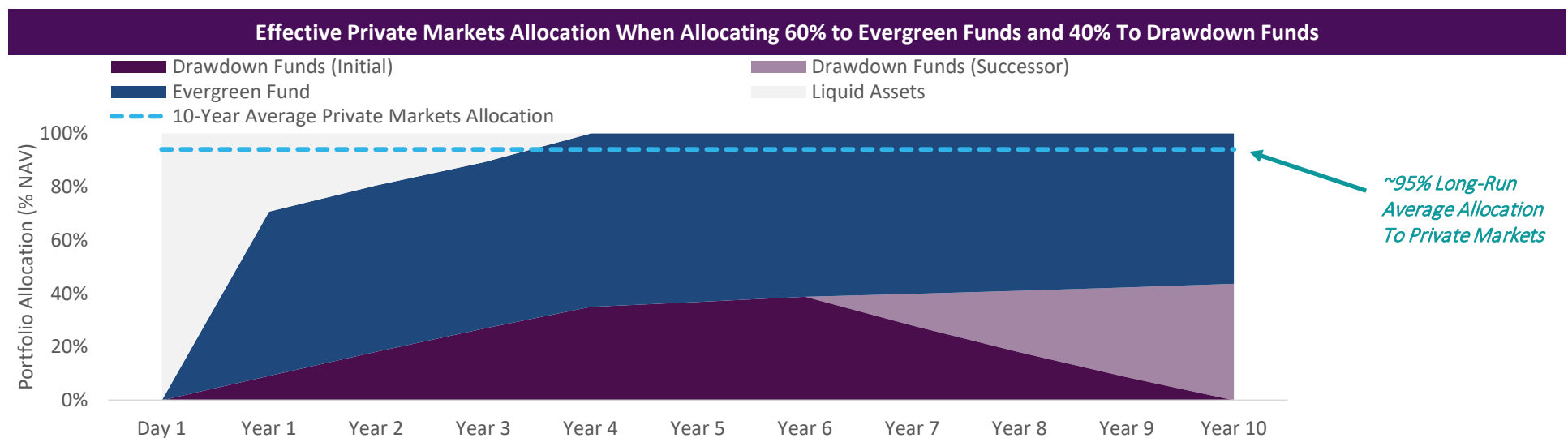
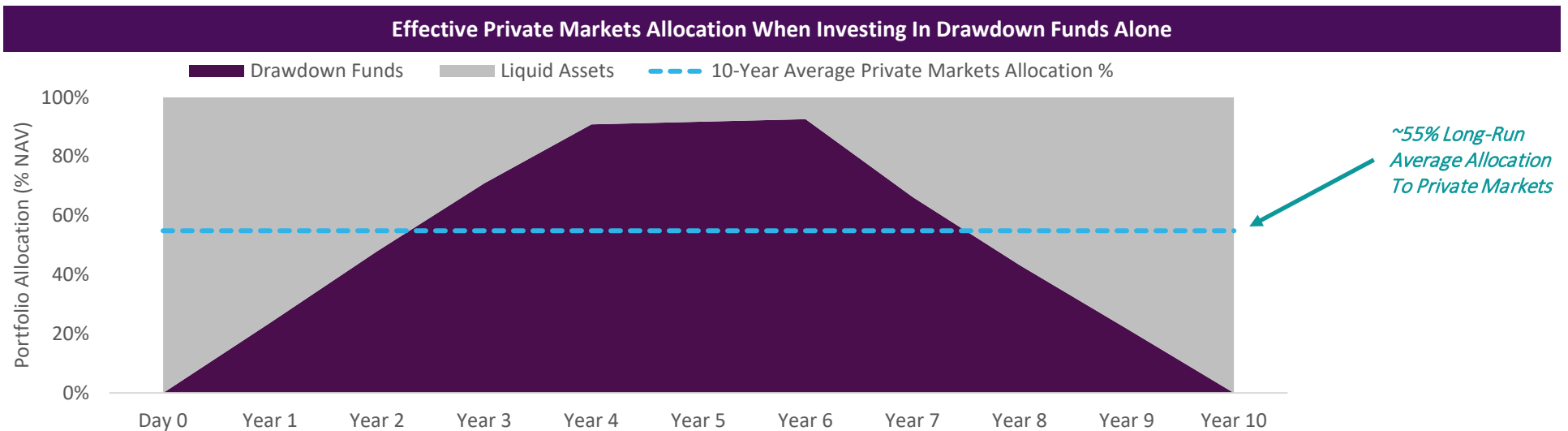
Market Timing Is A Challenge And Getting It Wrong Can Prove Costly

- Since 2001, if an investor in the S&P500 missed only the best week of performance each year, an investor would've missed out on ~70% of the returns. Market timing is difficult because missing out on just a few days of strong performance can dramatically alter cumulative returns.



The Evergreen & Drawdown Approach Leads To A Fast And Stable Allocation To Private Markets

Compared to a Drawdown fund investment alone, investing into a blended allocation to Evergreen and Drawdown funds allows investors to access the private markets sooner (“mitigating the J-curve”) and keep a more stable allocation to private markets

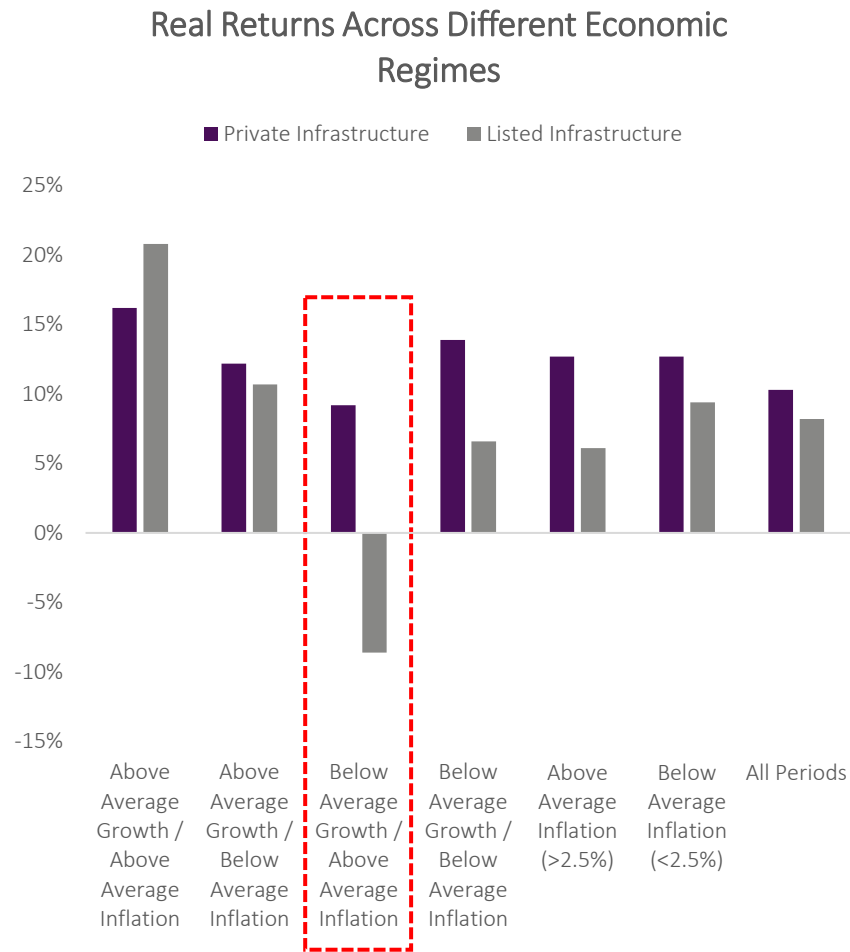




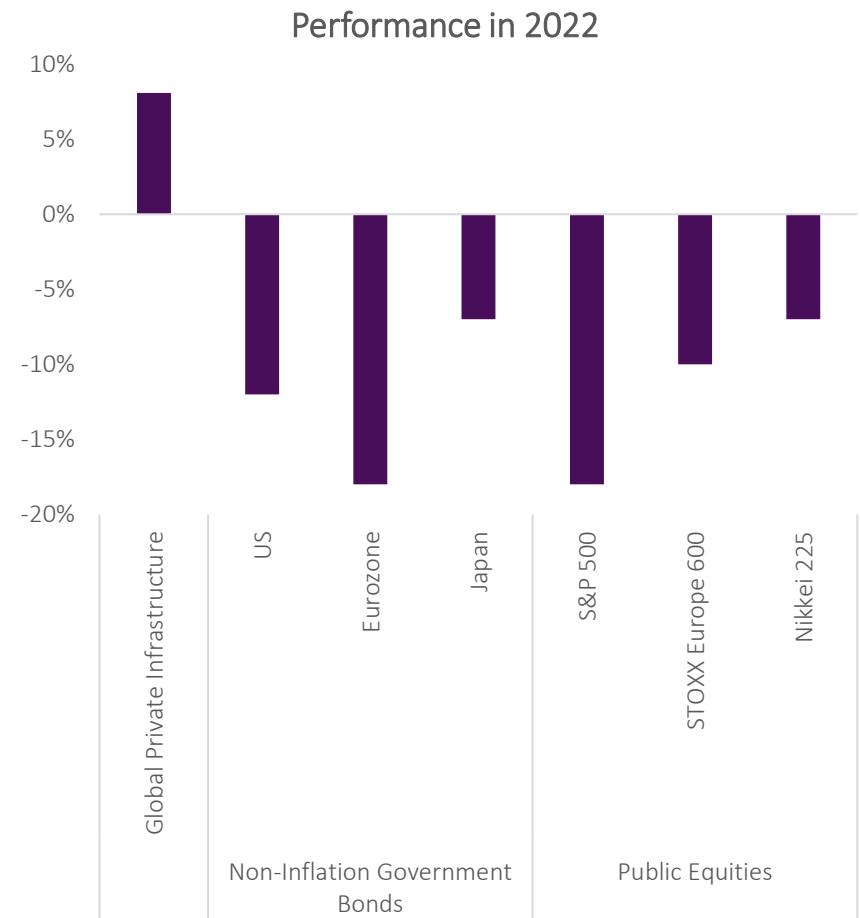
Investment Opportunities

We Believe There Is A Compelling Case for Private Infrastructure In a Slower Growth Environment With Elevated Inflation

We Are Expecting An Environment Characterized By Above Average Inflation And Below Average Growth



Essential Nature of Asset Base With Contracted Yield Provides Downside Protection

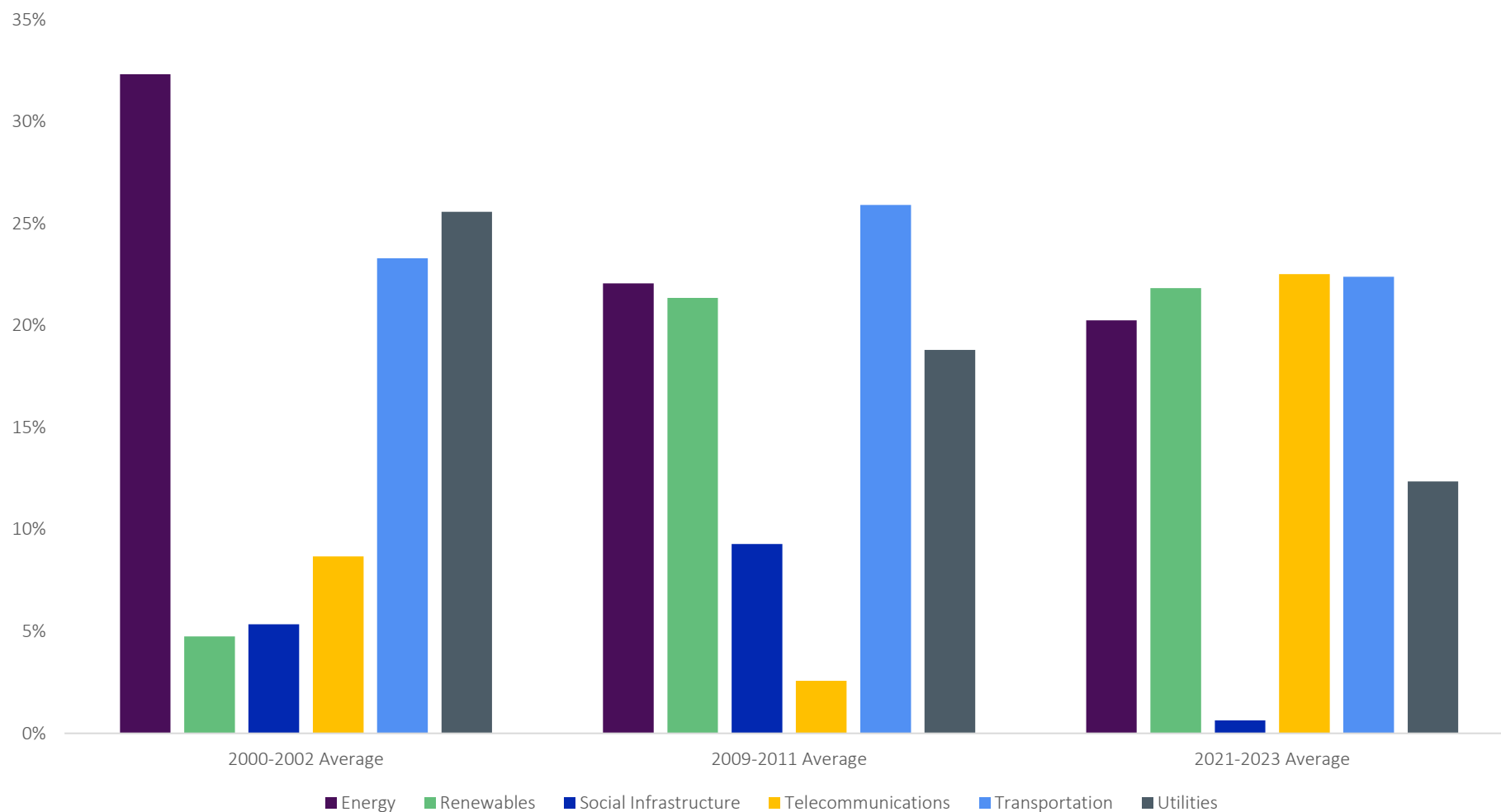


Left chart – Note: Returns modeled using annual total returns from 2002 to 2022. Real returns are calculated using nominal returns after subtracting CPI inflation rates. Below Average Inflation defined as CPI < 2.5%. Above Average Inflation defined as CPI > 2.5%. Below Average Growth defined as Real GDP < 2%. Above Average Growth defined as Real GDP > 2%. Source: Edhec, Haver, KKR GBR analysis. No representation is made that the trends depicted or described above will continue. Right chart – Note: Global Private Infrastructure refers to the Cambridge Associates All Global Private Infrastructure Index. Non-Inflation Government Bonds refers to the Bloomberg U.S. Treasury Total Return Unhedged Index in the US, the FTSE Eurozone Government Bond Index in the Eurozone, and the FTSE Japan Government Bond Index in Japan. Source: Cambridge, Bloomberg, KKR GBR analysis. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only.

This Is Not ‘Your Grandpa’s Infrastructure’

- The volume of investment into Infrastructure has changed materially over the past decade, from an asset class primarily focused on ‘Old Economy’ items like Utilities to ‘New Economy’ sectors like Renewables.

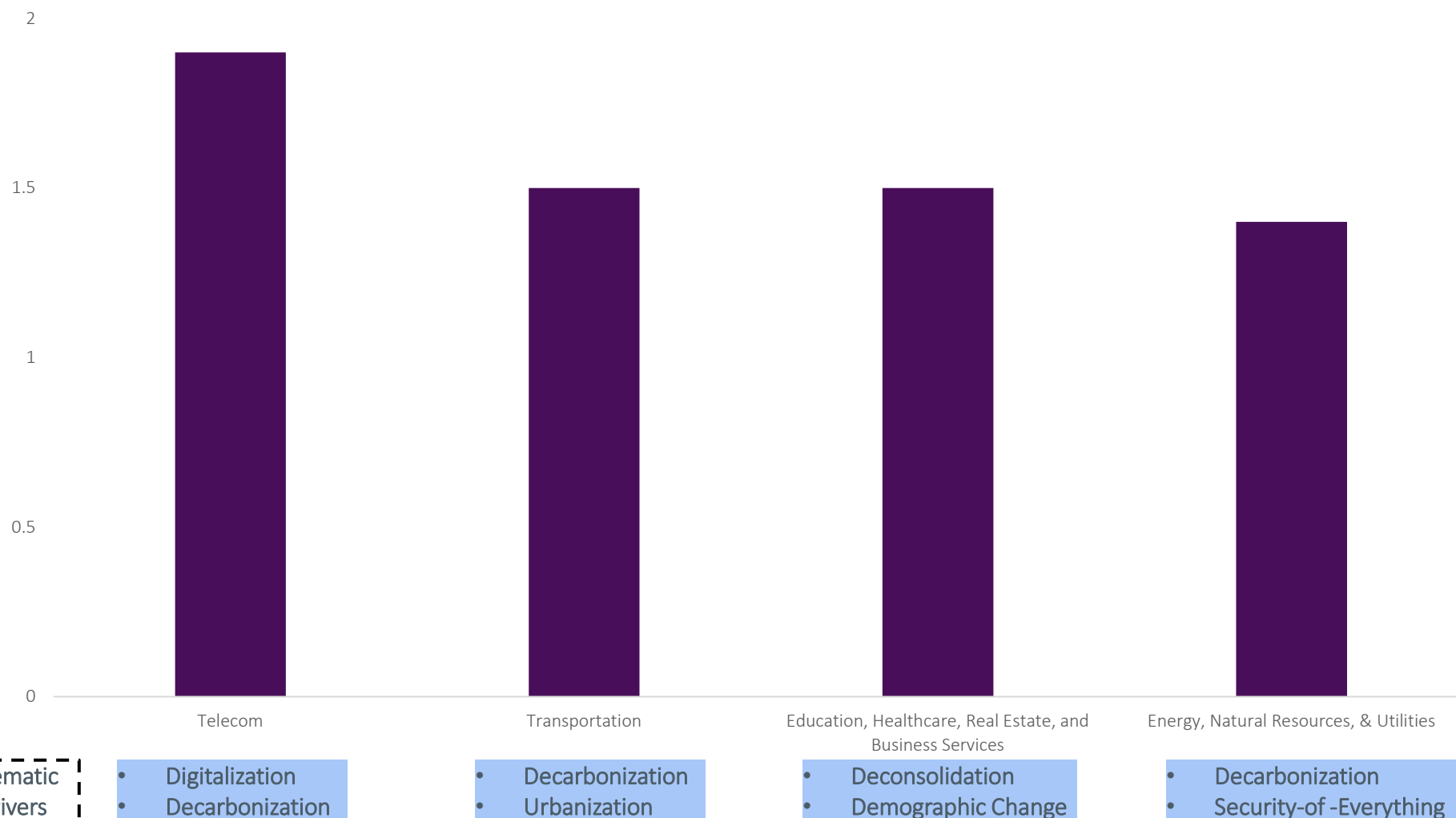
Share Of Infrastructure Transactional Volume By Sector



Private Infrastructure Sub-Sector Returns Highest In Areas Exposed To Key Themes

- Gaining exposure to thematic tailwinds, such as digitalization through the broader Telecommunications segment, is a key opportunity for alpha generation potential in an Infrastructure portfolio

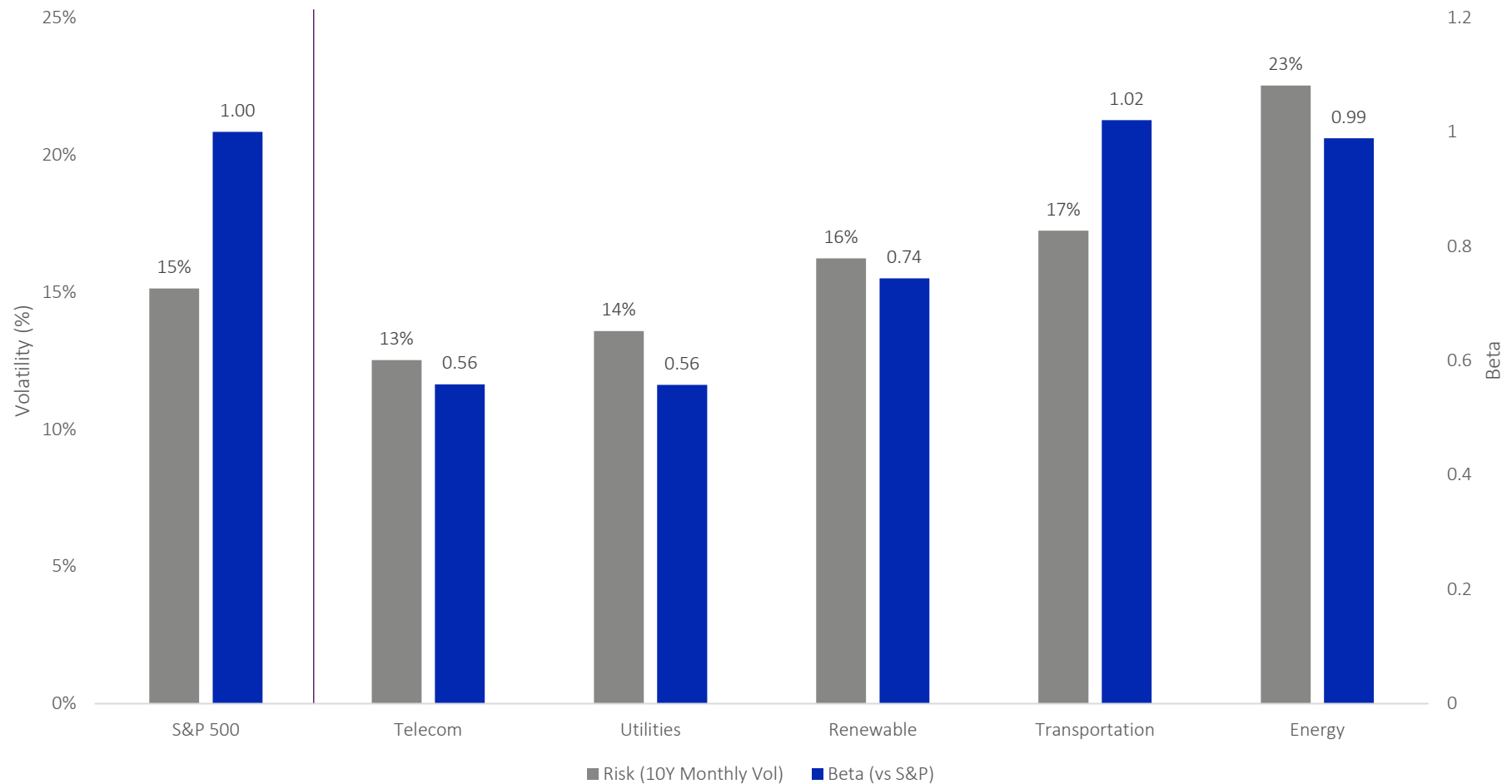
Median Multiple On Invested Capital In Infrastructure By Sub-Sector (Year of Entry: 2010-2021)



Infrastructure Is Not A Monolith, Infrastructure Risks Vary By Sector And By Manager Strategy

- Infrastructure risk is generally less correlated to the risks exhibited in the S&P 500, especially in 'new economy' sectors like Telecom and Renewables.

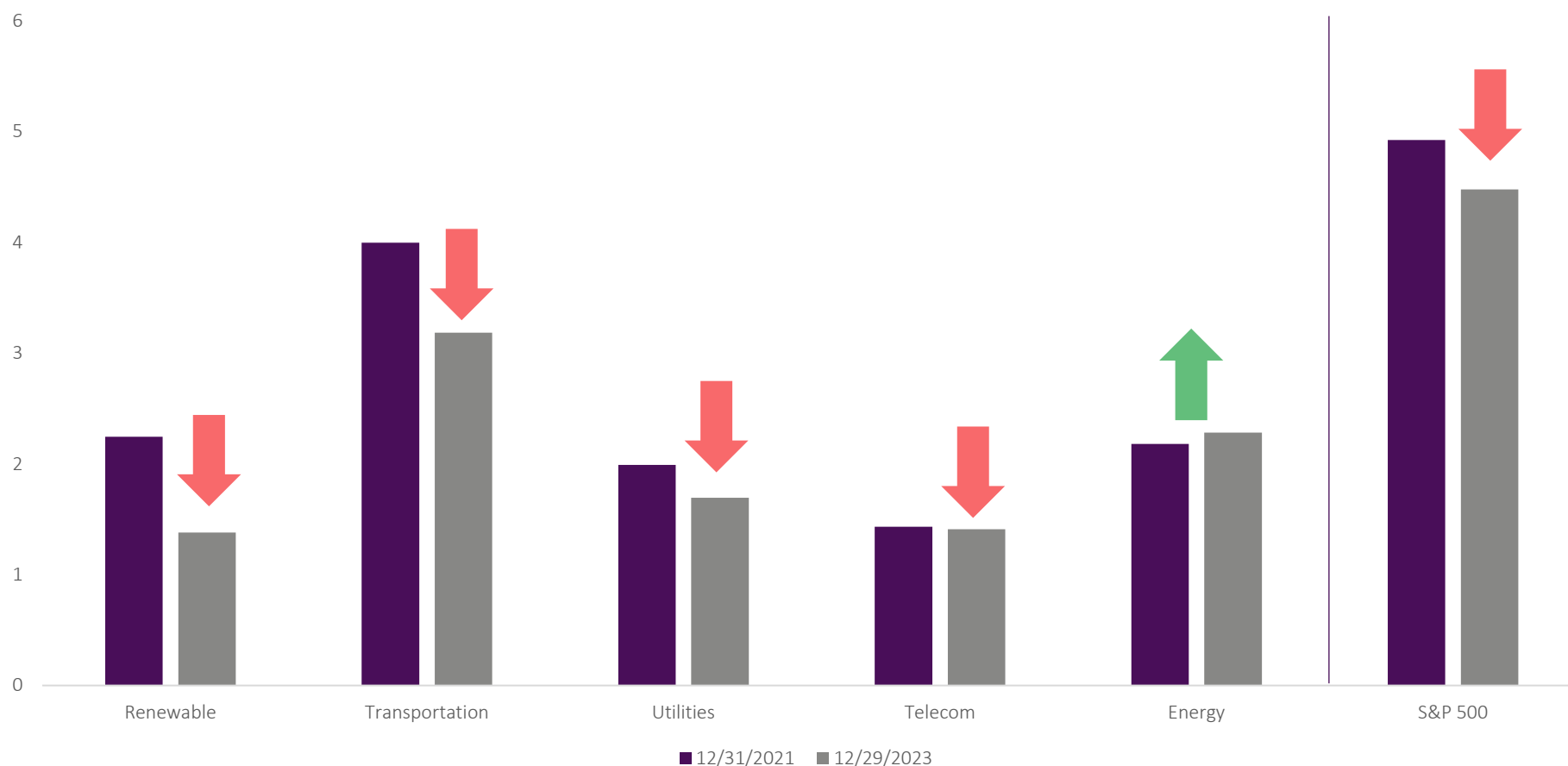
Public Infrastructure Sub-Sector Risk Comparison



Valuations Have Reset Across Many Attractive Thematic Areas

- Over the past few years, valuations have increased in parts of the Energy sector as capital chased new projects.
- Valuations have fallen in other key areas around persistent secular themes – such as digitalization in Telecom and deconsolidation in the Transportation sector.

Public Infrastructure Sector Valuation Comparison (Price-to-Book Ratio)



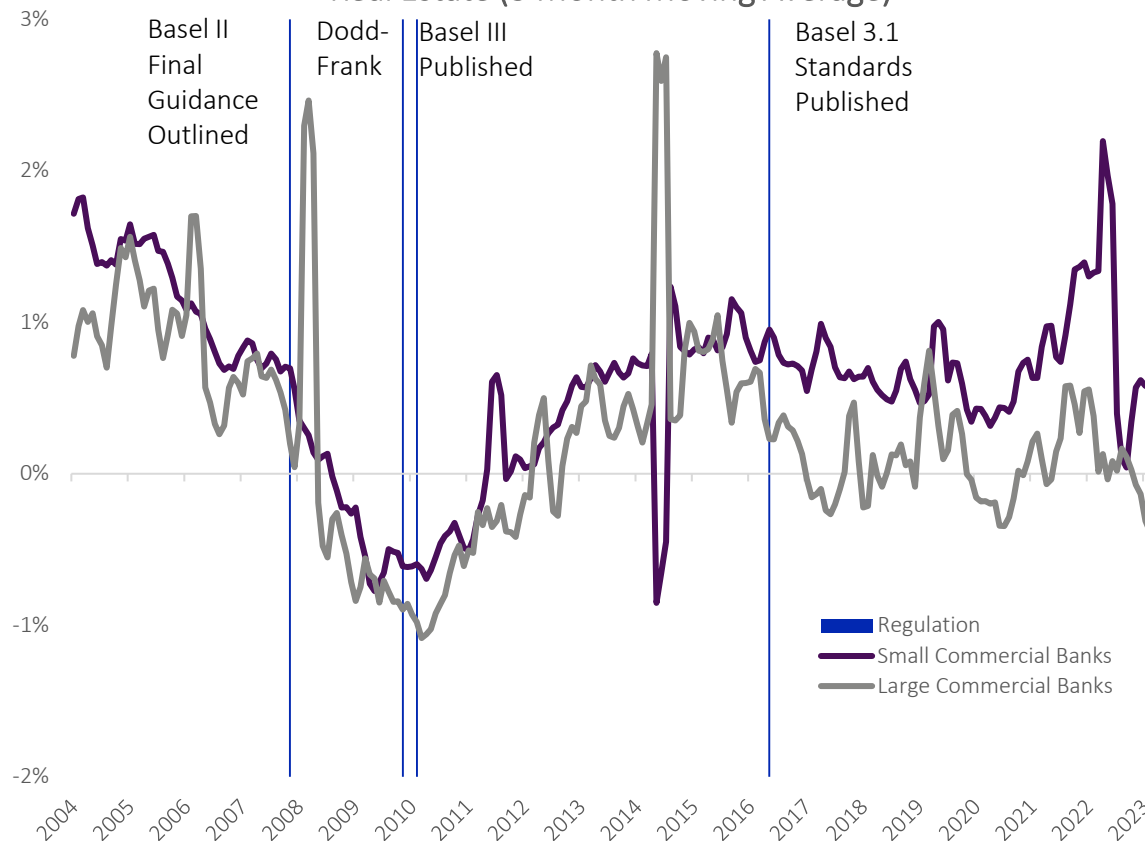
Opportunities Remain For Non-bank Lenders As Banks Will Likely Have To Reduce Activity Further In Certain Segments

- Due to potential regulatory changes, the total amount of capital that US banks would have to raise over the next few years will add substantial cost pressure on the banking sector. Tighter margins may cause banks to increase lending standards, reducing credit availability.
- While traditional loans are a priority and we have seen the large banks return to the market, they are likely to cut back in areas like securitizations and real estate, which makes up a large amount of financing for the regional banks most notably.

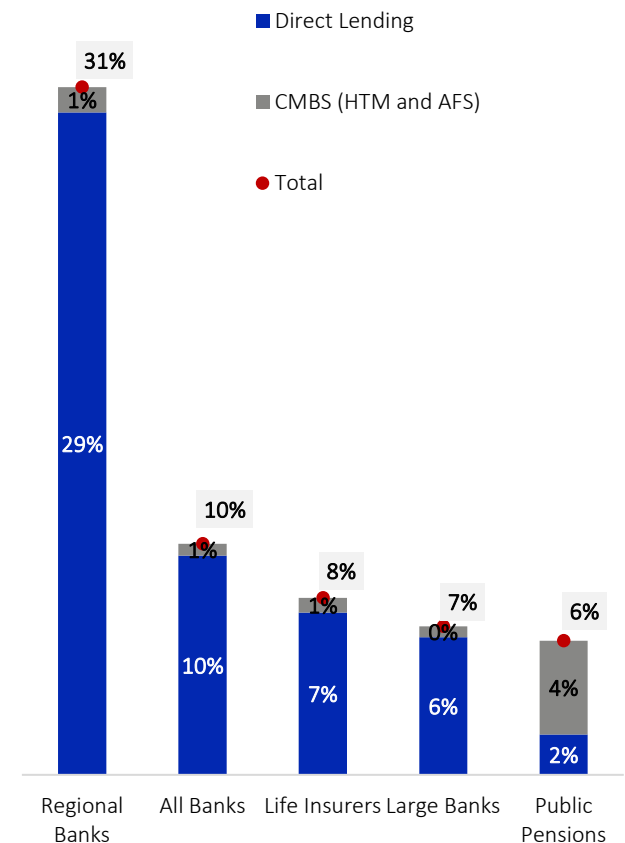
Historically, Regulation Has Impacted Big Bank Lending But, Going Forward, Regulation Will Impact Regional Bank Lending As Well

As New Regulation Impacts Regional Banks, There Will Be Lower Lending Capacity

Month-over-Month Change In Bank Lending Activity: Commercial Real Estate (3 Month Moving Average)



CRE Loans as % of Assets

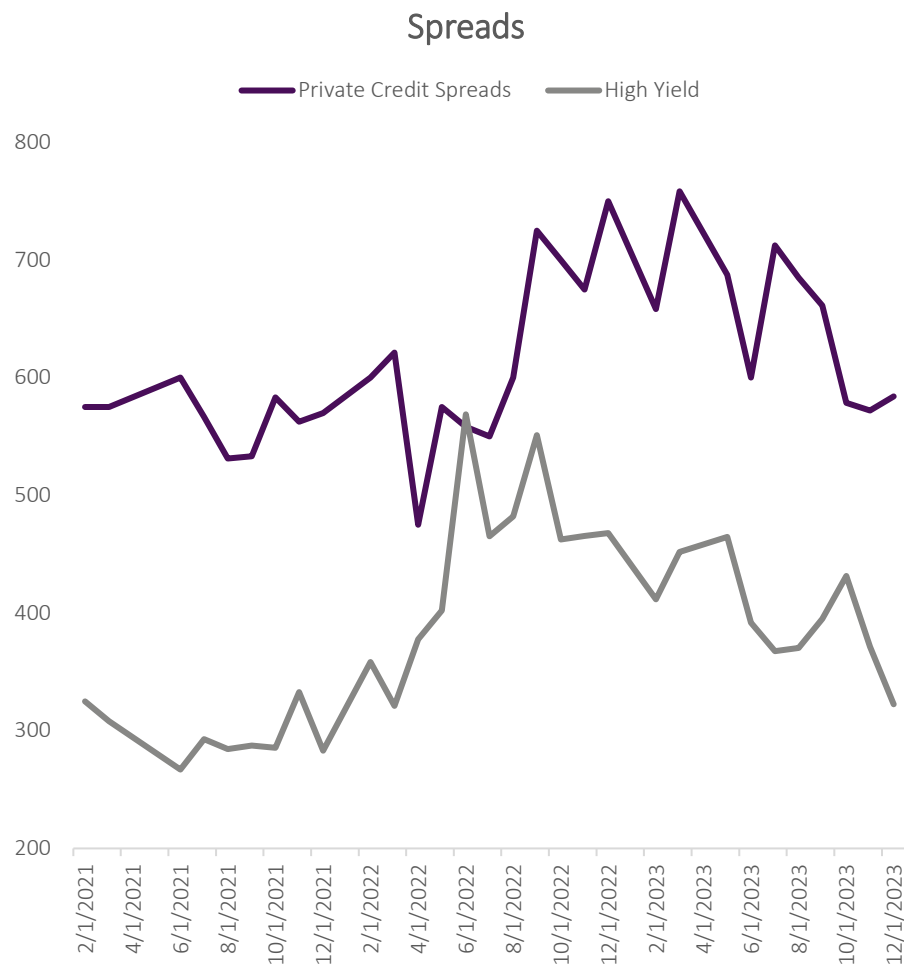


Data based on Russell 3000 indices for Banks and Life Insurers, and aggregate Fed data for pensions. Regional banks defined as those with less than \$100B in assets. Weighted average by total assets. Calculation details: Banks using CRE direct lending and AFS + HTM CMBS exposure from 10Ks. Insurers using average CRE direct lending as % of assets from Fed data; CMBS exposure from 10Ks. Public pensions using average CRE direct lending as % of assets from Fed data; CMBS estimated from Fed data on pensions' corporate + agency debt (using data on CRE-backed ABS as % of all corporate debt and commercial mortgages as % of all agency assets). Data as at December 2022. Source: Bloomberg, Federal Reserve Board, KKR GBR Analysis.

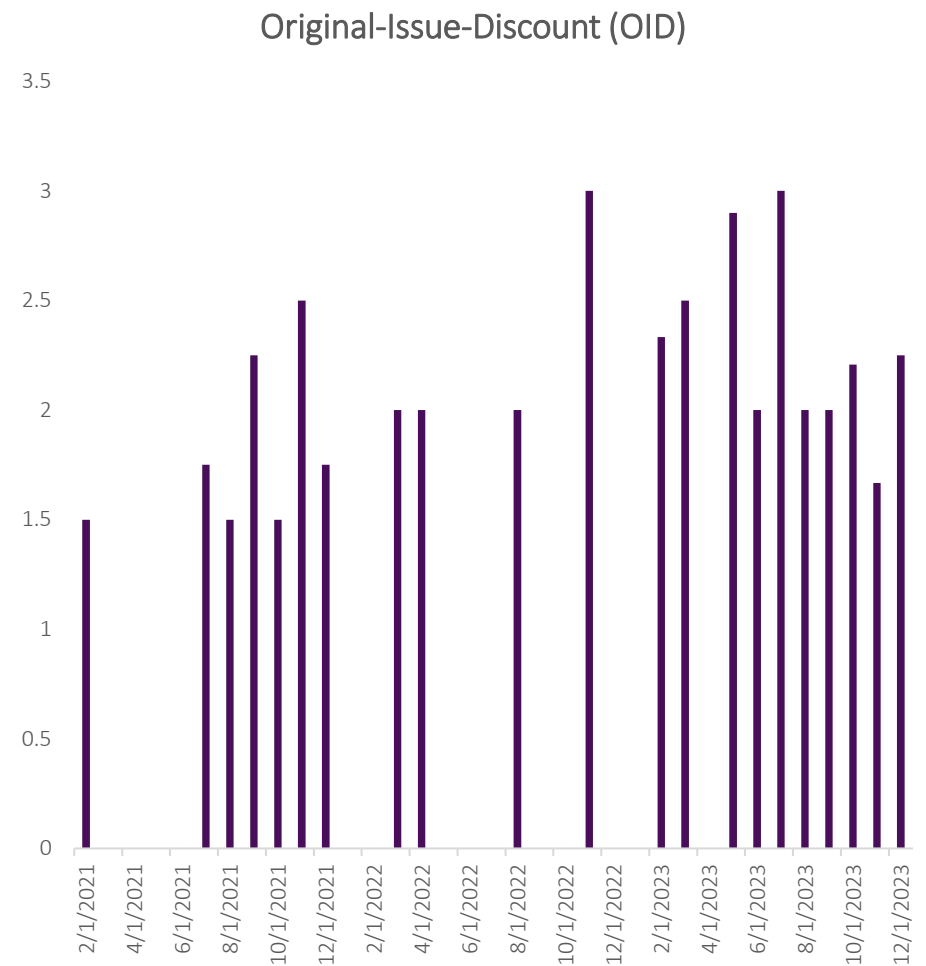
However, There Is More Competition Among Non-Bank Direct Lenders

- As in other areas of credit, spreads have come in as investor sentiment has improved surrounding the economic backdrop. Similarly, but also due to increased competition in the space, OID has come in as well.

Spreads Have Tightened

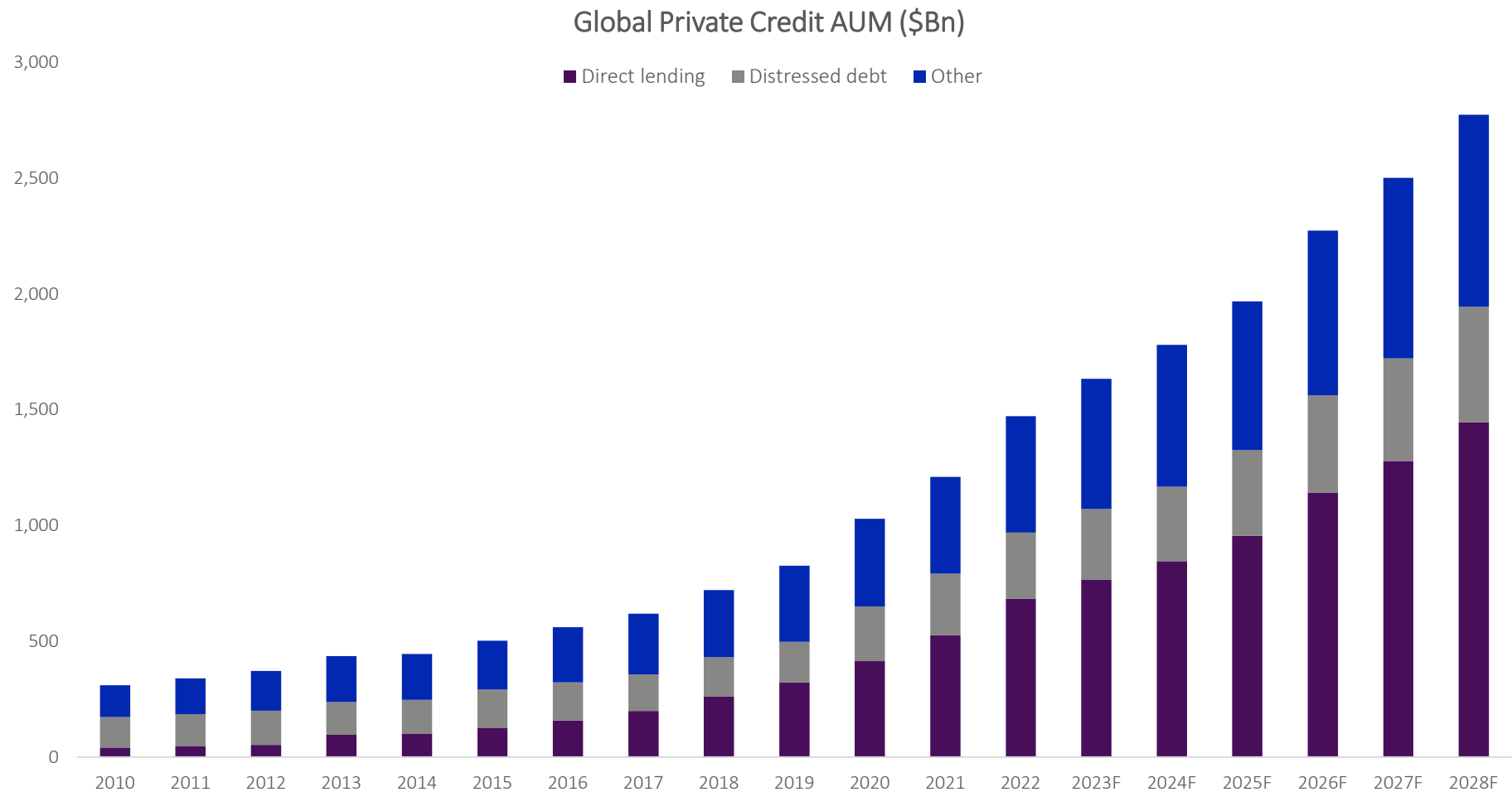


The Benefit Lenders Are Earning Is Declining Due To Competition



Much Of The Allocation To Private Credit Has Focused On Direct Lending, But There May Be Opportunity Elsewhere

- Investors have gravitated towards Direct Lending strategies over other Private Credit mandates.
- We believe investors should also be considering Asset Based Finance in their Private Credit allocations.

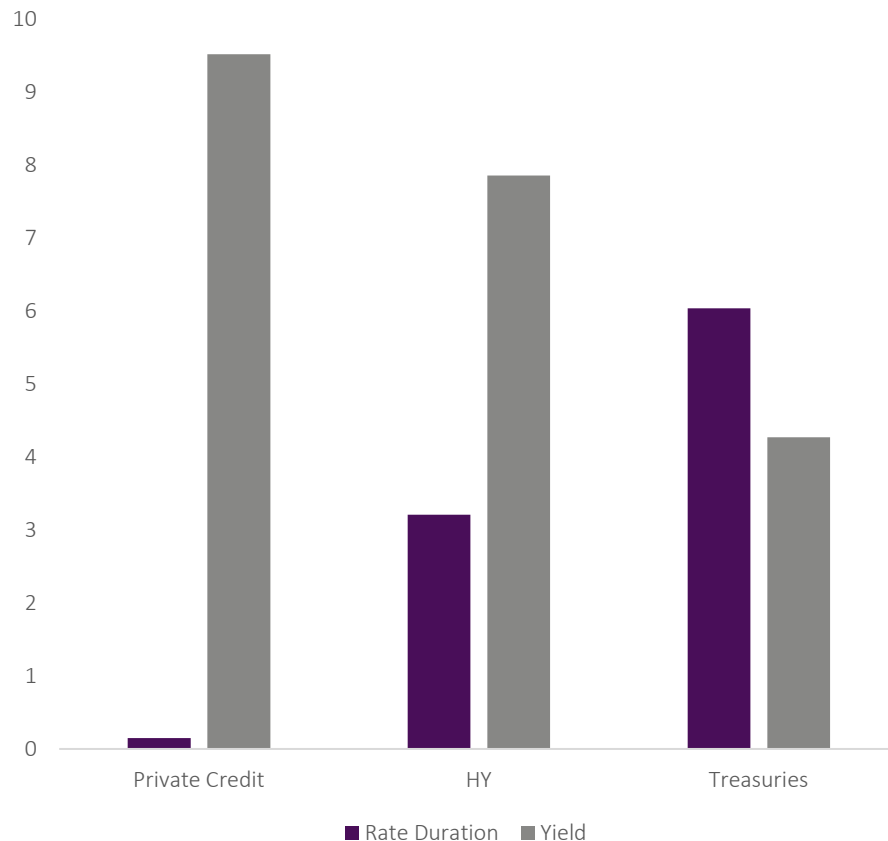


We Believe Investors Can Achieve Higher Yields, With Much Lower Loss Rates in Private Credit

- Private Credit's carry advantage over other areas of corporate credit remains attractive – even in a forward scenario of downward base rates.
- Private Credit has historically experienced much lower levels of losses than some other credit markets.

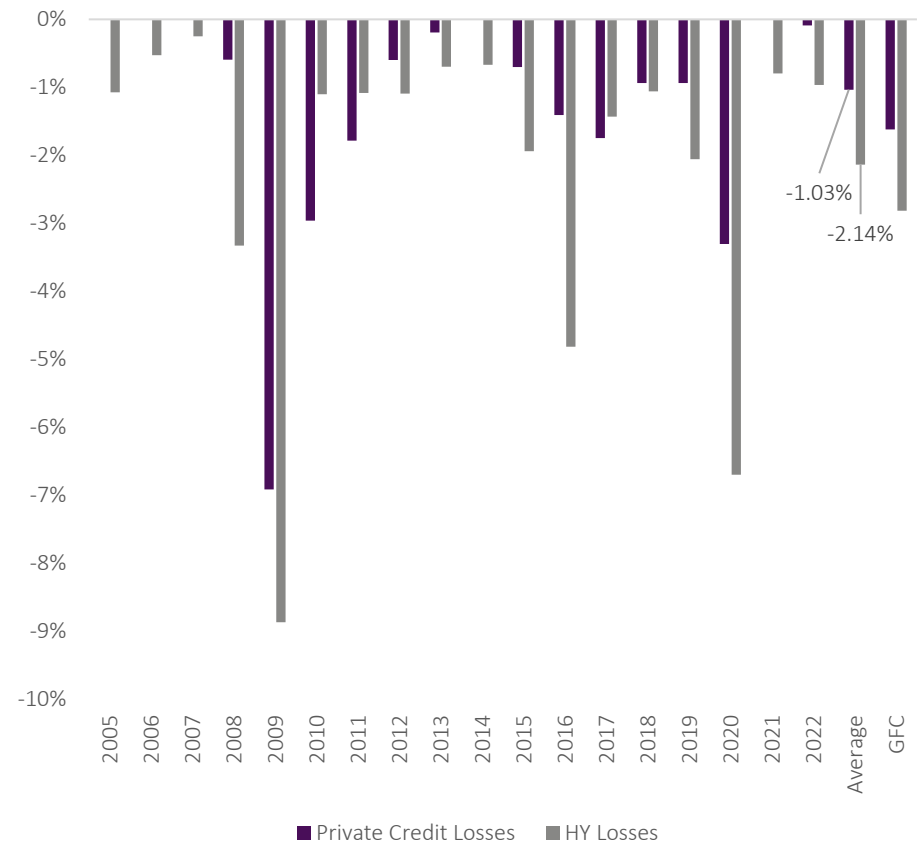
Private Credit Yields Are Materially Higher Than In HY

Duration And Yield Comparison



Private Credit Tends To Suffer Much Lower Levels Of Losses Than HY

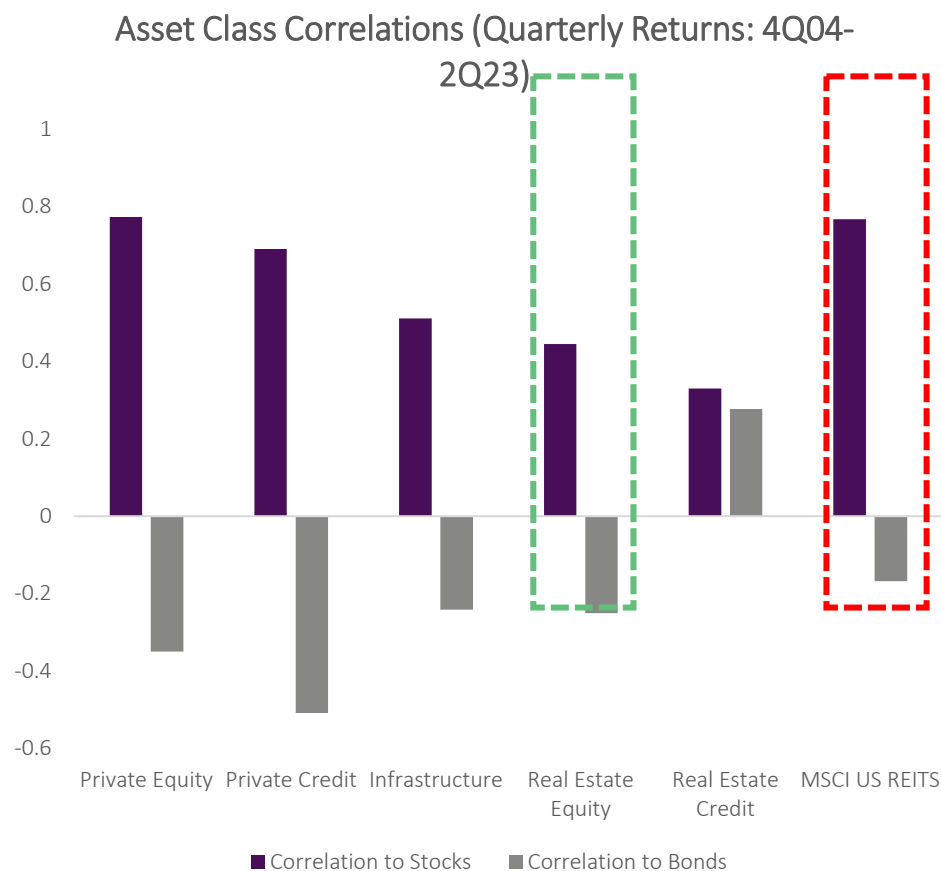
Loss Comparison



Real Estate Continues To Play An Important Role in A Well-Diversified Portfolio

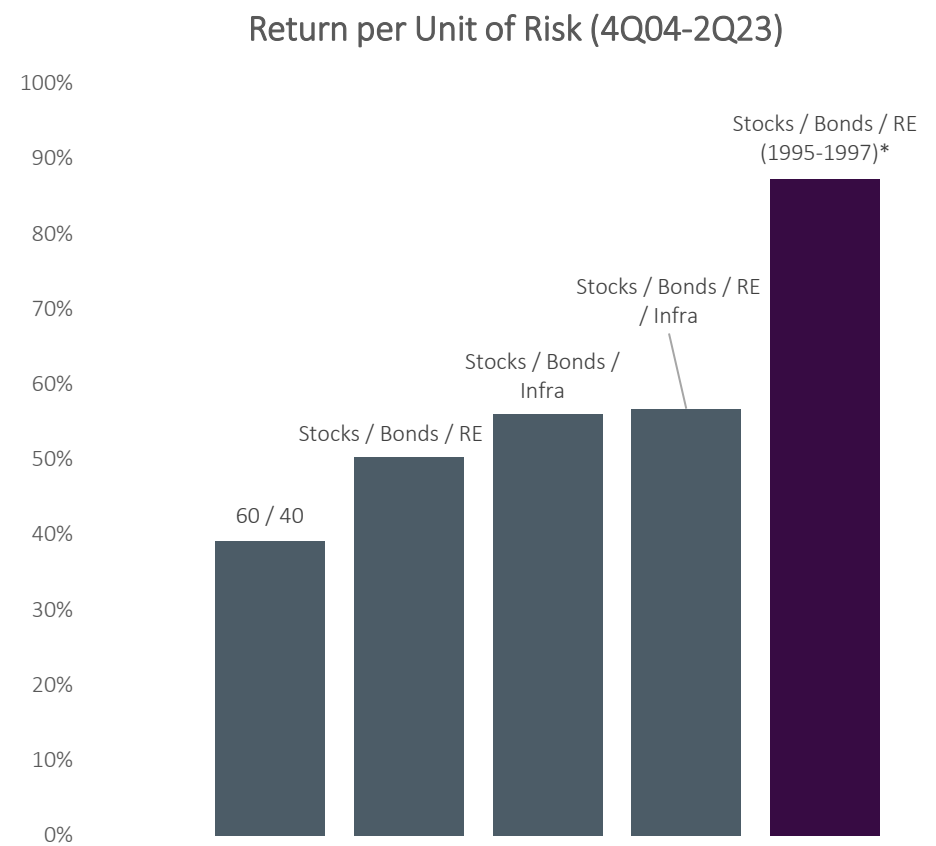
- Private Real Estate provides strong diversification benefits relative to other asset classes.
- Combined Real Assets portfolios provide additional diversification which helps protect the portfolio from economic surprises, thereby improving risk-adjusted performance.
- While history may not exactly repeat, we examined a period in the '90s (a macroeconomic environment of policy easing and inflation cooling like the one we expect in the near term) to evaluate the permanence of Real Estate's diversifying attributes.

Real Estate Equity Is A Strong Diversifier



Note: Data since 4Q04 through 2Q23 Stocks refers to S&P 500, Bonds refers to Bloomberg US Treasuries Index, Private Real Estate Equity refers to Cambridge Associates Real Estate Index, Private Real Estate Credit refers to Giliberto-Levy GL-1, Private Equity refers to Cambridge Associates Private Equity Index, Private Credit refers to Cliffwater Direct Lending Index, and Private Infrastructure refers to Cambridge Associates Infrastructure Index. *: Analysis conducted using monthly return data for the MSCI US REIT Total Return Index from 1995-1997. Source: Bloomberg, Cambridge Associates, Giliberto-Levy, KKR GBR analysis. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only.

Incorporating Real Assets Generate Better Risk-Adjusted Returns

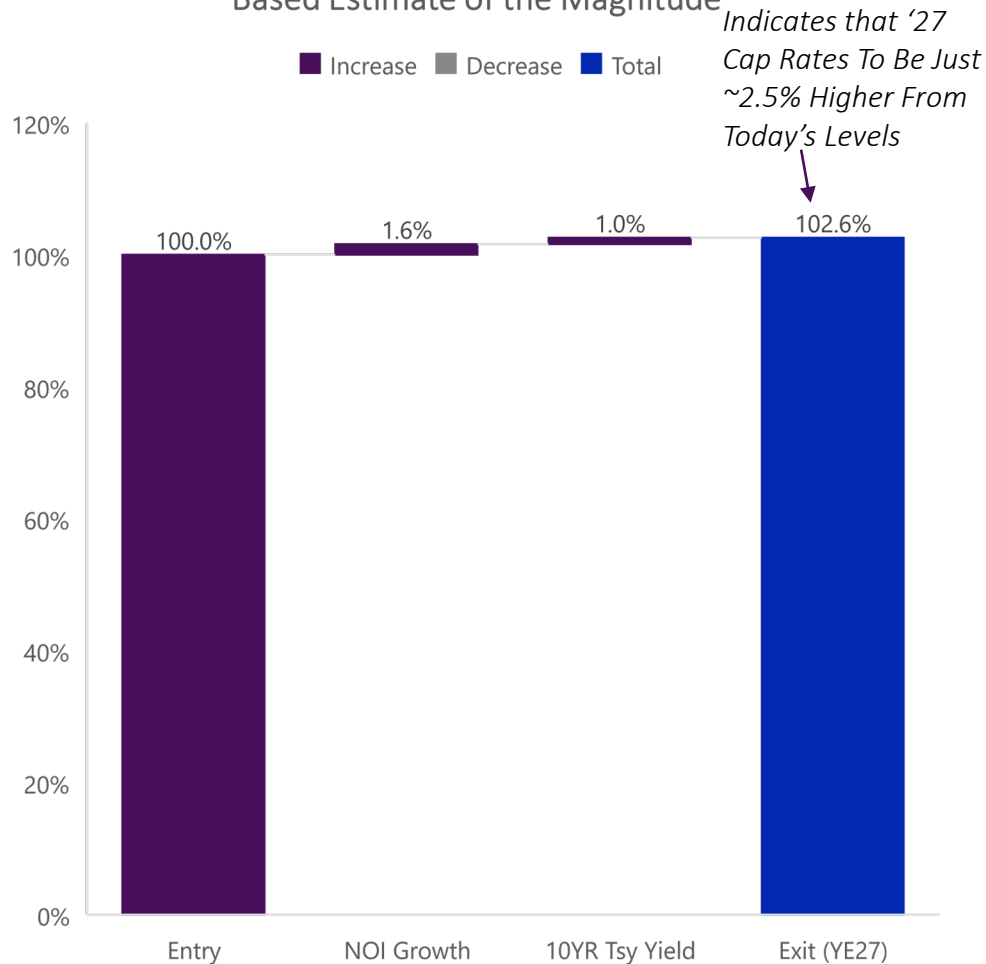


We Don't Expect Significant Cap Rate Widening From Here

- Slowing NOI growth is likely to be a slight headwind over the next few years amidst a mild recession but the 10YR, which is typically the dominant driver of cap rates, is actually expected to be a force of stability for cap rates as it remains around current levels through 2027.

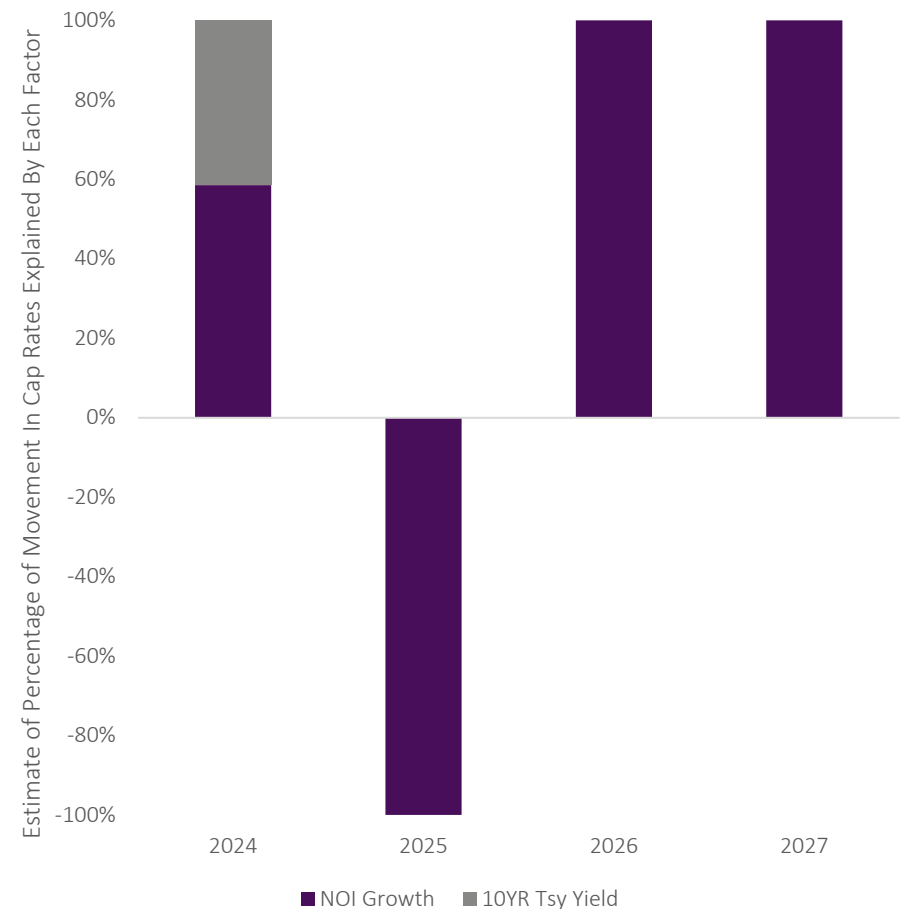
Slowing NOI Growth Is Only A Modest Headwind

Real Estate Cap Rate Driver Decomposition: Regression-Based Estimate of the Magnitude



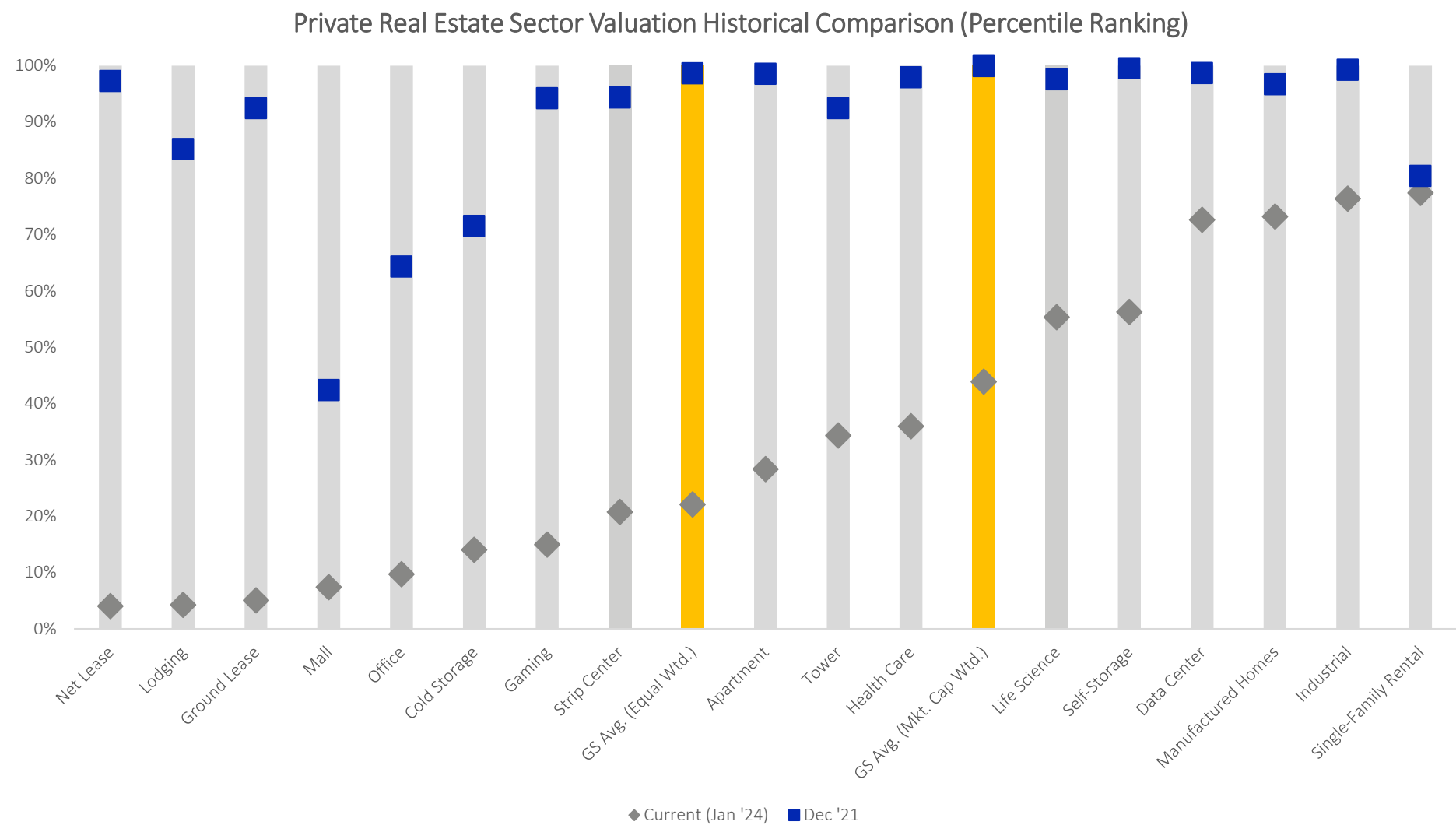
Rates Remaining ~4% Remove A Source Of Uncertainty

Estimate of Percentage of Directional Movement In Cap Rates Explained By Each Factor



Sub-Sector Valuations Have Reset To Varying Degrees, Providing Compelling Entry Points

- Following the disruption and repricing we witnessed over the past 12 months; the attractiveness of real estate has improved – notably so in sectors with still robust fundamentals and secular tailwinds.



Comparison of Current Real Estate Sub-Sector Fundamentals

- The dislocation we have seen thus far leads to compelling opportunities, but choosing sectors with solid fundamentals and thematic tailwinds remains paramount across geographies amidst increased volatility in the global real estate market.

Current RE Fundamentals: Relative Scoring As Of February 2024

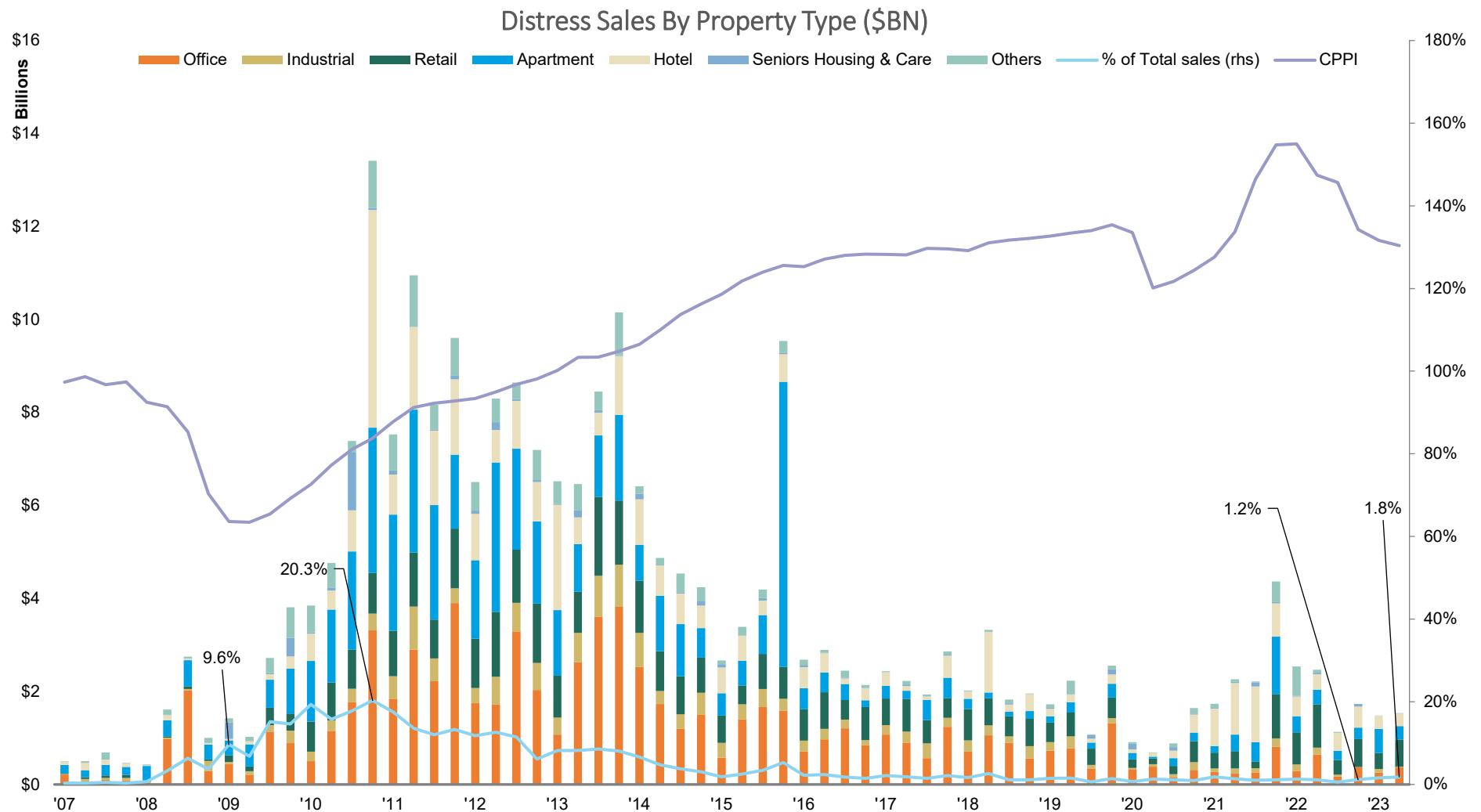
	US	Europe	Japan	China	Korea	Singapore	Australia
Residential	✓	✓	✓		✓		✓
Student Housing	✓	✓					
Logistics	✓	✓	✓				✓
Hospitality	Opportunistic	✓	✓				✓
Life Science	Opportunistic						
Office		✓			✓		
Retail							
Data Centers	✓	✓	✓		✓	✓	



✓ Key Investment Focus

Distress Emanating from the Higher Rate Refinancing Environment Will Likely Lead To Attractive Buying

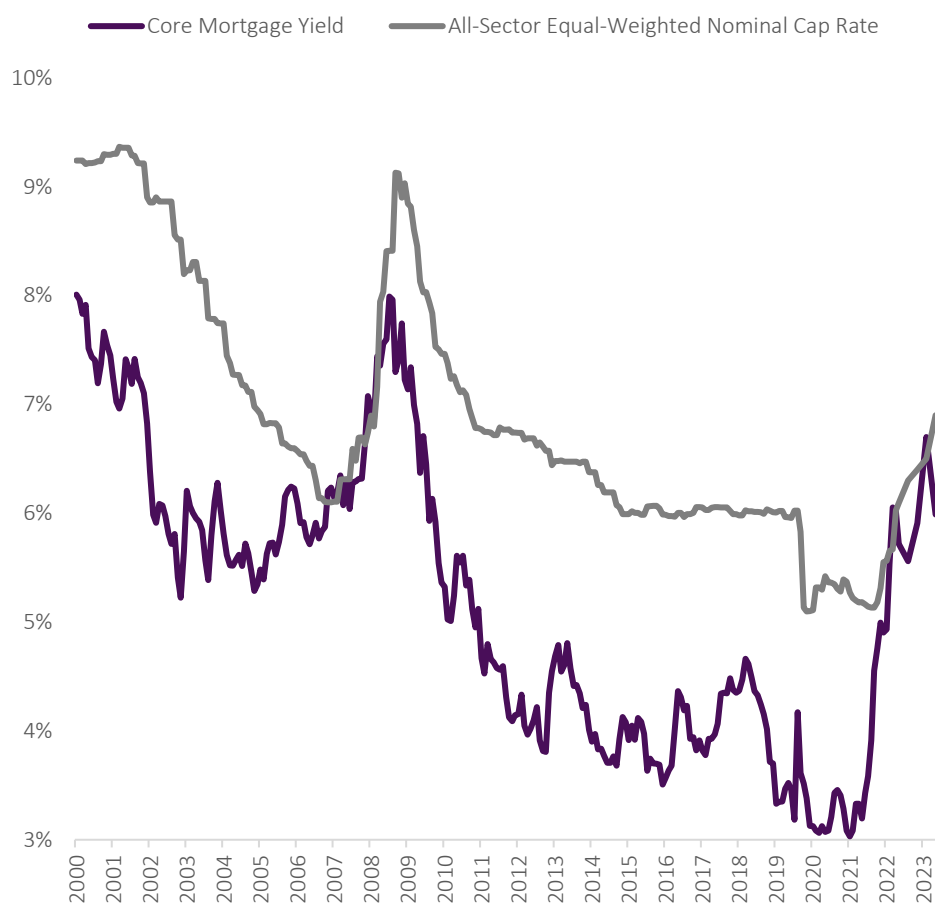
- Distressed sales are increasing as a percentage of all sales, across several sectors like Office, Retail, and others.



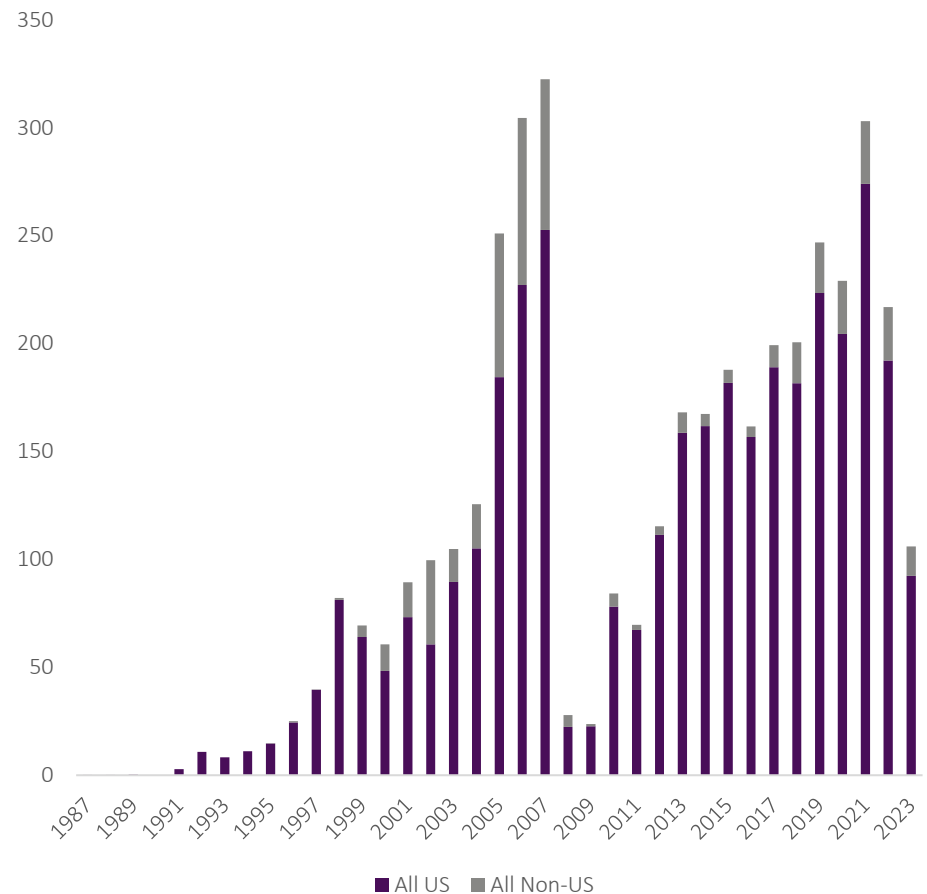
Core Mortgage Yields Are Nearly On Par With Equity Cap Rates, But Activity Levels Were Muted In 2023

- Unlevered mortgage yields are currently close to being on par with the Private Real Estate equity cap rates.
- However, the opportunity set has narrowed, evidenced by the drastic reduction in commercial mortgage issuance.

Mortgage Yields vs Capitalization Rates



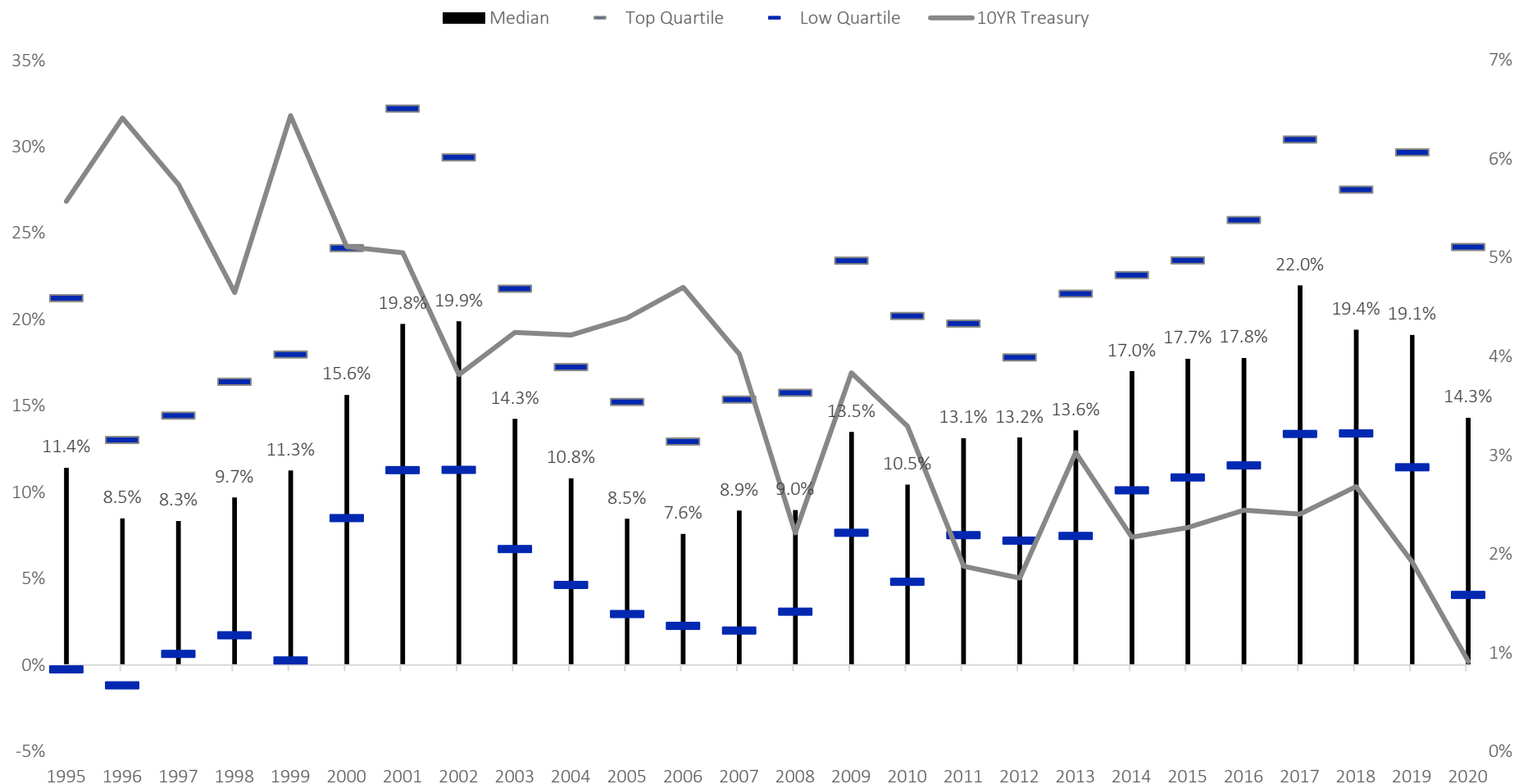
CMBS Issuance By Year (Billions)



Private Equity Funds Have Performed Well In Various Rate Environments

- Longer-term, the years 2023-2025 should be good vintages for risk assets, especially Private Equity.

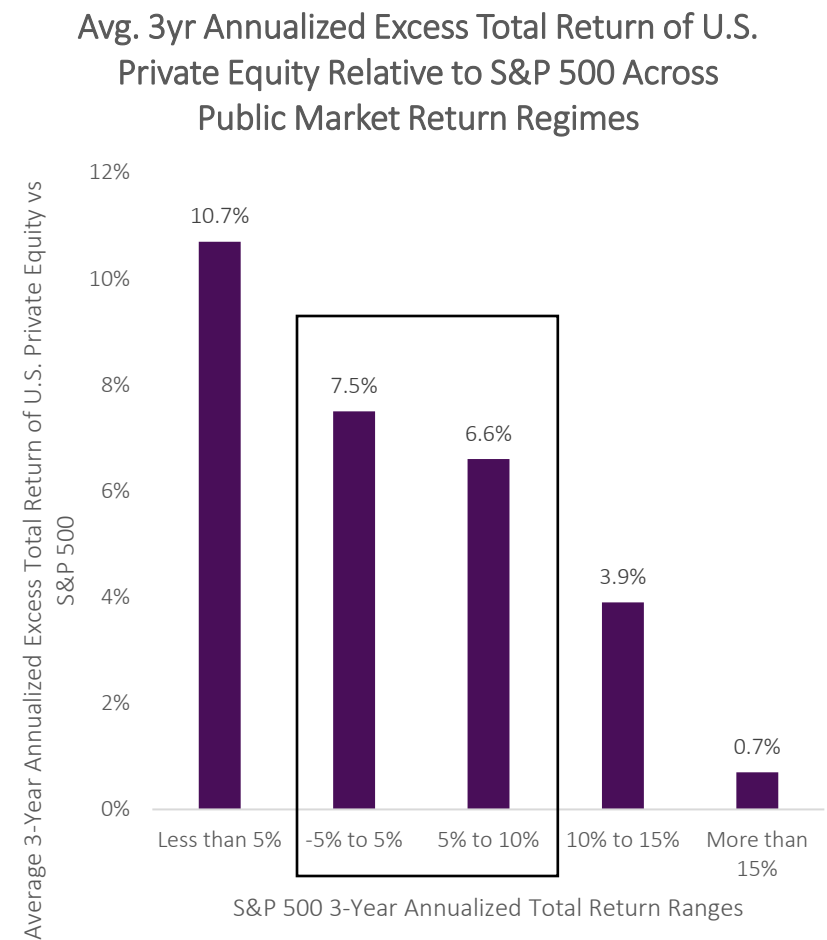
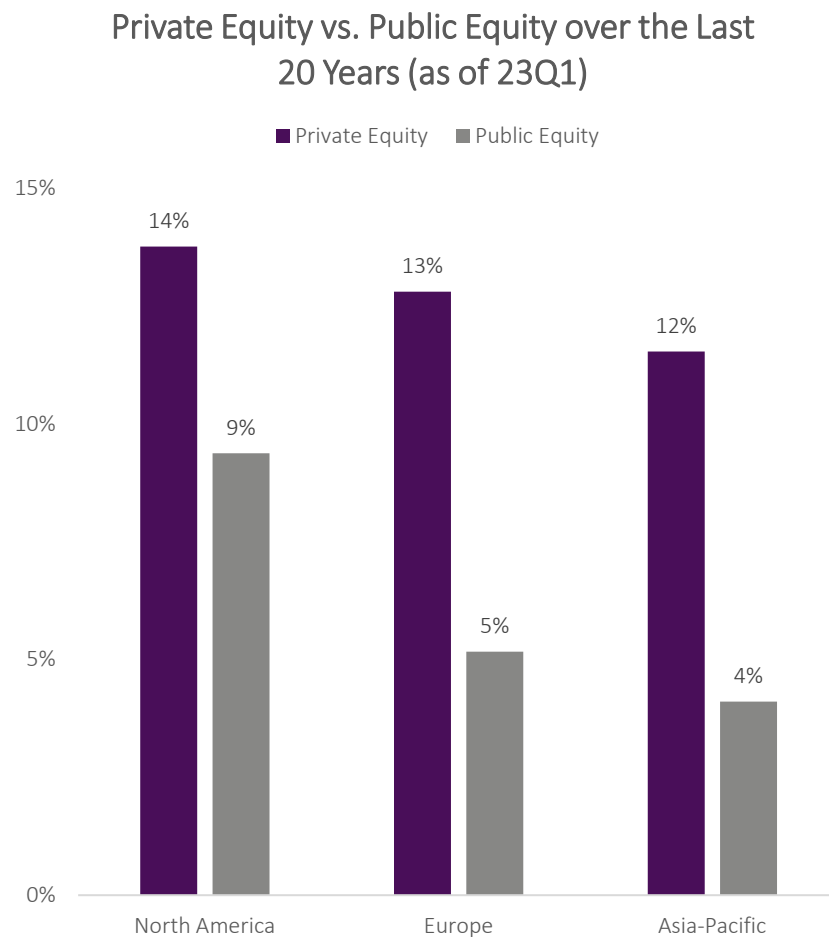
Global Private Equity Funds by Vintage Year, Net Return to LPs



Source: Cambridge Associates LLC Benchmark Statistics, Bloomberg. Data as of December 31, 2022. Reflects cumulative vintage year equal-weighted pooled mean net performance to LPs. Returns are net of all management and performance-related fees. Vintages later than 2017 do not yet have meaningful returns information. Please refer to "Important Information" at the beginning of this document for further information about past performance shown above. There is no assurance that the trends described or depicted above will continue.

Public Equity Market Dislocation Is Creating Opportunities For Private Equity

- Across geographies, Private Equity returns tend to exceed Public Equity returns. The differential has historically been the greatest in Asia-Pacific, a region where we expect growth to outperform the US and Europe.
- Further, the excess return of Private Equity is highest when Public Equity market volatility is highest.

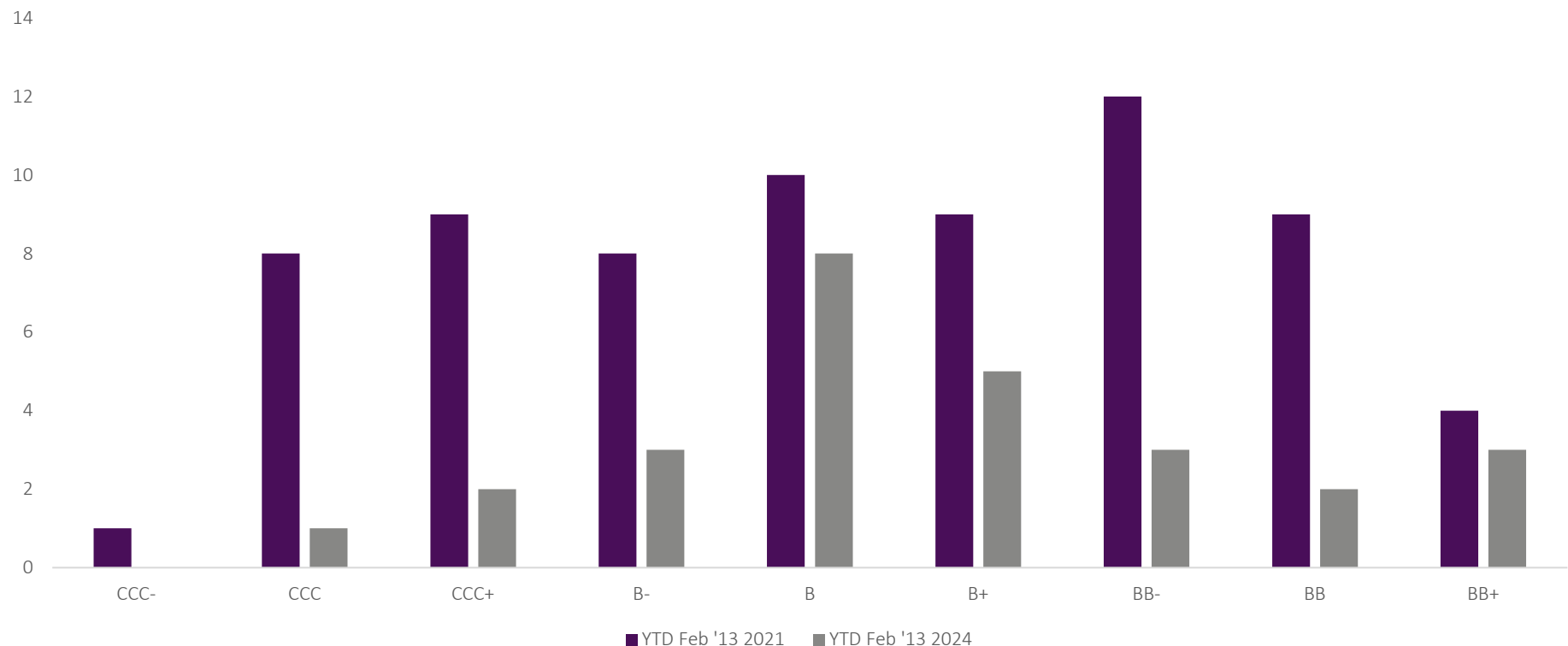


Capital Availability Is Coming Back For High Quality Companies, But Still Limited For More Speculative Businesses

- US and European IPO markets are generally open as demonstrated by nearly fifteen \$100mm+ IPOs having tested the market thus far in 2024.
- The set of issuers we have seen come to market remain more stable, larger scale, profitable businesses – we are still waiting on a true “growth” IPO, away from the string of biotech offerings that have come to market.
- In the private markets, we are seeing an uptick in minority recaps and secondary transactions as companies that are experiencing delayed access to the public markets and/or M&A exits look to provide liquidity to employees and/or institutional investors as pressure to return capital to LPs has increased.

While capital market activity is still much lower than in 2021, we are starting to see it open back up for higher rated borrowers while the lowest quality borrowers are still nearly shut out

Count of Issuers In The US High Yield Market At Each Credit Rating



Private Equity Valuations Have Reset

- S&P 500 valuations are already full at a time when corporate margins have been under pressure, growth is slowing, services inflation remains sticky, and the yields on Cash, Credit and Real Assets are now much more competitive relative to Equities.
- But valuations have reset to varying to extents depending on the sector and market cap. Small Caps, the universe more like Private Equity, has generally repriced much more than exhibited in the Large Cap universe.
- The greater repricing exhibited in the Smaller cap universe is creating compelling opportunities for Private Equity buyers to do take-privates or corporate carveouts.

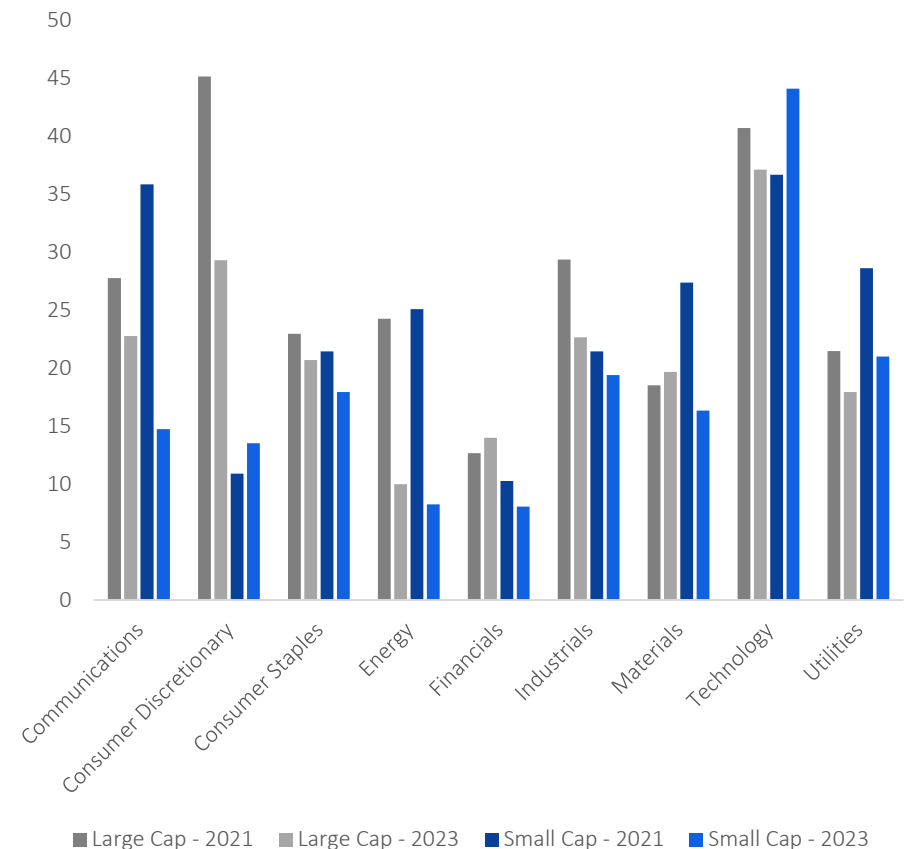
Valuations Have Come Off The 2022 Peak

Median EV/EBITDA Entry Multiples



Shifts in P/E Ratios Have Differed By Sector

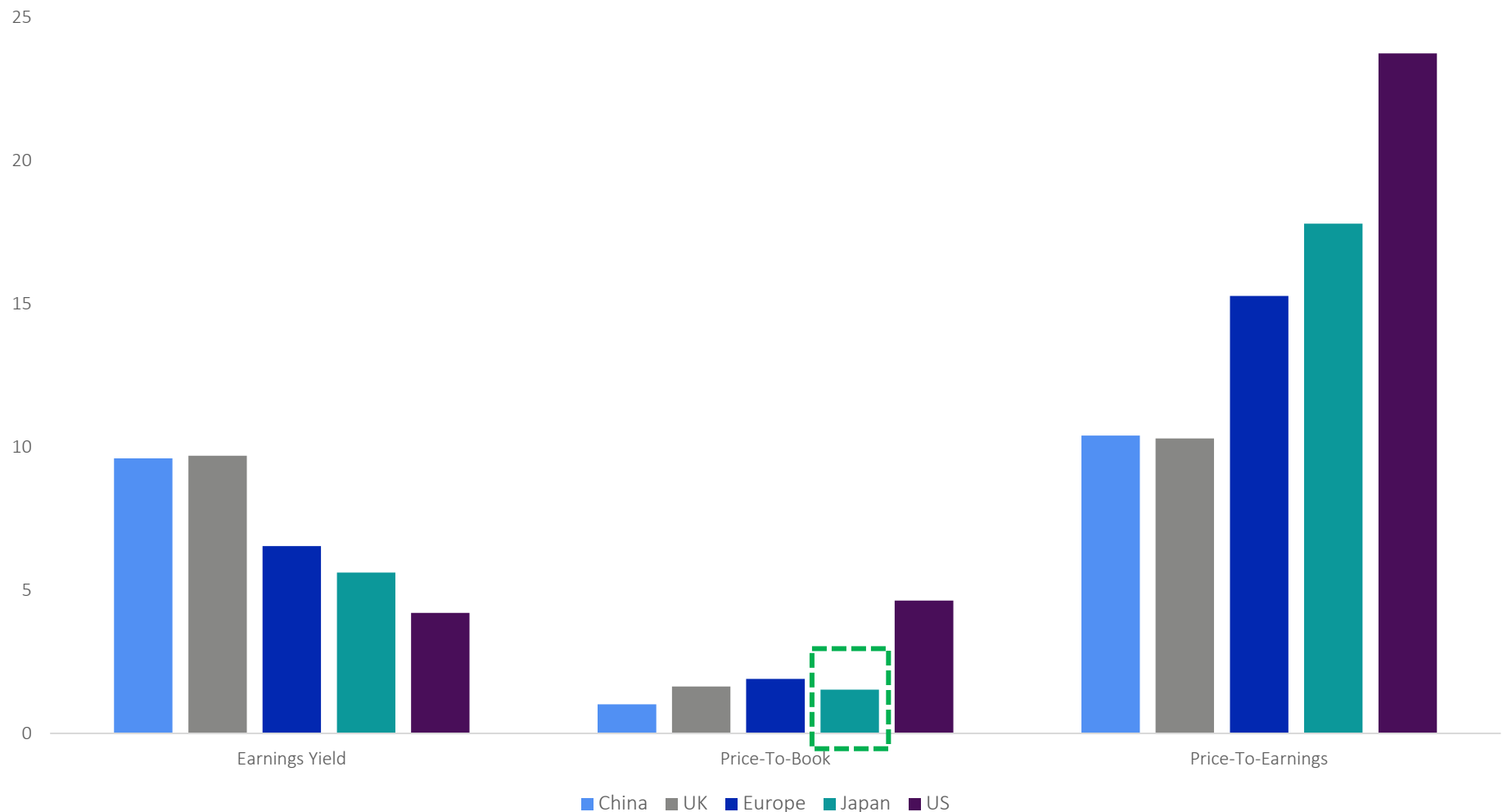
Large & Small Cap P/E Ratios By Sector



Regional Differentiation Creates Space For Opportunity Along Focus Areas, Like Corporate Carveouts

- Across several metrics, valuations seem to reflect the current macroeconomic backdrop with strong economies (the US) looking more expensive while weaker economies (China) looking cheaper. Thus, it is imperative to invest thematically and to find idiosyncratic opportunities with identifiable operational improvement levers.
- Japan is particularly interesting for corporate carve-outs due to the large number of exceptionally complex conglomerates located in the country. As evidenced by the discount to Price-To-Book ('complexity discount'), there is opportunity to unlock value via simplification.

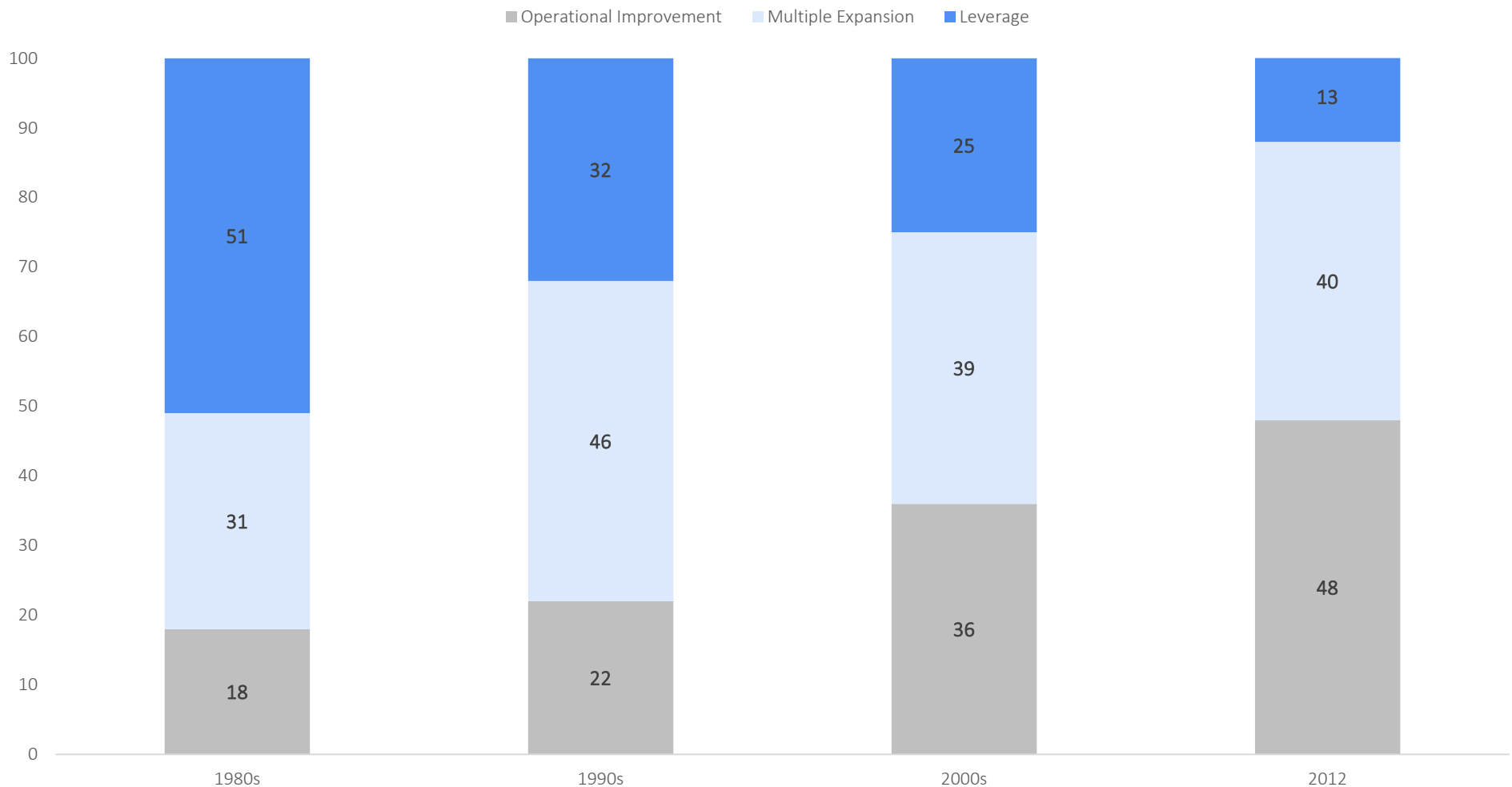
Regional Valuation Comparison



Decomposition Of PE Returns Shows Importance Of Thematic Focus And Operational Improvement Capabilities

- Value Creation and exposure to thematic tailwinds is more important in a world where leverage is less helpful, or worse detrimental, to overall returns.
- Contrary to expectation, leverage has not been the crutch that Private Equity relies on for value creation. In fact, operational improvement is the single largest source of value creation.

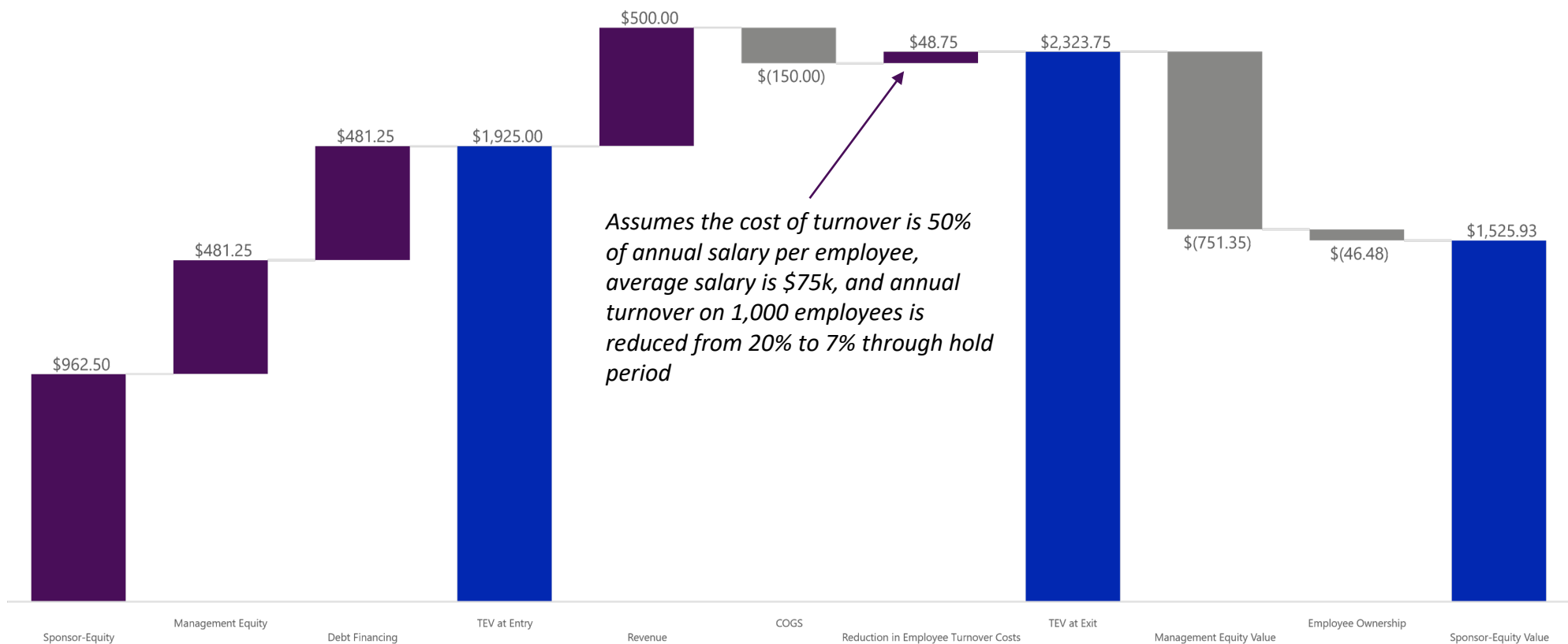
Contribution To Value Creation In PE Deals (%)



Value Creation Is More Important Due To High Cost Of Leverage And Employee Alignment Enhances Outcomes

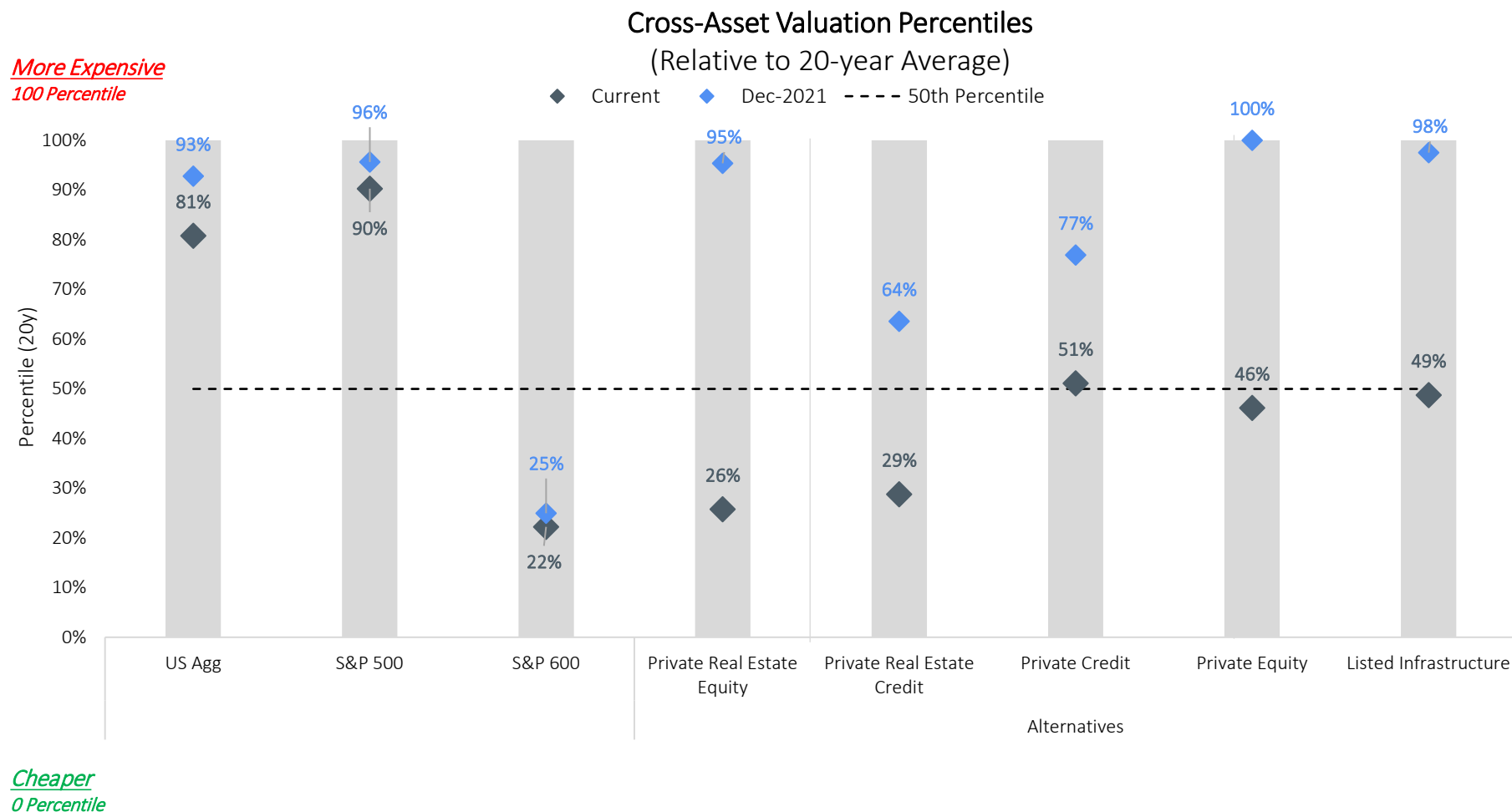
- Broad-Based Ownership plans create opportunities for additional value-creation levers to be pulled by aligning employee incentives with those of the Sponsor. These Employee Ownership plans have been shown to increase employee engagement, reduce work-related injuries, and reduce employee turnover – all items that can increase productivity and reduce costs.

Illustrative Example: Broad-Based Ownership Plan's Impact On Investment Outcome



Determining The Right Entry Point Is Important

- Valuations for Alternatives have reset more than Large Cap Equities, which has created opportunities.
- Broadly, Credit continues to look cheaper than Equity.



Note: S&P 500 and S&P 600 refers to NTM P/E; US Agg refer to Option-Adjusted Spread; Private Real Estate Equity refers to nominal cap rate; Private Real Estate Credit refers to mortgage spreads; Private Credit refers to spread to the 10YR Treasury Rate. Private Equity refers to exit multiples; Listed Infrastructure refers to dividend yield. Data since 1997, or since available, and as at 12/31/2023, except for Private Credit and Private Equity as at 6/30/2023; percentiles from 2002-date where available. Source: Bloomberg, Haver Analytics, Burgiss, Green Street, Cambridge Associates, Giliberto-Levy, KKR GBR analysis.

Appendix



By The Numbers – Macro

	Current as of February 2024	December 2024 Forecast (Base Case)
S&P 500	5035	5200
US 10 Year	4.15%	4.25%
WTI Oil Price	76	78

S&P 500 Price Target Scenarios				
	Base (60% Prob)	Bear (20% Prob)	Bull (20% Prob)	Weighted Average
Current = 5,035				
2024 Year-End Target	5,200	4,450	5,350	5,080
P/E on 2025 EPS	20.0x	19.3x	20.5x	20.0x
2025 Year-End Target	5,530	4,008	5,673	4,424
P/E on 2026 EPS	20.8x	17.0x	19.9x	19.9x
2022a EPS	\$220	\$220	\$220	\$220
2023e EPS	\$220	\$215	\$226	\$220
2024e EPS	\$240	\$204	\$251	\$235
2025e EPS	\$260	\$231	\$261	\$254
2026e EPS	\$266	\$236	\$285	\$264

- ✓ As we see it, ERP at ~4.5% is back within the post-GFC average after the recent rally in equities.
- ✓ But, after the simultaneous recent credit spread compression, excess risk premia to HY spreads is still around historically average levels of ~120bps
- ✓ While we remain below consensus, and despite our forecast for slower nominal GDP in 2024, KKR's multi-factor EPS model calls for growth in EPS of ~8%, aided by an economy moving from contraction to early cycle recovery.
- ✓ On price-to-earnings multiples, large cap stocks trading at 23x do not appear cheap versus their long-term average, so there will likely be less multiple expansion from current levels. However, outside of the large-cap growth sector within the S&P 500, average trading multiples appear much more reasonable, in our view.

By The Numbers – Portfolio Construction

All Periods by Portfolio	Return	Volatility	Return per Unit of Risk	△ vs. 60/40	% Liquid Asset	Cash Yield
Alts Enhanced - Generate Income	8.7%	10.8%	0.81	0.14	70%	5.7%
Alts Enhanced – Preserve Capital	9.0%	11.1%	0.81	0.14	70%	5.4%
Alts Enhanced - Boost Return	10.2%	14.0%	0.73	0.06	70%	3.9%
60 / 40	9.1%	13.5%	0.67		100%	4.1%
High Inflation						
Alts Enhanced - Generate Income	9.7%	10.8%	0.90	0.19	70%	6.4%
Alts Enhanced - Preserve Capital	10.2%	11.1%	0.92	0.20	70%	6.0%
Alts Enhanced - Boost Return	11.9%	13.6%	0.87	0.15	70%	4.4%
60 / 40	9.5%	13.2%	0.72		100%	4.9%
Low Inflation						
Alts Enhanced - Generate Income	7.7%	10.4%	0.75	0.16	70%	4.5%
Alts Enhanced - Preserve Capital	7.9%	10.7%	0.74	0.15	70%	4.1%
Alts Enhanced - Boost Return	8.8%	14.7%	0.60	0.01	70%	3.0%
60 / 40	8.2%	14.0%	0.59		100%	2.6%

Note: Alts Enhanced – Boost Return refers to a portfolio allocation of 45% Public Equity, 25% Bonds, 5% Private Real Estate, 5% Private Infrastructure, 15% Private Equity, and 5% Private Credit. Alts Enhanced – Preserve Capital refers to a portfolio allocation of 30% Stocks, 40% Bonds, 5% Private Real Estate, 7.5% Private Infrastructure, 5% Private Equity, and 12.5% Private Credit. Alts Enhanced – Generate Income refers to a portfolio allocation of 30% Public Equity, 40% Bonds, 7.5% Private Real Estate, 7.5% Private Infrastructure, and 15% Private Credit. 60 / 40 refers to a portfolio allocation of 60% Public Equity and 40% Bonds. High Inflation is defined as annual CPI > 2.5% and Low Inflation is defined as annual CPI < 2.5%. Portfolio returns and volatility modeled using annual total returns from 1971 to 2022 for the S&P 500, from 1997 to 2022 for Private Real Estate, from 2004 to 2022 for Private Infrastructure, from 1974 to 2022 for Bonds, from 1997 to 2022 for Private Equity, and from 2005 to 2022 for Private Credit. Assumes continuous rebalancing of the portfolios. U.S. equities modeled using the S&P 500 Index. Bonds modeled using Bloomberg US Agg. Private Real Estate modeled using the Cambridge Associates Real Estate Index. Private Infrastructure modeled using the Cambridge Associates Infrastructure Index. Private Equity modeled using the Cambridge Associates Private Equity Index. Private Credit modeled using the Cliffwater Direct Lending Index. Cash yields modeled using annual data from 1970 to 2022 for Public Equity, from 1976 to 2022 for Bonds, 2000 to 2022 for Private Real Estate, 1990 to 2022 for Private Infrastructure, 1994 to 2022 for Private Equity, and 2005 to 2022 for Private Credit. Public Equity using S&P 500 12M gross dividend yield, Private Equity proxied using S&P Small Cap 12M gross dividend yield, Private Infrastructure proxied using S&P Infrastructure 12M gross dividend yield from 2006 onwards and 1990-2006 back filled using S&P Utilities, Public Credit based on Bloomberg US Agg yield to worst, Private Credit using Cliffwater Direct Lending Index Income Return, Private Real Estate based on Green Street All-sector Equal-weighted cap rate, Source: Cambridge Associates, Green Street, Bloomberg, NCREIF, KKR GBR Analysis. For Financial Advisor Use Only.