AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

KKR Credit Income Fund

(Expected ASX Code: KKC)

September 2019

INDEPENDENT
INVESTMENT RESEARCH

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IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

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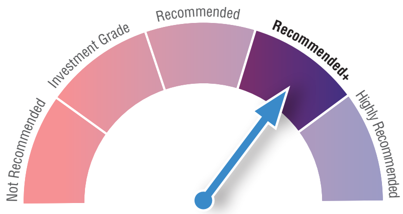
KKR Credit Income Fund

(Expected ASX Code: KKC)

Note: The issuer of the product is intended to be The Trust Company (RE Services) Limited as responsible entity of the KKR Credit Income Fund.

Rating



Key Investment Information	
Name of LIT	KKR Credit Income Fund
Manager	KKR Australia
ASX Code	KKC
ASX Listing Date	21 November 2019
Issue Price	$2.50
Day One NAV	$2.50
Min / Max / Oversubscription Raise Units	80m / 300m/ 330m
Market Capitalisation	$200m / $750m / $825m
Target Distribution	4-6% p.a.
Distribution Frequency	Quarterly
Benchmark (GCOF)	50% LSTA/50% BAML HY II
FX Exposure	Fully hedged to AUD
Management Costs	0.90%
Performance Fee	5% when hurdle (RBA Cash Rate + 4%) reached with High Watermark

Offer Timetable	
PDS Lodgement	16 Sept 2019
Cornerstone Offer - $200m	23 Sept-10 Oct 2019
General and Broker Firm Offer Open	14 Oct 2019
Broker / General Offer Close	31 Oct / 6 Nov 2019
Settlement Date	14 Nov 2019
Allotment of Units & Despatch of Statements	18 Nov 2019
ASX Listing Date	21 Nov 2019

Fees Commentary

Only one layer of fees charged at the LIT level, with no fees charged at the underlying fund / portfolio level. We also acknowledge that the Investment Manager will incur all IPO raise costs.

Target Portfolio Characteristics	
Floating / Fixed rate securities	75%/25%
Senior / Subordinated securities	87%/13%
Geographic split - NA/Europe	46%/54%
No. Holdings (approx)	90-110

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

The KKR Credit Income Fund ('the Trust' or KKC) is expected to list on the ASX on 21 November 2019, with a minimum and maximum raise of $200m to $750m (with oversubscriptions up to a further $75m), respectively. The Trust is managed by KKR Credit (the 'Investment Manager') and its 120 person strong global credit team and which manages approximately US$70bn in credit strategies. The Trust provides exposure to two underlying credit investment strategies, specifically a long-term target portfolio allocation of 50-60% to the Global Credit Opportunities Fund ('GCOF') and a long-term target allocation of 40-50% to the European Direct Lending ('EDL') investment strategy, via the soon to be launched KLPE II fund. GCOF, which is based on KKR Credit's Opportunity Credit Strategy ('OCS'), is managed according to a high conviction, market-driven opportunistic investment strategy with 60 to 80 core credit investments. It invests in a portfolio of sub-investment grade ('sub-IG') traded credit securities, mainly bank loans and high yield bonds. The underlying OCS has an 11-year track record and has performed exceptionally well across the full credit cycle. KLPE II is a European direct lending strategy targeting upper middle-market companies in Western Europe by largely first lien, senior secured private debt, with a very selective provision of second lien secured facilities. The EDL strategy has a 7+ year track record and has generated a realised unlevered IIR of 13.4% p.a. and a weighted average all-in-yield of 8.5% p.a. to date. While the two strategies differ, they are united by a common KKR wide philosophy, fundamental bottom-up investment process and access to KKR wide resources. The Trust's target net return is 6 – 8% p.a. with an estimated current net yield of 4 – 6% p.a.

INVESTOR SUITABILITY

Strong underwriting skills, cautious credit selection, and prudent full credit cycle portfolio management translates into consistency of income and the minimisation of default loss. IIR has a high degree of confidence in KKR Credit and the Trust delivering a stable and consistent monthly distribution and, over the long term, generating accretive NAV. While there are distinct differences in the two underlying strategies, both are based on the same fundamental bottom-up assessment of cash flow variability and debt serviceability, driven by a mindset acutely aware of the asymmetry of downside risks in debt investments. Importantly, both underlying strategies are not only well positioned to perform well in a late-cycle credit environment but to capitalise on any fall-out from a potential end of cycle credit environment. Investors should note that GCOF is not only a sub-IG strategy but one predominantly invested in the lower ratings spectrum of the asset class, specifically B and CCC. While KKR Credit does so due to the appealing opportunity set presented in these segments, investors should accept that doing so may lead to heightened NAV volatility.

RECOMMENDATION

IIR ascribes a "**RECOMMENDED PLUS**" rating to the KKR Credit Income Fund. IIR has a very high degree of conviction in the Investment Manager's ability to at least achieve the stated investment objectives over the foreseeable future and continue to generate well above broad market performance over the medium and long term. KKR Credit ticks every box with respect to track record, resources, and mandate flexibility. The risks in debt currently are not only cyclical but structural, with significant market inefficiencies in the traded sub-IG market and a general deterioration in underwriting in the private debt market (and an influx of untested managers that lack full cycle resources). In such an environment, the dispersion in performance by investment manager and strategy is not only likely to increase, but is almost guaranteed to do so while ever the current structural market inefficiencies persist. KKR Credit, with its full cycle tested deep fundamental bottom-up credit assessment and flexible and market-driven opportunistic strategies is well placed to continue its excellent track record of outperformance. While IIR understands performance fees are standard in private debt and accepts the justification, IIR makes the point the performance fee has the potential to elevate total fees to a level above the majority of ASX-listed credit LITs.

SWOT ANALYSIS

Strengths

- The investment teams that manage both the OCS and the EDL are highly experienced, well resourced, and benefit substantially from the broader KKR resources given the strong "one firm" culture. The investment / underwriting process, which is strongly fundamental bottom-up in assessing company creditworthiness, is very much aligned with KKR's private equity DNA.
- KKR Credit and the underlying strategies are particularly attuned and suited to late-cycle / end-of-cycle credit investing. This is based on a combination of resources, underwriting skills and standards, workout / recovery experience, sector focus, investment strategy positioning and flexibility, and the potential to benefit from a shakeout in both the direct lending segment and heightened volatility in the sub-IG markets.
- The OCS is based on a flexible market-driven opportunistic strategy capable of outperforming throughout the entire credit cycle, and historically has consistently done so, generating 562 bps of gross outperformance since inception. This impressive outperformance has been driven by the advantages of a flexible mandate tied with strong underwriting skills that seeks to understand and capitalise on idiosyncratic, company specific risks in the sub-IG market. The opportunity set in doing so has increased in recent years by way of increasing market inefficiencies. The strategy has been ranked either the top or second top performing 'high yield' investment strategy relative to 258 sub-IG funds over the last 1,3,5,7 and 10 years to 84 months, as compiled by independent consultant company eInvestment Alliance.
- Within the OCS, the ability to consistently outperform since inception has been driven by an ability to select mispriced risk. This mispricing is often linked to market inefficiencies, including a company's rating (in the CCC segment), the tendency of the broader market not to differentiate individual credit quality during periods of heightened market risk, and the opportunities presented by credits that fall into a trading area where liquidity providers are sparse (referred to as 'no mans land').
- The direct lending strategy is well positioned strategically with respect to mitigating competitive pricing pressures in the private debt sector and having a greater degree of control over its private debt investments. Further, KKR Credit has extensive resources to work through the full life-cycle of a private debt lend, including strong workout and restructuring experience in the event of a payment default / bankruptcy.
- Within direct lending, KKR Credit has maintained thorough underwriting standards, as partly evident by a relatively consistent ~4% investment selection hit rate for European direct lending deals from 2015 to 2019. This stems from a wide origination funnel and thorough underwriting standards.
- The Trust IPO has been well structured, with all issue costs borne by KKR and the expectation that the amount raised will seek to strike a balance between being large enough to create sufficient liquidity but not too large to comprise both the timely deployment of capital raised into the underlying strategies and having sufficient after-market latent demand to support share price relative to NAV.

Weaknesses

- The Trust applies a performance fee equal to 5% over the RBA Cash Rate plus 4% (currently 5.00%). While IIR understands performance fees are standard in private debt and accepts the justification (based on deep analysis, underwriting and, potentially, workout efforts), IIR makes the point it has the potential to elevate total fees relative to the majority of other ASX-listed credit LITs. Further, while performance fees are common in private debt, they are not in listed credit strategies. We note that over the first two years the Trust will be predominantly invested in GCOF. The RBA Cash Rate hurdle benchmark, while having informational resonance with domestic investors, is not directly relevant to the asset classes of the underlying strategies, with IIR viewing LIBOR as more appropriate.
- More a necessity than a weakness, it may take up to two to three years for the Trust to reach the target allocation in the European Direct Lending strategy. In the interim, the Trust will be subject to greater inherent volatility and drawdown risk through a proportionately greater exposure to GCOF. That said, IIR acknowledges prudent private debt investments should not be fast tracked, with strong performance and the preservation of capital requiring a highly selective investment process based on thorough underwriting processes.

Opportunities

- Given the late-cycle / potentially imminent end-of-cycle credit market environment and the secular risks that have emerged in the credit markets, the opportunity to benefit from a particularly well positioned investment manager (and underlying strategies). Investment manager selection has become even more critical and, in IIR's view, investors should favour those managers with long track-records, the ability to preserve capital (through strong underwriting and workout / recovery experience), and have the mandate flexibility to exploit market inefficiencies.
- European direct lending has, to date, presented an attractive income opportunity, partly through a persistent illiquidity premium and attractive arrangement fees. Since launching its first dedicated European direct lending fund, KLPE I, in 2015, KKR Credit has seen an attractive illiquidity premium. As at 30 Jun. 2019, the new-issue spread of B+/B loans in the syndicated bank loan market in Europe was ~4.0%. In contrast, the weighted average all-in yield of the loans in KLPE I was ~8.5%, representing ~450 basis points spread over the syndicated bank loan market.
- Private debt / direct lending offers several advantages over sub-IG bonds and senior bank loans (including floating rates (vs bonds), lower mark-to-market volatility, and prepayment protection (vs bank loans)) and generally provides stronger covenants, better information / monitoring rights, closer borrower relationships and is generally senior secured. This is reflected historically in lower default rates / higher recovery rates. However, this comes at the price of lower liquidity and, highlighting the importance of manager selection, higher portfolio concentration and the need for more resource-intensive implementation and monitoring processes.
- The inherent flexibility of the OCS investment strategy provides the potential to perform well across the full credit cycle, and particularly so given the persistence of certain market inefficiencies. When KKR Credit's track-record of alpha across all underlying sub-strategies is considered, this provides IIR with conviction in the ability of the Investment Manager to continue to generate outperformance.
- With interest rates at historic lows and one further rate cut widely expected by December 2019, investors have moved into ASX-listed fixed-income ETFs in search for yield, with FUM in such ETFs surging by 30%, to $10.4bn, in the five months ended 31 May. IIR would caution investors to be highly selective with respect to investment manager / strategy choice. We believe an active, fundamentally based, unconstrained credit mandate, such as the OCS, is best placed to exploit the increasing market inefficiencies in the sub-IG market.

Threats

- Investors should note that GCOF is not only a sub-IG investment strategy but one predominantly invested in the lower ratings spectrum of the asset class, specifically B and CCC. While KKR Credit does so due to the appealing opportunity set presented to a strong manager, investors should accept that doing so may lead to heightened volatility.
- There have been a number of secular changes in the sub-IG markets over recent years that create significant market risks. These include: the significant increase in asset-liability mismatched structures (ETFs, daily liquid mutual funds based on relatively illiquid underlying assets); masking of the deterioration in underlying collateral, and; the substantial risk of a lack of market-making in the next downturn, impeding price discovery. In a worse case scenario, the misunderstanding among many retail investors of liquidity in the asset class will be laid bare, creating either a freeze in redemptions or considerable selling pressure on more liquid (generally higher rated) sub-IG securities. While the GCOF may ultimately benefit from such an extreme price dislocation event, investors should be prepared for market volatility.
- Regulatory oversight of the private debt sector is more likely to strengthen than weaken, with regulators hearing too many stories about poor underwriting standards, weak loan documentation and overuse of leverage for it to be otherwise (notwithstanding that a strong defence can be made against charges that the private debt sector poses systemic risks). Whether this occurs and whether it ultimately impacts the growth opportunity for investment managers and investors in the sector is yet to be seen.
- Even for lower risk private debt programmes the impact of defaults can be material given the concentrated portfolios (often in the range of 15-30 underlying deals). Investors should exercise discretion with respect to investment manager selection, preferring managers with full cycle track-records, comprehensive skill sets, and strategically well positioned for default risk.

PRODUCT OVERVIEW

The Trust provides dynamic exposure to two underlying credit investment strategies, specifically with a longer term target allocation of 50-60% to the Global Credit Opportunities Fund ('GCOF') and a 40-50% allocation to KKR European Direct Lending deals. Exposure to the latter strategy will be gained through the commingled KKR Lending Partners Europe II fund (KLPE II), the follow-on fund to KLPE I which marked the end of its investment period recently in March 2019.

These allocations represent longer term targets as it may take up to an expected two to three years for the Trust to become fully invested in the newly formed KLPE II. Furthermore, over time, when the principal of any particular loan is repaid by a borrower to KLPE II, these amounts are likely to be temporarily reallocated to GCOF until the next (new) loan is drawn down. KLPE II will also have a finite term as is typical in private debt (specifically at least six years from Final Close, the latter of which is yet to be determined), but the expectation is there will be a successor vehicle based on the same / similar strategy that the Trust's target allocation will roll into.

KKR Credit implements the GCOF strategy on the basis of six core sub-strategies, with the flexibility to toggle between these sub-strategies, various asset classes and the capital structure depending on the state of the credit cycle. The flexibility to dynamically allocate capital across these sub-strategies presents GCOF with alpha opportunities throughout the entire credit market cycle.

While the prevalence of particular investment sub-strategies varies over the cycle, the underlying philosophy, process, and objective remain consistent. Specifically, by way of fundamental bottom-up analysis of company specific (idiosyncratic) risk, KKR Credit seeks to identify mis-priced, and often misunderstood, credits that provide an outsized return for risk. It seeks to underwrite idiosyncratic rather than broad market / beta risk and to do so, by definition, requires a relatively concentrated portfolio. The approach rests on a strong belief, backed by empirical evidence, that idiosyncratic or company factors drives default or credit risk rather than broad market factors.

GCOF was launched in January 2015 but the underlying strategy, the Opportunistic Credit Strategy (OCS), was launched in May 2008. GCOF / OCS (used interchangeably here after where appropriate) is managed by the KKR Global Leveraged Credit Investment team. The team comprises three PMs / IC members, approximately 35 global leveraged credit analysts and is supported by approximately 80 credit analysts within the broader KKR Credit team. The three PMs / IC members that represent the senior level of the team have been highly stable, having managed the strategy since inception 11 years ago.

Historically, the OCS strategy has recorded exceptionally strong results, generating average gross returns of 12.0% p.a. over its 11 year track record and has consistently outperformed over this period and in varying market environments. Additionally, since inception in 2015, GCOF has recorded a 117% up capture performance in positive market months, yet 67% down capture performance in negative market months. The positive imbalance partly reflects the objective of identifying and investing in idiosyncratic rather than beta risk. Furthermore, relative to 258 sub-IG strategies compiled by independent consultant company eInvestment Alliance, the OCS strategy represents either the top or second top performing high yield segment investment strategy over the last 84 months ending 31 December 2018.

As noted, investors in the Trust will gain exposure to KKR European Direct Lending deals by way of KLPE II. KKR Credit is targeting an all-in equity raise of ~$1.0-1.5 billion for the 2019 vintage fund (~$1.5-2.0 billion inclusive of leverage) with an anticipated first close Q2 2019. With other KKR commingled global direct lending funds and separately managed accounts KKR Credit expects that it will have approximately $4.5 billion available to invest in European direct lending deals.

Strategically, KKR Credit will seek to capitalise on this sizeable commingled capital by targeting larger European direct lending deals to large mid-market Western European companies and seek to do so as either the sole-lender or lead lender in the majority of deals. The objective is to both lower the overall credit risk of the portfolio (larger companies are generally lower risk than smaller companies) and, as the sole or lead lender, have greater 'ball control' over each lend.

The loans will predominantly be in the form of first lien, senior secured debt, with a very selective provision of second lien secured facilities. The focus on first lien senior secured, which ranks ahead of any other type of debt in the capital structure in terms of priority of payment and security on assets and cash flows, reflects a strategic emphasis on lower credit risk, rather than stretching for yield, during the late stage of the credit cycle.

KKR Credit has been engaged in European direct lending for seven years, and since 2004 in the US. The EDL strategy is managed by the European Private Credit investment team, comprising ~25 members with backgrounds in a mix of direct lending, distressed investing, leveraged credit, law, restructuring and forensic accounting, in addition to the ability to draw on the broader KKR resources when required. The breadth and depth of skills and resources makes the team well suited to manage the entire direct lend lifecycle and across the full credit cycle, including if required workouts / restructures to protect investor capital.

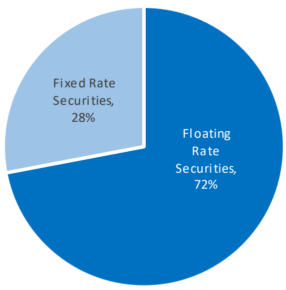
Since its launch in 2015, the predecessor fund KLPE I has recorded a realised unlevered gross IRR of 13.4% p.a. and was generating a weighted average all-in-yield of 8.5% as at 30 June, 2019. The yield performance is broadly consistent with KKR Credit's global direct lending funds, which have consistently generated between 8.2% to 9.1% in cash coupons from 2011 through to 2018. This represents a consistent approximate 300 bps premium over the syndicated loan market. This is largely the illiquidity premium that can be derived from a well structured and managed portfolio of direct loans and is a key appeal of the segment.

The two underlying strategies are being combined to improve overall diversification (by geography, market, mark-to-market volatility, risk profile, strategy) without diluting the high conviction nature of either as well as providing exposure to two differentiated strategies for Australian retail investors. The diversification of risk profile is particularly important, with the lower volatility direct lending strategy expected to materially dampen the volatility of the OCS strategy (annualised standard deviation of 9.9% and approximately 5.8% including and excluding the GFC, respectively). Additionally, historically the two underlying strategies have generated similar returns, which is important given it will take the Trust some time to become fully invested in the EDL strategy by way of KLPE II.

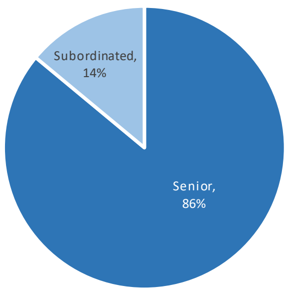
Furthermore, while there are distinct differences in the underlying strategies, there are conversely also substantial similarities, which is important to thematic consistency when there are more than one underlying strategy. Both are managed according to the overriding KKR investment philosophy and process which is based on deep fundamental bottom-up analysis and prudent underwriting and which draws on the broad resources of KKR and its competitive advantages. Both are very well placed to navigate, and potentially capitalise on the late-cycle / potentially imminent end-of-cycle credit market dynamics. Both are relatively easy to understand, being predominately senior in the capital structure and largely eschewing esoteric credits. And both strategies have a strong track-record and inherent ability to deliver alpha / high risk-adjusted returns throughout the credit cycle and preserve capital for investors.

The long-term target portfolio diversification corresponds with the characteristics set out in the charts below. This diversification across a number of asset classes, total number of deals, geography and security type will help to mitigate investment risks. These target portfolio guidelines correspond to a full investment in the EDL strategy. Until that point, the Trust's broader portfolio diversification based on the classifications below will be more reflective of GCOF. As such, we would anticipate a greater allocation to fixed rate securities, by way of sub-IG bonds, and a materially greater exposure to North America. The anticipated capital structure diversification is likely to remain broadly as represented below.

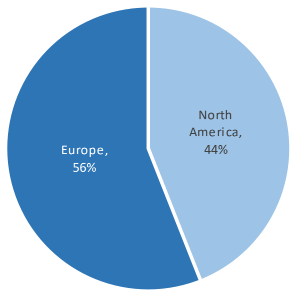
Floating vs Fixed Rate Securities



Senior vs Subordinated Securities



Geographical Split

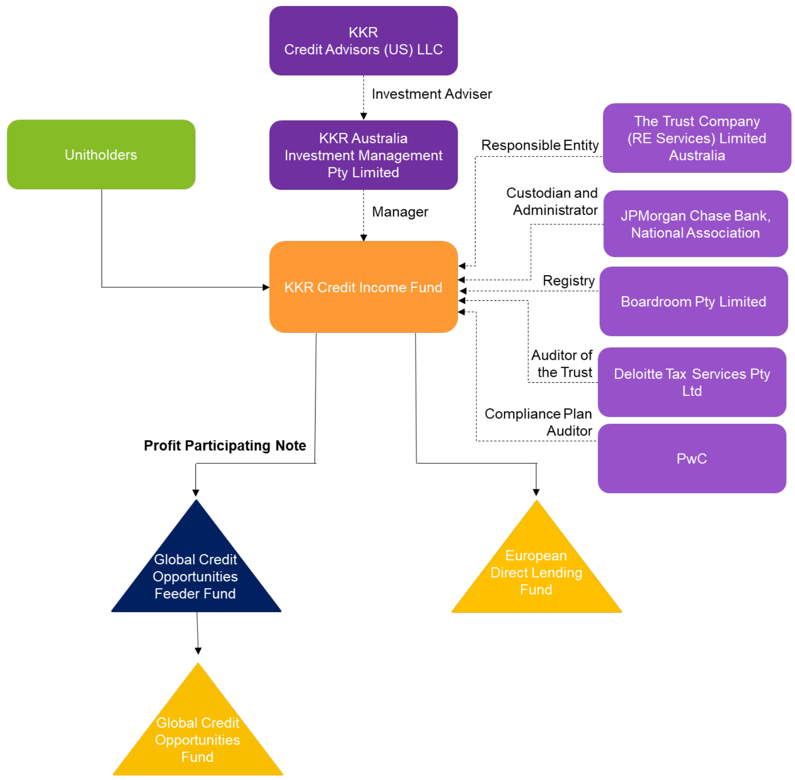


The Trust's target net return is 6 – 8% p.a. with an estimated current net yield of 4 – 6% p.a. Both strategies focus on downside protection, with both strategies ~90% senior debt today. The Trust will be fully hedged to the Australian dollar.

Fees comprise a 0.90% p.a. MER and a performance fee equal to 5% over a hurdle equal to the RBA Cash Rate + 4% p.a. (currently 5.00%) with a high watermark. There are no fees charged to Trust investors at the underlying strategies level and all IPO costs will be borne by the Manager (Day 1 NAV equal to the IPO price).

The diagram below illustrates the investment structure of the Trust. We refer investors to the PDS for a detailed explanation of the structure.

Trust Structure and Target Strategy Allocation



MANAGEMENT GROUP PROFILE

KKR was founded in 1976 by Jerome Kohlberg, Henry Kravis and George Roberts. During its first two decades, it focused on building a leading private equity business, focusing on developing and refining financial, diligence and structuring skills. Throughout the 1990s, it expanded into new industries and geographies, often acquiring companies in complex, regulated industries such as banking, insurance and power generation and transmission.

In 2000, KKR began organising its investment professionals into industry teams and charged them with becoming experts in their fields. This industry-centric and operational approach to building value in portfolio companies has become the cornerstone of the way in which it evaluates and manages equity and credit investments.

KKR operates through three primary business segments: Private Markets, Public Markets, and; Capital Markets. These primary business lines are augmented by operational consultants, advisors, public affairs executives, capital raising executives and macro research professionals.

Collectively across these three business segments KKR has approximately US$206bn in assets under management. It is both well resourced and highly stable at its senior team level, with over 430 investment professionals across both private and public markets, and with the 34 senior-most private equity investment professionals having been with KKR for an average of ~13 years and the 22 most senior credit investment professionals having an average of ~20 years experience.

A distinguishing feature of KKR is its balance sheet heavy business model, with KKR and its executives currently having invested $17.7bn across all strategies and approximately US$2.2bn in KKR Credit strategies alongside its clients, demonstrating a strong alignment of interest. As such, KKR's earnings is driven not only by management fees and carry, but also by the performance of its underlying investments with respect to balance sheet growth.

KKR Credit, responsible for managing both the GCOF and EDL strategies, sits in the Public Markets business line. It was established in 2004 to take advantage of the differentiated networks of capabilities within KKR in order to find and invest its own capital in sub-IG credit. Beginning in 2008, KKR Credit began to accept additional institutional mandates that sought to take advantage of the financial crisis and resulting credit market dislocations. These mandates were generally broad in scope and flexible in approach. They enabled KKR Credit's portfolio managers to invest up and down a company's capital structure in a variety of facilities and securities, depending on where the most attractive risk / reward investment proposition sat.

The KKR Credit platform today comprises approximately US$69.8bn in AUM, representing the second largest global player in the asset class. This total AUM is split between Leveraged Credit ($38.1bn), Private Credit ($23.7bn), and Special Situations ($8.0bn). These areas all capitalise upon the extensive credit skills within KKR Credit and which it seeks to enhance through synergistic benefits of having these capabilities resident within one cohesive team. The OCS and EDL strategies reside in Leveraged Credit and Private Credit, respectively, and represent the segments KKR Credit believes provide the best value in the current market environment.

The KKR Leveraged Credit platform, of which GCOF is part, represents a leading global platform investing in US and European leveraged credit investment strategies. This includes bank loans, high yield bonds, opportunistic credit, collateralised loan obligations (CLOs), and revolving credit. KKR Credit has approximately 35 dedicated leveraged credit investment professionals with the division which commenced in 2004.

Private Credit strategies include direct lending, private opportunistic credit and special situations. With respect to direct lending, KKR Credit typically originates senior secured loans to companies at the mid to upper end of the middle market. It seeks to be the sole, lead or co-lead investor in the majority of investments it pursues in its direct lending strategy to facilitate strong underwriting, superior access to borrower information, and greater 'ball control' should the necessity for a workout / restructure arise. KKR Credit has approximately 60 professionals across Direct Lending and Private Opportunistic Credit, 25 of which are dedicated to European direct lending. KKR Credit executed its first direct lending deal in 2005 and its first European direct lending deal in 2012. In February 2014, KKR acquired Avoca, a leading European credit investment manager. KKR Credit has a total 120 investment professionals across 10 cities in 8 countries.

KKR Credit Platform

	Leveraged Credit	Private Credit	Special Situations
Total AUM US$69.8bn	US$38.1bn	US23.7bn	US$8.0bn
Dedicated Investment Professionals	35	60	30
Strategies	• Bank Loans • High Yield Bonds • **Opportunistic Credit** • CLOs • Revolving Credit	• **Direct Lending** • Asset-Backed Finance • Subordinated Debt	• Deep Value • Distressed • Event-Driven

KKR Credit also draws substantially upon the broader resources of the KKR group. In addition to the natural synergies with the private equity business (investment process, industry contacts, sector knowledge, origination channels, etc) the key groups it leverages include KKR Capital Markets (KCM), KKR Capstone, and KKR's Global Macro and Asset Allocation (GMAA) teams.

KCM provides KKR with a capital markets-oriented perspective on deal financing and portfolio company capital structure management, as well as providing the ability to draw on differentiated capital sources. KKR Capstone is a global resource that supports the operational performance of KKR's private equity, special situations and, when needed in a workout situation, private debt portfolio companies by helping to define strategic priorities and implement operational changes. GMAA provides KKR with commentary and outlooks on the global economy, macro trends and asset allocation decisions.

INVESTMENT TEAMS

As noted, there are separate dedicated teams within KKR Credit that manage each of the two underlying strategies. The key senior members and a summary of roles and experience are contained in Appendix A of this report.

While the teams differ, there are common aspects across both and the whole KKR Credit and Private Equity businesses in general. All credit and private equity analysts are industry sector aligned (typically cover one to three industry sectors each), rather than just covering a specific asset class or being a dedicated resource for particular individual funds. They are responsible for making buy and sell investment recommendations to the relevant IC and portfolio managers for companies in their respective industries based on company credit fundamentals and relative risk-adjusted returns across the capital structure. The credit analyst industry sector alignments are identical to those that apply in KKR's private equity business, the intention being to facilitate to the greatest degree possible the exchange of ideas, information, analysis, and industry contacts, where permitted to do so.

Given the scale of KKR in public markets (credit), private markets (private equity, energy, infrastructure, real estate), capital markets, operational performance expertise (KKR Capstone), and the breadth of its senior advisor network, KKR believe that it is generally only one degree of separation from nearly every major company it is assessing. KKR frequently refers to this "One Firm Approach", which facilitates all teams leveraging investment insights from across KKR's network of investment professionals and industry contacts, as utilising the "KKR brain". KKR holds that, with respect to underwriting credit, where the upside is capped but the downside complete, the real value this "One Firm Approach" provides is avoiding poor investments and protecting capital in the event of a payment default.

Within KKR Credit, the credit analysts, PMs, and IC members are supported by approximately 80 investment professionals that focus on originating, executing and underwriting private credit and special situations opportunities, including direct lending, mezzanine, distressed for control, rescue financings and other highly structured investments.

As noted, the OCS strategy is managed by the KKR Global Leveraged Credit Investment Team. The team is led by Christopher Sheldon, who serves as the portfolio manager for the OCS strategy, and is supported by the Head of Credit Trading, John Reed, and the Portfolio Manager, Jeremiah Lane. Collectively, they represent the US Leveraged Credit Investment Committee, which ultimately oversees the management of the OCS strategy. These senior members of the KKR Global Leveraged Credit Investment team have been working together for over 10 years since the inception of the strategy and have on average 20 years of industry experience. They are supported by approximately 35 global leveraged credit analysts and the broader direct support from approximately 80 KKR Credit investment professionals.

KLPE II is managed by the European Private Credit Investment Team. All European private credit investments are approved by KKR Credit's European Direct Lending Investment Committee which is responsible for all private credit investments made by the team, including privately originated senior and subordinate lending opportunities. The committee consists of four members, specifically Matthieu Boulanger, Daniel Pietrzak, Eddie O'Neill, and Blaine MacDougald

In turn, the direct lending IC is generally accountable to the Portfolio Management Committee (PMC) for quarterly monitoring of investments in the portfolio. The PMC is responsible for reviewing performance and performance dispersion/style drift as it relates to KKR Credit Funds and Other Clients as well as within strategic mandates.

In addition to the committee members, the European Private Credit Investment Team consists of over 25 dedicated members in New York, San Francisco, London and Dublin that are responsible for sourcing, underwriting and managing investments for private credit pools of capital.

GCOF / OCS OVERVIEW

KKR Credit launched the Opportunistic Credit Strategy in May 2008 in the form of institutional SMAs combined with its own capital. The strategy was subsequently made available to both institutional and retail investors with the launch of GCOF in January 2015. The OCS represents KKR Credit's flagship opportunistic credit strategy. The OCS and GCOF have approximately US$2.3bn and US$1.5bn in funds under management, respectively.

INVESTMENT STRATEGY

While the investment mandate aims to be flexible, KKR Credit has identified certain core strategies to managing the OCS that apply across seniority and asset classes, and note that these themes may change over time in line with market dynamics. Not all of these themes, which are summarised below, may be utilized at the same time or in the same proportions.

Themes	Expected Weighting	Description
Event Driven	Heavily Weighted	Positions in securities with near term catalysts that are expected to appreciate in price - refinancings, M&A and ratings upgrades.
Dislocation / Relative Value	Heavily Weighted	Higher-yielding investments resulting from market dislocation - capital markets, asset class and credit dislocation.
Proprietary Sourcing	Medium Weighted	Trades that leverage broader firm relationships with sponsors and Wall Street - reverse inquiry, secondary opportunities and/or larger block trades, first look/anchor opportunities.
Stressed Credits	Medium Weighted	Investments in companies under financial strain that may have a restructuring need and/ or out of favour industries that may be under market pressure.
Structured Products	Lower Weighted	Structured products investments may include capital relief trades, structured transactions with a corporate credit feel and/or tranches of CLOs or other securitisations.
Illiquidity Premium	Lower Weighted	Investment opportunities that offer a market premium, either in contractual rate or structure - misunderstood businesses or industries, smaller, less liquid trades.

The chart below illustrates the dynamic allocation by sub-strategy of the OCS portfolio over the last ten year period, highlighting how the prevalence of any particular trading strategy varies over the course of the credit cycle.

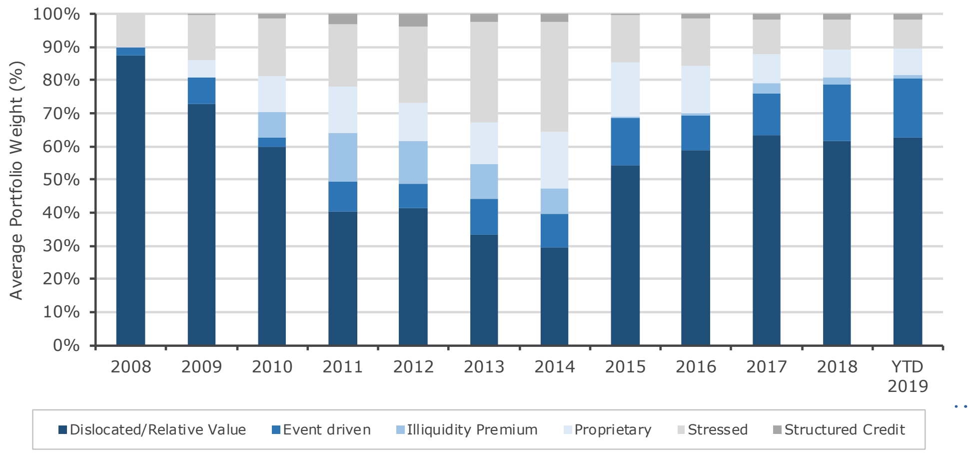
In terms of conducive market conditions, the relative value / dislocated price sub-strategy is most prevalent during periods of heightened volatility (the recent-current market environment). This is due to opportunities presented by 'misunderstood' credits, which tend to get sold off significantly during periods of skittish market sentiment and in a manner that may not reflect the fundamentals of the underlying company. The rise of daily liquid passive investment strategies in recent years and reduction in liquidity post GFC in the bank loans segment in particular has tended to exacerbate these sell-offs, or inherent market inefficiencies.

The market environment conducive to the event driven sub-strategy varies according to the driver, specifically M&A or ratings changes. The degree of trading in relation to the former tends to be positively correlated to the economic / credit cycle (being little in the years immediately following the GFC then recovering solidly, for example). The ratings change trade tends to present a more consistent opportunity over the cycle. The prevalence of proprietary sourcing trades mirrors that of M&A event driven activity.

Illiquidity premium and stressed credits trades tend to be most prevalent during periods of market recovery, as spreads begin to compress and, for stressed credits, as cyclical sectors begin to recover from trough earnings.

In today's market environment, KKR Credit is seeing a significant number of dislocated (price) / relative value trades and, to a lesser degree, event drive trades. This is evident in the chart below and reflects the more recent positioning in the portfolio. The fundamental drivers of these trading opportunities are discussed below in the 'Market Opportunities' section.

Portfolio Purchase Allocations by Trade Sub-Strategy Type



Source: KKR Credit Analysis as of June 30, 2019

The dislocated / relative value opportunities KKR Credit has seen increasingly over the last year, or so, represent companies that, based on its fundamental assessment, are performing well, but for various company specific reasons may be misunderstood by the market, and sold down accordingly. Where it gains conviction in the credit risk, it may seek to acquire the credit at what, assuming KKR Credit's thesis is correct, ultimately turns out to be discounted prices.

The increasing prevalence of this trade has been partly driven by secular changes to the traded credit market in recent years, specifically the significant growth in index tracking strategies. Such strategies either are not incentivised (replicating index weights as per the mandate) or do not have the internal resources to undertake the necessary assessment to establish a view contrary to the broad market.

The other material trade in the current market environment has been event driven trades, largely expected credit rating upgrades ('rising stars') and purchasing at discounted prices companies that have experienced a credit downgrade ('fallen angels').

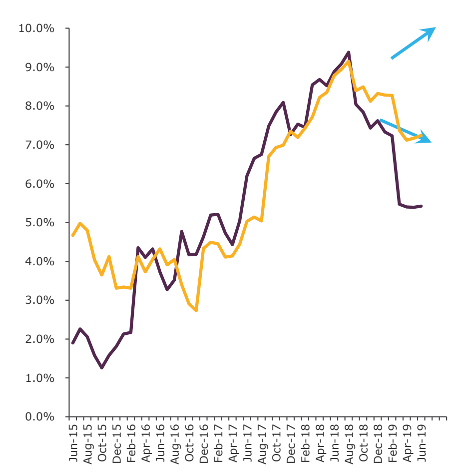
PORTFOLIO CONSTRUCTION

Although KKR Credit utilises a top-down macro-economic overlay, the bulk of KKR Credit's credit selection and portfolio construction relies on detailed bottom-up, security-based credit risk analysis to identify idiosyncratic company, rather than market risk.

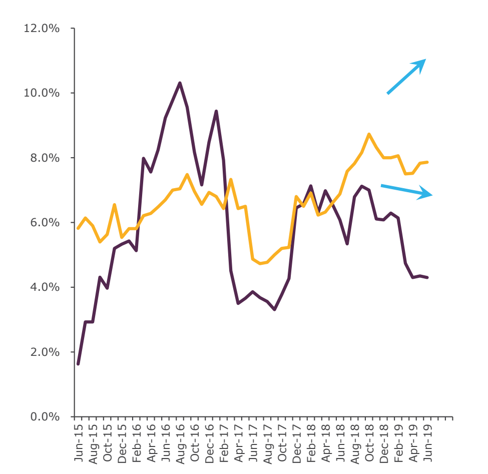
KKR Credit constructs a portfolio by (i) identifying attractive risk/return credits and securities where it is comfortable with the credit and (ii) weighting these credits based on its conviction of the risk/return profile and availability in the marketplace. It is then reviewed to identify specific risks (i.e., commodity, industry) as well as market risk (i.e., duration, beta) and adjusted where deemed necessary.

The fundamental characteristics and composition of the GCOF portfolio as at 30 June 2019 are presented in the charts below and overleaf. The two charts below illustrate the average revenue and earnings growth of companies in the GCOF portfolio on an overall basis and by sector. In short, they highlight the broad strength of revenue and earnings growth across the portfolio, translating into relatively low default risk.

Revenue Growth



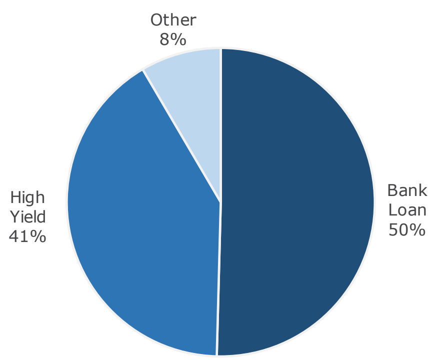
EBITDA Growth



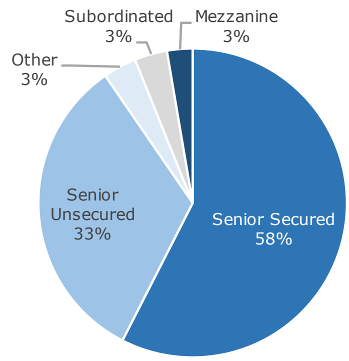
Source: KKR Credit as at June 30, 2019

This is not inconsistent with the fundamental view expressed by other global sub-IG managers we have spoken to recently, who also point out that: 1) that the majority of companies in the sub-IG sector have not overly geared to a stronger growth environment, with most having managed balance sheets prudently (as evident in that leverage has not only plateaued but has been declining); 2) interest cover remains strong and is improving and is stronger than any period over the last ten years, and; 3) there is a low level of debt coming due over the next couple of years (a key driver of debt default), debt has been largely utilised for refinancing (rather than more inherently risky leveraged buy-outs and mergers and acquisitions, for example), and there has been a general 'upgrading' of credit quality in the high yield segment, with proportionally higher amounts in the BB+ rated vicinity and conversely less in the CCC vicinity.

Asset Class Diversification



Capital Structure Diversification



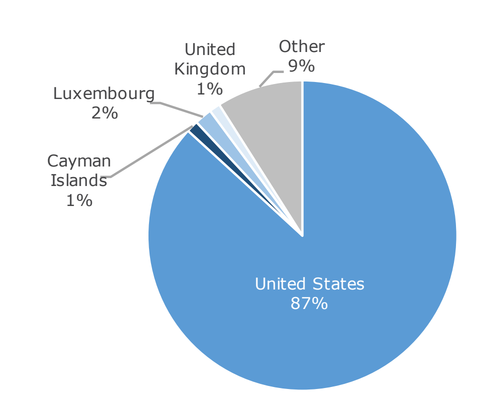
Source: KKR Credit as at June 30, 2019

The portfolio is roughly split 50 / 50 between bank loans and high yield bonds and has historically tended to be, in part reflecting KKR Credit's debt instrument agnostic and idiosyncratic credit risk approach as well as a reflection that it is seeing dislocated opportunities across both sub-IG credit classes.

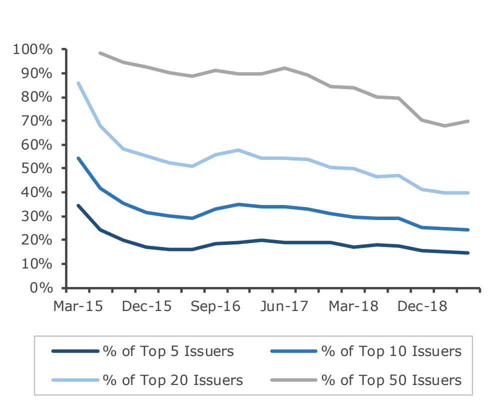
The portfolio is currently over 90% senior in the capital structure, creating a more robust portfolio in times of stress.

By sector allocations, KKR Credit is leaning in selectively to buy credits in sectors with significant dislocation. Through its fundamental, bottom-up investing, it is seeing opportunities within 'storied' sectors (e.g. Healthcare, Services, Capital Goods and Technology). On an ongoing basis, KKR Credit leverages its Global Macro & Asset Allocation team as it buys into oversold and dislocated names that it believes are not impacted by wider sector concerns to the same degree. Therefore, it continues to take relatively concentrated positions on a sector basis.

Geographic Region



Portfolio Concentration

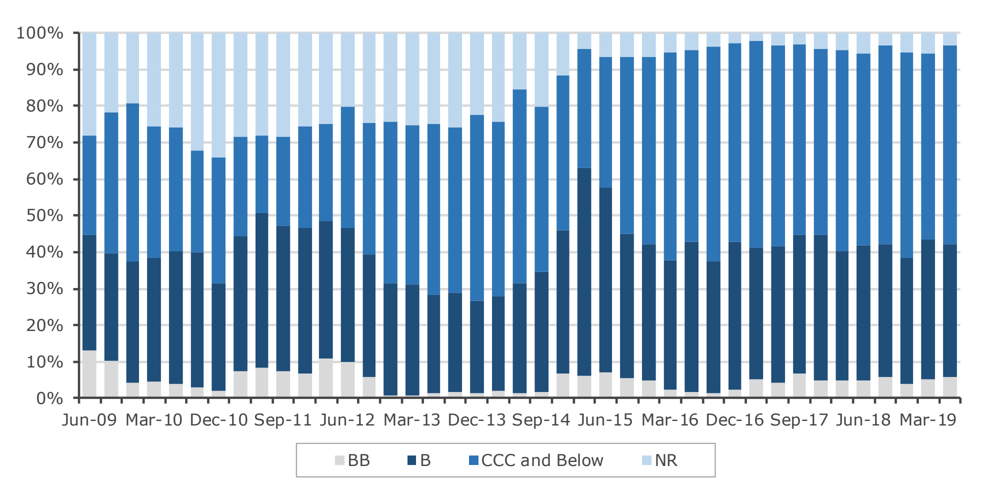


Source: KKR Credit as at June 30, 2019

Geographically, KKR Credit continues to see better overall relative value in the US than in Europe (given Europe is still in the midst of a quantitative easing cycle, mitigating the technical inefficiencies discussed in Market Opportunities to a degree). That said, KKR Credit is now starting to see more dislocated ideas out of Europe with increasing dispersion.

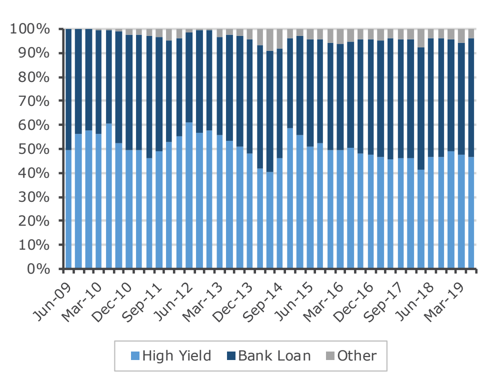
As noted, it is a concentrated, high conviction portfolio, as reflected in the top ten names being relatively high, and stable, at approximately 30% of the total portfolio. It is KKR Credit's conviction in the strength of its fundamental approach to assessing credit risk that, in turn, provides it with the conviction to establish a relatively concentrated and differentiated portfolio.

Ratings Composition

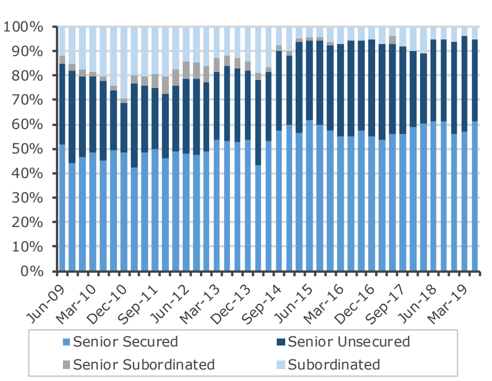


Source: KKR Credit as at June 30, 2019

Asset Class Composition



Seniority Composition



Source: KKR Credit as at June 30, 2019

By ratings compositions, the overall CCC exposure is relatively high, inferring the inherent volatility of the portfolio may be relatively high given the apparent credit risk. While the volatility of the OCS has historically and relatively consistently exceeded the benchmark, KKR Credit's analysis leads it to believe that the risk is lower than the category in general, with the interest coverage ratio of the portfolio's CCC holdings nearly twice that of the CCC average. As discussed in the 'Market Opportunities' section, KKR Credit believes the CCC segment can be particularly fruitful for dislocated price opportunities.

MARKET OPPORTUNITIES

The benefit of a flexible market-driven opportunistic credit strategy is the credit cycle will always present opportunities for a strong manager. In the current environment, KKR Credit has identified several increasing market inefficiencies and that have been instrumental to portfolio positioning and, more specifically, the prevalence of the dislocated priced and event driven strategies, as discussed below. To the extent these market inefficiencies persist, then so too should the opportunities discussed below.

'No Mans Land'

'No mans land' is a phrase that KKR Credit use to describe where liquidity providers are sparse. This space is populated with credits that are in out-of-favour sectors or may have temporary performance issues. The lack of liquidity and a mismatch in asset/liability liquidity in this space, and more broadly in the sub-IG market (particularly the bank loans market) has been a development that has arisen subsequent to the GFC on account of two main market developments. The net effect is a sub-IG market that is much more technically dominated than previously the case, creating inefficiencies that can be exploited by appropriately positioned high conviction investment managers.

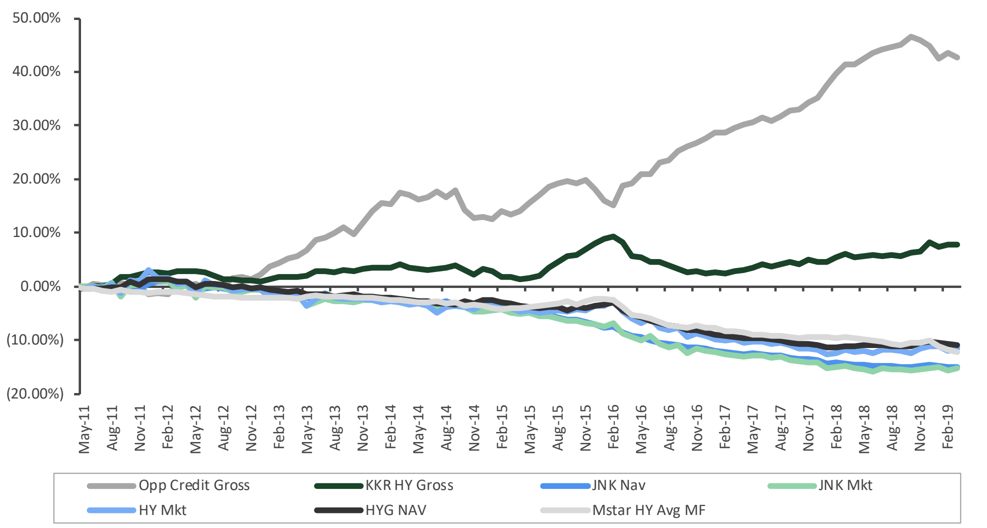
The first of these developments was largely driven by the introduction of the Volcker Rule in 2014 and applied to banks with trading assets in excess of $50 billion. The Volcker Rule was designed to prohibit banking entities from engaging in risky proprietary trading. Prior to the GFC, these investment banks represented the primary channel of OTC bond market-makers, and stood ready to make markets even in periods of market crisis as well as providing liquidity for credits that may have become out of favour. The problem in following the Volcker Rule guidelines lay in the inherent difficulty in distinguishing market-making activity from proprietary trading. This ambiguity motivated dealers to choose more conservative trading strategies, and a consequent reduction in inventory exposure. It is estimated that overall broker-dealer inventories have reduced by approximately 75% since the GFC, and more so in the sub-IG segment. Unlike equities, traded credit markets are characterized by having the majority of trades executed OTC. There are currently no significant lit exchanges for fixed-income securities.

The second development has been the significant inflow into daily liquid ETFs and mutual funds in the sub-IG segment, with an approximate 40% of the market segment now comprising daily liquid (and predominantly index-tracking) investment vehicles. With an absence of significant exchanges for credit securities, more securities have been packaged into ETFs or daily liquid mutual funds (effectively hiding the lack of liquidity of the underlying constituents for some retail investors).

Taken together, the net result is substantially less liquidity on the asset side, but substantially more liquidity on the liability side. This has led to an inherently more volatile and technically dominated sub-IG market. KKR Credit believe these market conditions are well suited to its flexible and opportunistic investment approach when combined with the resources of KKR Credit to identify discrepancies between the intrinsic value of an investment and the current price.

Conversely, it has created a market environment that is increasingly difficult for index-tracking mandates to perform well due to the increasing bouts of volatility. The chart below illustrates the historic performance of a number of the largest sub-IG ETFs as well as the Morningstar high yield average for mutual funds. As evident, there has been marked underperformance. Based on conversations with KKR Credit, IIR's understanding is given the considerable size of the index tracking mandates (tied with a mandate incentive to largely simply replicate the index) combined with limited liquidity particularly during bouts of volatility the mismatch is creating supply-demand related price distortions.

Passive Strategy Underperformance



Source: KKR Credit as at 31 March, 2019

This became evident in 4Q2018. As the asset manager Guggenheim has pointed out, during this period, demand for floating-rate bank loans waned when market expectations for Fed rate hikes in 2019 fell from two to zero, resulting in record fund outflows. This repositioning caused mutual fund managers and ETFs to shed their more liquid holdings to cover redemptions, which led to larger loans underperforming smaller, less liquid loans on a price and total return basis. The bank loan market's limited liquidity, combined with heavy outflows, exacerbated the negative pressure on loan prices, and resulted in performance that appeared to be more driven by liquidity concerns than credit. For example, as the selloff intensified in December, the gap between first- and second-lien discount margins perversely tightened by 34 basis points for the quarter. The painful lesson learned: liquidity is not a given, and the exits tend to shrink on the way out. IIR views it as a cautionary tale for investors in index tracking mandates.

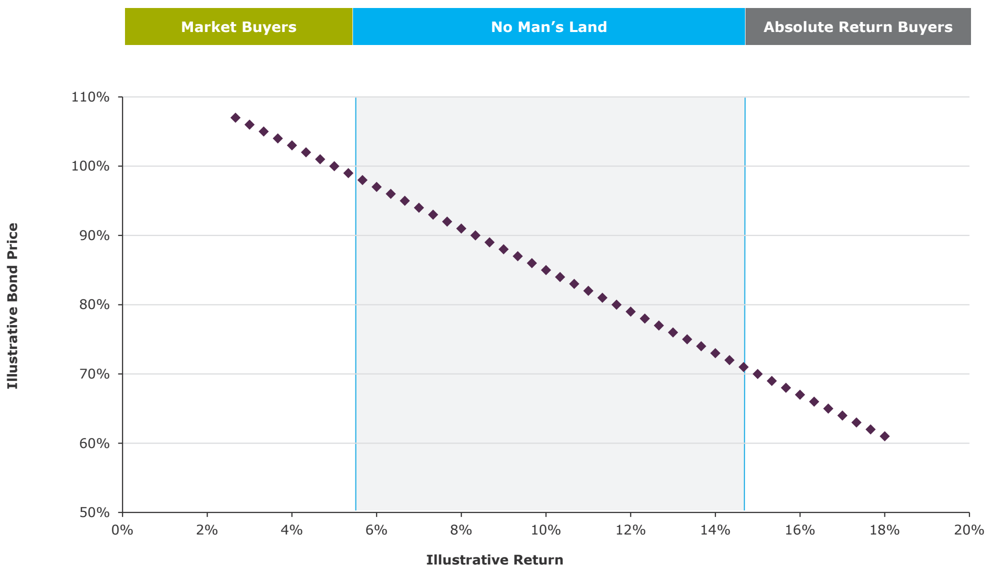
There are a raft of credits, however, that index tracking mandates are not inclined to buy. Specifically, lower rated or already dislocated credits typically subject to less exuberance and that trade at a discount to the market.

KKR Credit identifies such credits as typically having five potential traits: 1) a company that is not performing to plan (no matter how aggressive the original plan may have been); 2) a company is in an out-of-favour sector (no matter how the company is performing within this sector); 3) a company where the return is low and upside is dependent on an event (and this is not well understood by the wider market); 4) a company where cash flows have been historically volatile and the future cash flow generating ability of the firm are not well understood, and; 5) a company where there may be significant execution risks (e.g. carve outs) that buyers are not willing to bare.

Such credits drift into the 'no mans land', specifically an area where the credit does not satisfy the inherent quality / trading at par bias of index tracking mandates, but not at a sufficient discount to attract the absolute returns and special situation mandates that seek mid-teens returns. These two sides can dominate the sub-IG arena. Many companies with noise around their sector or other perceived risks are being shunned by the index tracking buyers and are struggling to find a marginal buyer until the price trades at a deep discount. As a result of this trend, KKR Credit has witnessed the debt of some companies trade well below intrinsic value.

For KKR Credit, there is value in this space for marginal buyers that have the resources to differentiate credits that are in 'no man's land' temporarily or those that may succumb to the absolute return buyer. KKR Credit has been highlighting the development of this technically driven market over recent quarters. However, these market factors were further exacerbated during 2018, partly due to the significant impact of QE run-off in the US, and the spread dispersion that has resulted from this means that 'no man's land' provides for some compelling investments, according to KKR Credit. It is a space where it is currently sourcing a significant number of the portfolio's investment ideas.

The 'No Mans Land' Opportunity



Source: KKR Credit

The upside of 'no man's land' comes from the exit, assuming the investment manager's investment thesis for a particular credit is correct. KKR Credit states there are three main ways that a name can leave 'no man's land' and back into index tracking buyer territory:

1) Consistency of results: Similar to the example above, if a company delivers on fundamental performance (or fear of an earnings decline goes away), a market over-reaction should correct itself when participants see performance surprise them to the upside;

2) When a sector is back in favour: Many investments can enter 'no man's land' because of investor sentiment towards their sector (regardless of the company performance). This trend can reverse as the preferences of index tracking buyers change or the market realizes the name was classified in the wrong sector to begin with; and

3) An event: The OCS portfolio can take advantage of event driven trades where upside value is dependent on a single event (e.g. a refinancing, M&A, etc).

Credit Investor Risk Cycle

A discussion on cycle risks is particularly pertinent in the current environment given the general consensus that debt markets are currently in a late-cycle state with an end-of-cycle market potentially imminent.

The credit investor risk cycle is not synonymous with the economic or credit cycle. The economic cycle is clear enough. The credit cycle relates to the expansion and contraction of corporate credit over time based on perceived and/or realised risks, with the driver being the corporate default cycle. History shows that elevated default levels do not just occur in periods of depressed GDP levels, with a significant cluster of above average defaults during periods of GDP growth ranging from 2% to 8% p.a.

Rather than broad market factors idiosyncratic sector or company specific factors (impacting a company's continued ability to generate cashflows) tied with the quality of underwriting (leverage levels, investor protections, etc) represents the key determinant of default risk.

Historically, credit risk across sectors is not uniform, as evident by markedly different average and peak default rates by sector. There is limited correlation across the sectors, which necessitates being able to take a case-by-case view on the quality of each credit an investor may seek to invest in.

The market as a whole, however tends not to exercise this discrimination during periods of heightened risk. In such periods, there is almost invariably a broad market sell-off across sectors and borrowers. Historically, spreads move very closely in tandem, exhibiting a very high correlation across sectors, despite limited correlation in default rates across sectors. In short, investor reaction to risk in some sectors impacts their attitude to risk across all sectors and causes spreads to widen uniformly.

With increasing bouts of volatility (partly due to the increasing technical nature of the sub-IG market, as discussed above), this herd like behaviour with respect to broad sector sell-offs creates substantial opportunity for high conviction, fundamentally based investment strategies. It is also another dynamic that undermines passive strategies.

The CCC Opportunity

This opportunity has a degree of overlap with ‘no mans land’ but specifically pertains to CCC credits. KKR Credit points out that many market participants in the bank loans segment are either structurally limited or are not incentivised to purchase CCC credits, irrespective if such credits are deemed attractive.

The largest participant in the bank loans segment are CLOs, representing approximately 53% of the loan buyer base. CLOs face structural constraints with respect to how much of the total portfolio may comprise CCC. Holding more than 7.5% of a portfolio in CCC risks a ratings agency downgrade. A downgrade of a credit into CCC may mean the forced sale of the effected credit. Similarly, many SMAs, often for insurance companies (6% of the loan buyer base), face similar mandate restrictions on the quantum of CCC holdings.

ETFs and mutual funds (11% and 20% of the loan and sub-IG buyer base, respectively) seek to replicate an index and limit tracking error. They are not incentivised to structure a portfolio based on a view of best risk-adjusted returns. As market values change, these pools of capital are required to rebalance. The forced selling of a CCC credit by CLOs and SMAs, for example, will in turn likely lead to a compounding degree of selling by ETFs / mutual funds.

Distressed buyers market funds on the basis of 15% plus returns. In the current market, a credit would have to be deeply distressed to offer such a return, i.e. they are not eligible buyers for the majority of CCC credits. For hedge funds, the cost of shorting a credit with limited liquidity and heightened volatility would likely be prohibitive, thereby ruling this segment partly / largely out of many CCC credits. Collectively, hedge funds and distressed buyers account for circa 25% and 14% of the loan and sub-IG bond buyer base, respectively.

KKR Credit’s conclusion is that there is a clear disincentive for the vast majority of participants in the bank loans and sub-IG bond markets to buy credits that may have perceived risk or are lowly rated. KKR Credit cites the flight to quality in the bank loans market, with the median spread of B, BB, BBB credits generally below the 25 year median spread, yet CCC substantially higher. KKR Credit are careful to note that it is not advocating buying a broad portfolio of lowly rated exposures. Rather, that there are opportunities that are cheap relative to history and to risk. These opportunities are executable by flexible mandates.

PERFORMANCE

The OCS’ key performance results are discussed below. In short however, the ability to deliver 569 bps of outperformance since inception and consistently do so has been driven by an ability to select mispriced risk. This mispricing is often linked to market inefficiencies, including a company’s rating given the incentives structures of many market participants and their inability to act on lower rated opportunities, the tendency of the broader market not to differentiate individual credit quality during periods of heightened market risk, and credits that fall into ‘no mans land’.

Performance Track Record vs Indices

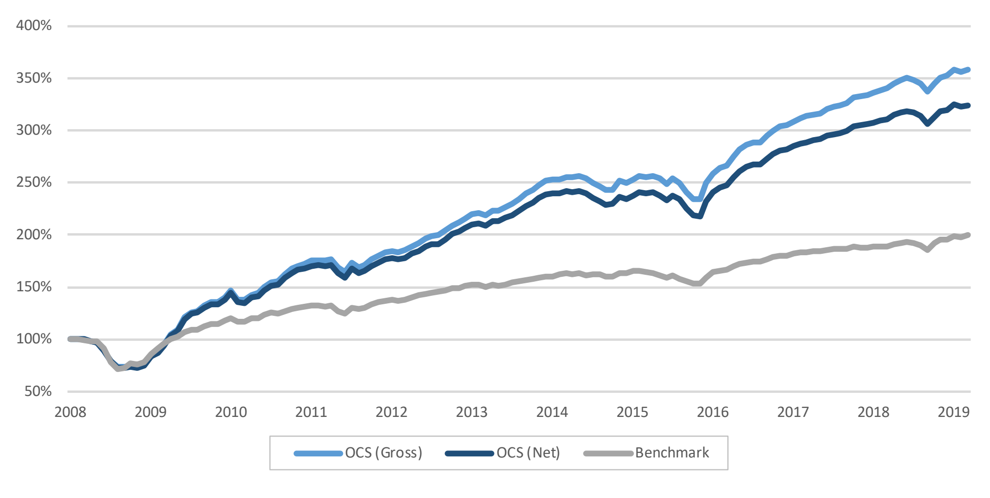
June 30, 2019	1 quarter	YTD	5 years	7 years	Since Incept*
Opportunistic Credit (gross)	1.63%	6.31%	6.96%	9.89%	12.10%
Opportunistic Credit (net)	1.32%	5.67%	5.46%	7.91%	10.15%
50% LSTA 50% ML HY	2.13%	7.94%	4.20%	5.43%	6.41%
S&P/LSTA US Leveraged Loan Index	1.68%	5.74%	3.68%	4.46%	5.11%
ICE BofAML US High Yield	2.56%	10.16%	4.70%	6.37%	7.65%
Bloomberg Barclays U.S. Aggregate	3.08%	6.11%	2.95%	2.62%	3.95%
ICE BofAML US Corporate	4.35%	9.58%	4.03%	4.26%	5.59%
50% LSTA 50% ML HY	**(0.50%)**	**(1.63%)**	**2.76%**	**4.46%**	**5.69%**

Performance Track Record - Key Metrics				
June 30, 2019	**1 year**	**3 years**	**5 years**	**Since Incept**
KKR OCS Standard Deviation	4.27%	3.87%	5.71%	10.03%
KKR Credit Standard Deviation	4.6%	3.6%	5.8%	9.9%
Index Standard Deviation	5.4%	3.4%	4.1%	8.5%
KKR Credit Sharpe	0.6	2.5	1.1	1.2
Index Sharpe	0.7	1.5	0.8	0.7
Information Ratio	(0.4)	2.4	1.0	1.3
Tracking Error	1.6%	1.7%	2.8%	4.5%
Alpha	(0.1%)	4.1%	1.9%	5.2%
Beta	0.8	1.0	1.2	1.0
R2	91.6%	79.0%	78.8%	79.8%
Up Capture	89.9%	135.7%	139.6%	145.9%
Down Capture	92.3%	45.7%	105.3%	97.2%

Source, IIR, KKR Credit as at June 30, 2109

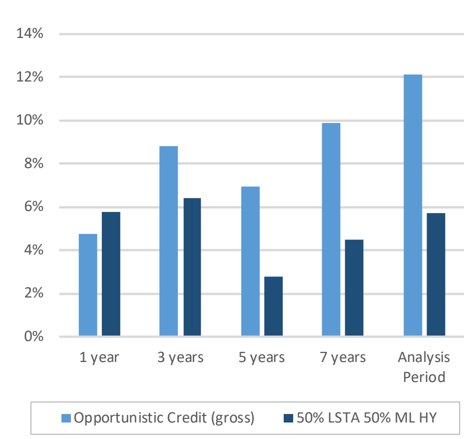
- **Returns and Returns Profile** - The OCS has delivered 569bps of outperformance on a gross basis versus the benchmark since inception in May 2008, generating annualised gross returns of 12.10% p.a. More importantly, the strategy has consistently outperformed in every year bar 2014 (-0.6% vs benchmark) and has consistently outperformed on a rolling 3 year basis. It should be noted that KKR Credit are not telegraphing expectations of delivering an average 12% p.a. moving forward. This performance was partly driven by an exceptionally strong 2009. Performance has been generally differentiated to the market, illustrating that KKR Credit derives returns from idiosyncratic rather than market risk. Specifically, there has been a positive asymmetry in the strategy's up-/down-capture ratio, consistently capturing above benchmark returns in up months, but generally less than benchmark negative returns in down months. Additionally, over the most recent significant bout of market volatility in 2015, the return from CCC rated names in the strategy was +3% compared to -12% for the CCC portfolio of the HY index, providing evidence KKR Credit is not simply allocating to higher risk beta and that not all CCC rated credits are the same. For investors concerned about market risk, OCS' returns are not based on broad beta risks (in fact many of these are discounted as it buys dislocated names). Instead the returns are based on a collection of diversified value realizations from conviction investments.

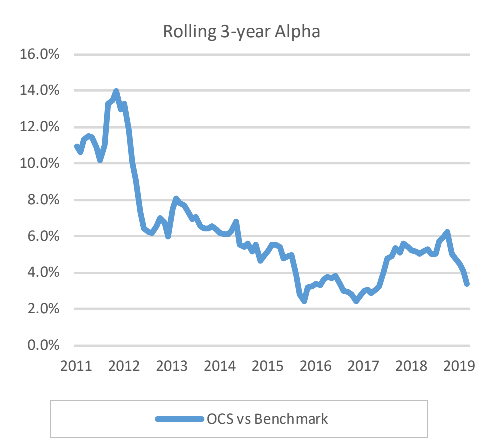
OCS Historic Performance Track Record



Source: IIR as at June 30, 2109

OCS Historic Performance vs Benchmark | **OCS Rolling 3-year Alpha vs Benchmark**

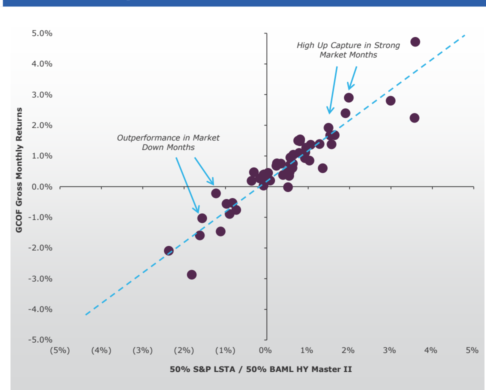


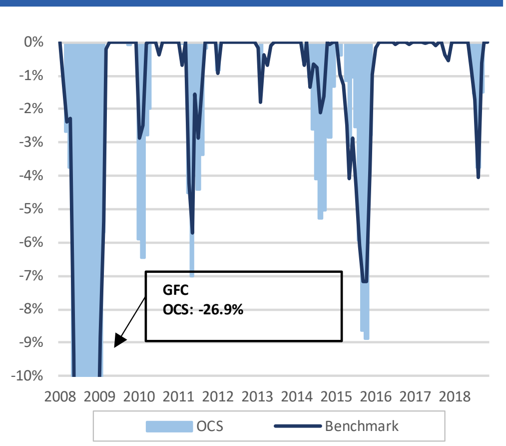


Source: KKR Credit as at June 30, 2109

- **Volatility and Drawdown Risk** - Given its relatively concentrated nature and substantially above index weight in B and CCC credits, the OCS has recorded both higher volatility and drawdowns than the benchmark. The former has generally ranged at a 100-250bps premium to the benchmark on a rolling basis. However, over the most recent significant bout of market volatility in 2015, the maximum drawdown for the CCC portion of the OCS portfolio was -3.4% versus -227.% for the CCC bond index, -16% for the CCC loan index and -7% for hedge funds (despite their long/short nature of protection). This gives credence to the arguments about identifying idiosyncratic risk that is differentiated from the market's (or ratings agencies') perception of risk.
- **Default Risk** - The OCS has recorded an annualised default rate of 2.4% since inception. This compares favourably to the 3.4% default rate for the broader sub-IG market (which is rated BB/B on average versus the B/CCC average for the OCS portfolio) and compares significantly better than the theoretical default rate of the OCS portfolio by ratings composition of approximately 13% based on S&P data. The loss rates from these defaults equates to 1.4% p.a. versus 2.4% for the broader market.

GCOF Monthly Net Returns vs Benchmark | **Max Drawdown - OCS vs Benchmark**

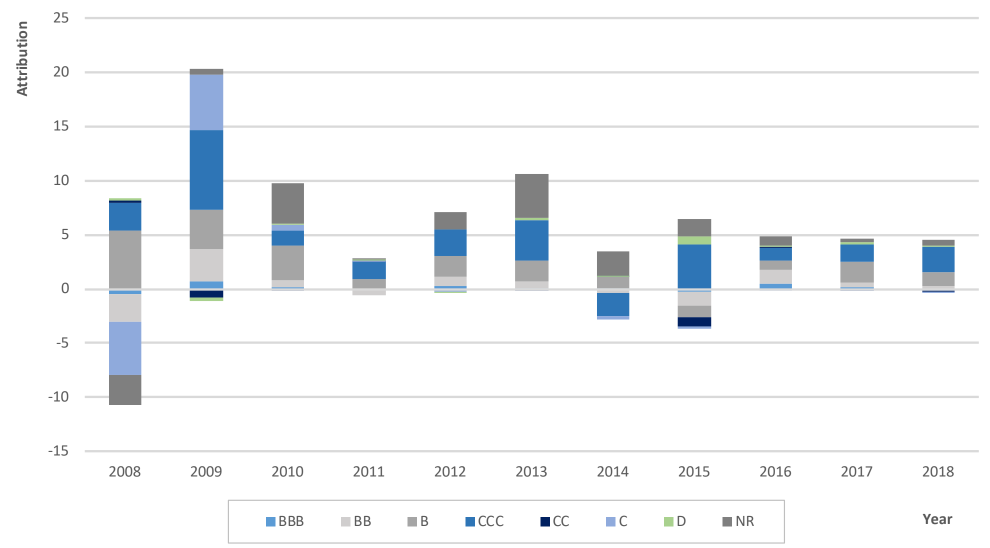




Source: IIR as at March 31, 2109 and June 30, 2019

- **Breadth of Returns** - Attribution analysis highlights most of the outperformance was driven by security selection rather than sector allocation, consistent with the fundamental bottom-up approach of identifying company specific idiosyncratic risk. Further, outperformance was across both loans and bonds asset classes. Outperformance was also generated in each of the main ratings buckets (BB, B, and CCC) relative to the ratings bucket sub-indices (giving further credence to the arguments about identifying idiosyncratic risk that is differentiated from the market's (or ratings agencies') perception of risk. Finally, there was a positive contribution from each of the six strategies.

OCS Attribution by Ratings Classification



Source: IIR as at 31 December 2108

EUROPEAN DIRECT LENDING OVERVIEW

As noted, the Trust will ultimately have a target allocation of 40-50% exposure to KKR European Direct Lending deals. This exposure will specifically be gained through the commingled KKR Lending Partners Europe II fund (KLPE II). KLPE II represents the follow on fund to KLPE I, a European direct lending fund that engaged in its first investment in December 2014, raised a total of US$847.6m in equity, and marked the end of its investment period recently in March 2019. The two funds are based on the same strategy, albeit with nuanced differences in target markets reflecting changing market dynamics in the European private debt market (both of which are discussed below).

For KLPE II, KKR Credit is targeting an all-in equity raise of ~$1.0-1.5 billion for the 2019 vintage fund (~$1.5-2.0 billion inclusive of leverage) with an anticipated first close Q2 2019. KLPE II is expected to consist of two parallel funds, comprising a USD fund that will incur leverage and an unlevered fund denominated in Euro. Investors in the Trust will be invested in the Euro denominated, unlevered sleeve, with all currency exposure fully hedged to the Australian dollar.

In addition to KLPE II, the European Credit Investment Team manages three commingled global direct lending funds and 11 direct lending separately managed accounts that wholly or partly provide exposure to European direct lending deals. Combined, KKR Credit expects that it will have approximately $4.5 billion available to invest in European direct lending deals. Unit holders in the Trust, via KLPE II, will benefit from this sizeable commingled 'firepower' by way of a greater number and diversity of private debt lends than would otherwise be the case, in addition to a range of strategic benefits that comes with the ability to do larger lends.

Strategically, KKR Credit will seek to capitalise on this sizeable commingled capital in two ways. First, KLPE II will target larger European direct lending deals (tranche size of €100m - €250m+) to larger mid-market Western European companies (enterprise value €250m - €1.5bn). It is generally accepted that companies at the larger end of the middle market spectrum typically offer a better and more transparent underlying credit profile (better management, stronger market position, less customer concentration) and with the opportunity for higher recovery rates should a repayment default event occur in such investments.

Second, KKR Credit will seek to be either the sole-lender or lead lender in the majority of deals given it provides for greater transparency and deal control, with the potential to structure more favourable pricing, collateral, covenants, and other credit terms, in addition to greater control / influence in the event of a default and potential recovery / workout situation.

The loans will predominantly be in the form of first lien, senior secured debt, a lesser degree of 'stretch senior' (defined as senior loans with a leverage multiple (Debt/EBITDA) greater than 4.5x) and with a very selective provision of second lien secured facilities. The leverage for each deal will depend on the quality rating of the relevant investment and is expected to be in the range of 3-4.5x for Senior Secured Loans, 4.5-6x for Stretch Senior and 6-7x for Subordinated Debt. These ranges may change as the market environment evolves. The focus on first lien senior secured, which ranks ahead of any other type of debt in the capital structure in terms of priority of payment and security on assets and cash flows, reflects a strategic emphasis on lower credit risk, rather than stretching for yield, during the late stage of the credit cycle.

As consistent with the private debt market, most loans are expected to be floating rate instruments based on an interest rate spread over LIBOR (London Interbank Offered Rate) / EURIBOR (Euro InterBank Offered Rate) and which may be periodically reset. Broadly speaking, the spread is a function of credit quality and market-based factors, specifically liquidity and market supply and demand.

KKR Credit is typically a buy and hold investor with the aim to hold debt until maturity. Private debt instruments typically have a contractual maturity of 7 - 9 years, but are generally repaid before maturity (e.g. refinancing, change of control/ownership), with the average life being approximately 3 years. The loans may have secondary market liquidity should KKR Credit chose to pursue a divestment of a particular lend.

KLPE II also has the ability to invest in broadly syndicated loans. This is to provide flexibility in the event there was a sell-off in this market which resulted in these loans providing returns similar to those expected in the middle market. However, this is not expected to be a core focus of KLPE II's investment strategy.

Returns to investors in the Trust will in the form of income from KLPE II's deployed capital to borrowers comprising: 1) floating rate interest payment coupons; 2) in the case of subordinated debt, some or all of the interest payments may be structured in the form of a Payment In-Kind (or PIK), which accrues on a current basis but is generally paid later, often at maturity; 3) up-front "fees," principally in the form of original issue discount or "OID" (the difference between the issue price and the par value of the debt); 4) fees and other penalties on early repayments from borrowers; 5) gains / losses on debt purchased / sold in the secondary market at a discount / premium to the par value; 6) the inclusion of equity warrants, preferred equity or common equity shares with subordinated debt instruments that may be incorporated in certain transactions (the value of which is typically realised through a trade sale, an IPO or dividend payments); 7) potentially an FX carry component (should the RBA Cash Rate exceed LIBOR); 8) less any ancillary costs to running KLPE II, and; 9) a potential diminution of income should losses be incurred through a default event and a recovery rate less than par value.

KKR Credit is targeting a gross yield of 5-6% p.a. for Trust investors, and an unlevered net return of 5-7% p.a. We note that KLPE I has historically materially exceeded these targets, recording a weighted average yield of 8.7% p.a. and a releazised unlevered IIR of 13.4%.

That said, there are both market dynamics and nuanced strategic differences between the two funds that create an expectation returns in KLPE II will be lower than the predecessor fund. Specifically, it is generally recognised that the European private debt market has become more competitive (increasingly a borrowers' market) given the sizeable capital inflows and thereby compressing interest rate margins to a degree. Secondly, with KLPE II KKR Credit is targeting the larger mid-market segment in which generally lower credit risk is commensurate with lower returns.

KLPE II will be managed by the European Private Credit Investment Team. While the team, its experience, and its ability to draw on the broader KKR resources already made it well placed to manage private direct through the full credit cycle, it has been enhanced with the next phase of the cycle in mind. It currently comprises ~25 members with backgrounds in direct lending, distressed investing, leveraged credit, law, restructuring and forensic accounting. Additionally, the construction of the European Direct Lending IC now mirrors the Global Private Credit IC, drawing expertise across the entire KKR Credit platform (Leveraged Credit, Special Situations and Private Credit).

KKR Credit will commit at least €50 million in aggregate to KLPE II, consistent with its general firm-wide approach of a strong alignment of interest with investors. Additionally, KLPE II has intentionally been limited to circa a €1.5bn raise, which is modest compared to some more recent raises (BlueBay €6bn in investor capital, €10bn with leverage, for example). The rationale is to maintain credit discipline (rather than to be pressured to deploy considerable capital), and particularly so during the latter stage of the credit cycle.

KLPE II will have a 6-year term from final close (date yet to be determined) with two 1-year extensions at KKR Credit's discretion. Thereafter, it is KKR Credit's intention Trust investors would be reinvested in a successor fund based on the same, or very similar, European direct lending strategy.

EDL INVESTMENT STRATEGY / PHILOSOPHY

KKR Credit's strategic focus with KLPE II represents a combination of its existing investment philosophy that underpins all KKR Credit's private debt mandates, private debt market dynamics and prudent late-cycle credit investing.

Specifically, KKR Credit will 1) seek to provide predominantly senior secured debt capital to established upper-middle market companies in Western Europe and in stable industries and do so on a sole or lead arranger basis; 2) offer customised financing and efficient underwriting and execution, and; 3) seek to preserve capital through prudent protections, sound underwriting, a focus on larger borrowers and acting quickly in the event of repayment defaults.

1) Focus on Upper-Middle Market Borrowers in Select Sectors on a Sole or Lead Arranger Basis. With €4.5bn in commingled firepower, KKR Credit has the ability to target larger borrowers and to do so on a sole or lead arranger basis. KLPE II will seek to invest in a concentrated portfolio of direct lending investments targeting primarily middle market companies that have EBITDA of above €25 million, with a particular focus on companies with EBITDA of €50-100 million (and enterprise value of €250m - €1.5bn). It will do so with a debt instrument focus on 1st lien senior secured debt with a tranche size of €100m - €250m, with very selective use of 2nd lien senior secured debt. From a credit profile perspective, the strategic rationale for doing so was discussed above.

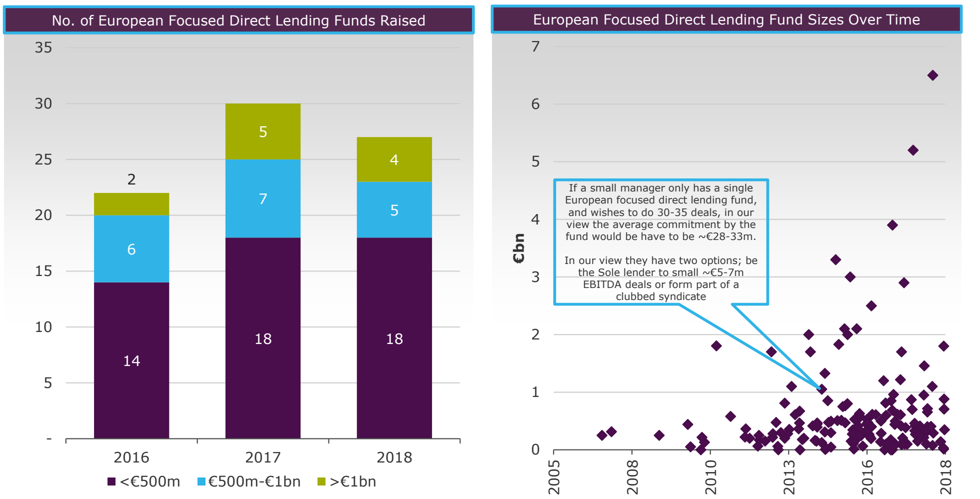
From a market opportunity perspective, the view is at that size, these companies are too large for regional banks to accommodate their financing needs and too small for large European investment banks to be incentivized to spend significant time and resources conducting related due diligence.

KLPE II will generally lend to performing companies in defensive industries that have entrenched market positions, strong track records of stable, cash generative operations, prudent capital structures, sponsors with relevant industry experience and management teams with clear experience and well-aligned interests.

This strategic focus has not only been driven by seeking lower risk financing in preparation for the next stage of the credit cycle but also by dynamics in the European direct lending market. KKR Credit notes, while there has been an increase in private fund launches with a focus on European direct lending since the launch of KLPE I, there have only been nine sponsors who have launched European dedicated direct lending funds of more than €1 billion in size (excluding leverage) that can lend at both the senior and junior levels of the capital structure (refer to charts below). As such, few direct lending European funds have had sufficient scale to meet demand at the larger end of these businesses.

This relative scarcity of private debt providers to date to the upper-middle corporate segment of the market translates to less competition and, in theory, the ability to lend on a relatively attractive risk-return basis. That said, IIR notes that most of the few larger, established private debt participants that currently have significant 'gunpowder' are also targeting this segment, raising the risk of a compression of risk-adjusted returns in the upper-middle segment over time.

Evolution of European Direct Lending by Fund Size

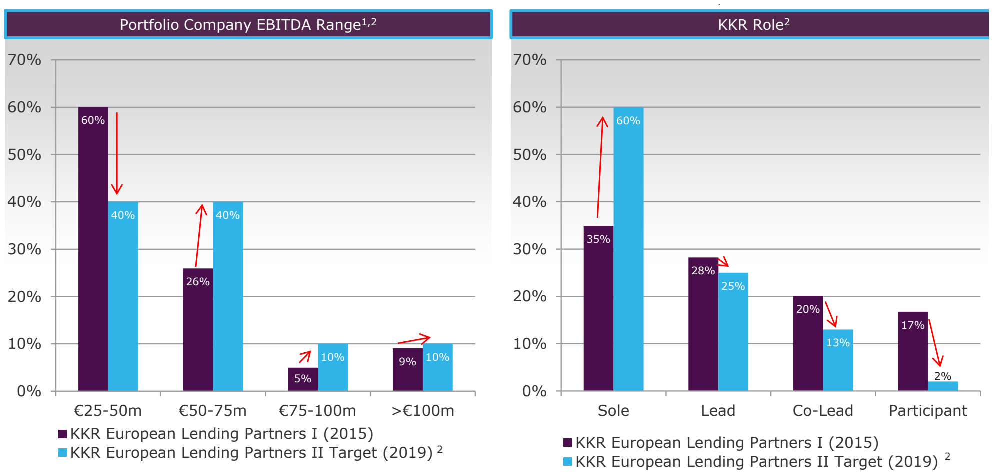


Source: KKR Credit, Pregin, as at 31 December 2018

From a risk-return perspective, and notwithstanding the relative lack of competition at the upper-middle segment to date, overall spreads are likely to be lower than the average 8.5% earned in KLPE I on account of the high quality nature of the borrowers. But equally, the overall credit risk of KLPE II is expected to be lower. This is an intentional late-cycle strategic initiative, specifically targeting higher quality credits, rather than stretching for yield.

Being a sole or lead arranger confers a number of benefits that ultimately mitigates credit risk and serves to preserve capital in the event of a repayment default. Specifically, it facilitates a greater flow of information from borrower to lender, it places the lender in stronger position to negotiate terms, structure, and covenants, and it allows the lender to 'take the keys' to the business to initiate a workout / recovery, should that be deemed the best course of action.

Evolution of KKR Direct Lending Strategy by Borrower Size and Lender Role



Source: KKR Credit. 1) Represents LTM EBITDA at time of transaction. 2) Represents current target portfolio company EBITDA and KKR role for prospective investments in KLPE II, which may change materially in the future. Does not represent investment limitations in KLPE II, and the actual investments of KLPE II may differ materially from the investments indicated herein. KLPE II has not yet held its final close

This strategic evolution targeting larger middle market borrowers and seeking to be sole lender s presented below, with KLPE II metrics representing targeted levels.

2) Offer Customised Financing. The ability to undertake complex credits and deal structures, structure prudently tailored covenants and flexible terms, and conduct efficient underwriting and execution is a means to add value to borrowers, create a point of differentiation to other lenders, and, in doing so, attract both attractive credits and ones subject to less competition as well as indirectly best serving the needs and supporting origination channels.

3) Preserve Capital. KKR Credit will seek to continue to preserve capital through a number of means, including focusing on larger borrowers, thorough underwriting processes honed by KKR's DNA in private equity, structural protections and portfolio diversification, and significant financial restructuring and operational turnaround expertise.

KKR Credit's underwriting is based on a fundamentally-driven process developed by its involvement in credit markets since 2004 and its longer involvement in private equity. The team is led by professionals with many years of experience in investing and managing large pools of capital, in both the debt and equity capital markets. KKR Credit has a significant credit infrastructure and has approximately 120 dedicated investment professionals who currently manage credit investments across a variety of industries and capital structures. This platform allows for detailed due diligence to filter investment opportunities and make relative value judgments.

Examining KKR Credit's European private credit deal hit rate and consistency of hit rate over time is a good indicator of credit underwriting standards and discipline. Of the 759 deals seen since 2015 only 32 deals, or 4%, have been funded. We note this hit rate has remained relatively consistent over time which suggests consistency of discipline, process and rigour. In the context of the increasing flow of funds into private debt, and the potential temptation to substantially grow AUM, it reflects well upon KKR Credit aligning with investor interests.

Credit Selection Hit Rate						
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Deals Seen	137	145	235	176	66	759
Deals Screened	71	43	51	54	24	243
Deals Committed / Funded	**8**	**7**	**5**	**9**	**3**	**32**
Hit Rate %	6%	5%	2%	5%	5%	**4%**

KKR Credit seeks to ensure adequate structural protections and portfolio diversification. Investments are typically characterized by highly negotiated, customized covenant packages. It seeks structural protections such as strong protective covenants, mandatory amortizations and free cash flow sweeps in order to limit the downside risk that is commonly associated with illiquidity. Being the sole, lead or co-lead lender in the majority of investments, provides greater control in negotiating protections. This is in contrast to simply being a deal participant in which case a participating lender may simply be 'piggy backing' off the sourcing lender (in a market environment characterised by deteriorating underwriting standards) and being a price taker.

It is generally accepted that in recent years there has been a general erosion of traditional creditor protections in new issue loan documentation (both private debt and senior bank loans), reflecting an increasingly borrower friendly market given the inflows of capital. This includes a steady rise in the proportion of senior secured debt in a capital structure (vis a vis a steady decline in subordinated debt) and marked variation in negative covenant parameters, the strength in which lenders can negotiate on varies deal by deal and is impacted by the overall strength of the market at the time of issuance. Less subordination, taken together with weaker covenants, suggests events of default will be extended (relative to the credit cycle) but that lenders may experience lower overall recoveries in future bankruptcies than has been observed historically. The key takeaway for investors is to be very selective with regards to investment manager selection pertaining to the standard of structural protections.

KKR Credit has significant financial restructuring and operational turnaround experience. It adopts a proactive approach to portfolio management and will step in early if an investment shows signs of credit deterioration through adverse operational developments. KKR Credit has the ability to leverage the operational expertise of the over 60 person team at KKR Capstone (the operational consulting division at KKR) to assist the company in implementing operational improvements. In addition to the operational capabilities of KKR Capstone, KKR Credit may also leverage the restructuring expertise of KKR's special situations team. Access to such expertise can help to differentiate KKR Credit from other lenders in the market and better protect investments made by KLPE II.

At the end of the day, KKR Credit is highly cognisant of some of the well publicised risks that have crept into the private debt market at this late-cycle stage of the market, including the prevalence of covenant-lite ('cov-lite') loans. It seeks to address these risks by 1) being highly selective with loan investments (4-5% hit rate), 2) ensuring strong loan protections, 3) having the resources to take action should the credit deteriorate, and 4) by targeting larger companies with stronger cash flows.

Over the shorter term, the price for doing so for KKR Credit is raising a lesser amount of AUM than may otherwise be the case and therefore less management fees. But over the longer term, there is a view the private debt market will undergo a shakeout and consolidation, and comprise substantially less than the 60, or so, lenders that have raised funds in the European private credit over the last several years. Those lenders that have the ability to prudently manage the next stage of the cycle are likely to be beneficiaries of that consolidation process. This represents KKR Credit's longer term strategic game.

INVESTMENT PROCESS

KKR Credit's investment process can be divided into four stages, specifically: 1) Origination capabilities; 2) Underwriting process; 3) Ongoing portfolio management; and 4) risk management.

Origination Capabilities

A wide and strong deal sourcing network is an important element of a successful private debt strategy. It creates a strong deal flow, enabling an investment manager with thorough underwriting processes to deploy capital in a sufficient timeframe without comprising underwriting standards or portfolio quality. It also provides access to non-competitive, or less competitive opportunities, better information flow and often from trusted parties based on existing relationships, greater diversity in counterparties, greater role flexibility in each transaction (lead, co-lead, follower), and greater say in negotiated terms.

Strong sourcing capabilities require resources and an adequate team size, including local people on the ground or native speakers. With the growing universe and increasing competition in the market, the sourcing network is a critical differentiator. While on paper the deal sources appear similar across managers, the true quality can be quite different.

KKR Credit has a broad range of channels from which it originates direct lending transactions, including private equity sponsors, advisors / financial intermediaries, banks, directly from borrowers, and existing KKR Credit portfolio borrowers.

The majority of deals are sponsored. KKR Credit's Private Credit Investment Team has relationships with over 150 sponsors globally and has worked with over 85 distinct financial sponsors in its commingled private credit vehicles. Within Europe itself, it has completed more than 80 deals across more than 50 sponsors since 2011. We understand that KKR Credit's strength of sponsor sourcing partly stems from the fact that its size, underwriting capability, and ability to serve as a solutions provider given its capital market expertise make it a preferred financing partner for an increasing number of private equity sponsors.

The Private Credit European Investment Team has also developed relationships with a broad network of financial intermediaries including smaller investment and commercial banks.

This coverage is augmented by KKR Credit's portfolio managers and investment professionals who directly cover companies as well as contribute to relationship building and idea generation for all channels. The KKR Credit investment team is incentivized to maintain strong relationships with current and potential counterparties in order to source transactions that have the strongest risk-adjusted return profile across all originated investments.

In addition to the traditional sourcing channels mentioned above, transactions may also source from existing KKR Credit portfolio. Across its global credit business, KKR Credit is currently a lender to over 770 companies. As often the incumbent lender in these capital structures, KKR Credit often approached to provide alternative private financing solutions in light of changes in the company or changes in the marketplace.

The Private Credit Investment Team will also seek to leverage the expertise and relationships of the entire KKR network including private equity deal teams, KCM professionals, KKR Capstone operating professionals, consultants and senior management at KKR and KKR Credit portfolio companies. By taking advantage of this extensive network, it has the opportunity to review a large number of potential investments.

An examination of the KLPE I portfolio transaction sheet, summarising the deal history on a case by case basis (deal source, number of different counterparties, role in each transaction, attractiveness of negotiated terms, etc.) verifies significant breath and quality of deal channels.

Underwriting Process

As noted previously, KKR Credit's direct lending strategy incorporates KKR's fundamentally-driven credit investment philosophy which is based on detailed credit underwriting and financial analysis. Given the extensive experience of KKR's credit and equity underwriting, the investment approach is designed to incorporate characteristics of both disciplines. This is a point of difference from the majority of private credit peers.

For each credit, KKR Credit employs a bottom-up, fundamental due diligence process. The process is broadly divided into company, market, and 'other' due diligence.

Company due diligence focuses on understanding the quality of cash flows of the underlying investment, including requirements for growth, degrees of flexibility to reduce costs and requirements for debt amortization. It includes an assessment of the strengths and weaknesses in a company's cost structure, cost structure relative to competitors, and quality of suppliers.

Market due diligence focuses on assessing what the company does, including what products and services it provides and to whom. It includes assessing substitute goods or services and the threats they may represent for pricing or cost structure and drivers of market growth or decline, including changes in industry structure, technology or demographics.

'Other' due diligence entails management meetings, site visits, review of quality of earnings reports and calls with suppliers and customers. External consultants and third party industry diligence may also be included, including utilising the internal resources of KKR Capstone where appropriate.

KKR Credit will only invest in a credit once it has undergone a detailed analysis and the Global Private Credit Investment Committee believes it has a competitive advantage via sourcing, analysis or diligence findings. The team has access to a global portfolio of over 100 KKR private equity-owned portfolio companies, but also access to its private markets investment professionals, senior advisor network and the expertise of KCM.

Deals maybe rejected due to issues around ownership structure, opaque investor base, leverage levels, sector, size, capital structure, pricing, or control.

Ongoing Portfolio Management

There are three internal bodies that review the performance of investments and monitor portfolio level risks and exposures. Specifically, the Portfolio Management Committee, the Portfolio Monitoring Unit (PMU), and the Risk Team.

Each private credit investment will be formally reviewed at least quarterly by the Portfolio Management Committee. The Portfolio Management Committee is responsible for the oversight and review of KLPE II's investment processes including reviewing the performance of investments and monitoring portfolio level risks and exposures.

Notably, originated direct lending investments often provide an informational advantage over investments in broadly syndicated debt instruments. Given the private, negotiated nature of these investments, lenders are generally able to access frequent borrower performance reporting which, combined with other negotiated terms in these arrangements, can enable lenders to assert influence over a borrower's business and identify early signs of credit deterioration.

The Portfolio Monitoring Unit (PMU) was established in 2016 to provide an independent and highly analytical and proactive approach to private credit portfolio management. It is a team of ten charged with the ongoing monitoring of KKR Credit's private credit portfolios, with specific tasks including: financial performance versus KKR Credit assumptions; monthly management and sponsor updates; covenant compliance, and; to manage the 'watch list'. In addition to providing a dedication and objective assessment and enhancing governance, risk management, and data quality, it enables the origination the credit analysts members to focus on sourcing and underwriting.

Finally, in addition to acting as a partner to borrowers when making a direct lending investment, KKR Credit is probably one of the few firms that can add significant value to a borrower post-investment as part of its ongoing portfolio management function. For example, KKR Credit has the ability to leverage the resources at KCM to help a company optimise its entire capital structure and maximize financing efficiency. Additionally, if an investment shows signs of credit deterioration through adverse operational developments, KKR Credit has the ability to leverage the operational expertise of the over 60 person team at KKR Capstone to assist the company in implementing operational improvements. In addition to the operational capabilities of KKR Capstone, KKR Credit may also leverage the restructuring expertise of the Firm's special situations team.

As evidence of its workout / restructuring abilities, over the life of KLPE I KKR Credit has taken control of a total of four companies it has lent to, specifically Tekfor (formerly known as Amtek), Petainer, Casual Dining Group and Cabovisao-Televisao Por Cabo SA. It has done so with the aid of resources from across the KKR firm, including the European private equity franchise, the operational consultant business KKR Capstone, and the special situation team.

The operational restructuring, strategic reviews and, in some cases, sale process is ongoing for all four companies. Investors in KLPE I may or may not ultimately incur losses on the debt which, in some cases, is either partly or wholly been converted into equity. Nevertheless, what is clear is the ability for KKR Credit to take quick and decisive action when a significant issue has been identified and to do so by leveraging its broader internal resources.

Risk Management

KKR Credit has an inherent appreciation for one of the key elements by which returns are generated in managing direct lending investments, namely by avoiding losses. Generally, the private credit team will leave day-to-day operating control of each portfolio company in the hands of its management team and their respective private equity sponsors (if applicable). That said, the private credit team may assume company board seats or board observer rights. However, the private credit team will actively monitor the activities and financial condition of each portfolio company through typically monthly reviews of financial performance and regular discussions with management and financial sponsors.

In terms of its internal processes, KKR Credit utilises a multifaceted and integrated approach to risk management of its private credit portfolios that includes four teams, specifically the KKR Credit Portfolio Management Committee (PMC), the Private Credit Investment Team, the PMU, and the Risk Team.

The PMC consists of nine senior members across Leveraged Credit, Private Credit and Special Situations. The PMC, in concert with the Private Credit Investment Team, is responsible for reviewing performance and will monitor the portfolio level risks and exposures and will 're-underwrite' each credit (on a quarterly basis).

The Risk Team comprises nine members, and utilises a number of risk management tools. It sits side-by-side with the investment team to allow real time discussions between PMs and analysts.

PORTFOLIO CONSTRUCTION

The table overleaf summarises key portfolio metrics for the predecessor fund, KLPE I as at 31 March 2019. These metrics can be consider broadly indicative of that what may be implemented in KLPE II, with a few notable differences previously alluded to.

Specifically, it is expected that the average loan size will be larger, as KKR Credit has progressively targeted the larger end of the middle market. With a greater emphasis on senior and less on stretch senior and second lien, it is also expected the weighted average leverage and all-in-yield will also be lower. Geographically, KLPE II will have a core Western European focus and be well diversified by sector, in keeping KKR's European Direct Lending Platform.

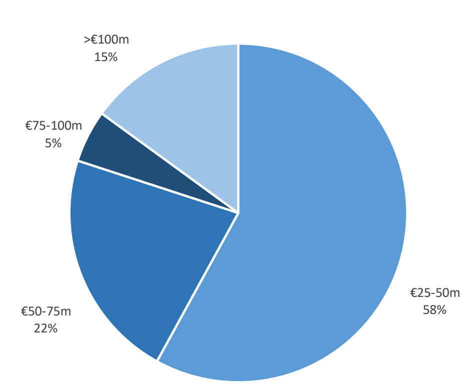
The charts overleaf illustrate KLPE I's portfolio construction, as at 31 March 2019. While this is broadly indicative of what the KLPE II portfolio is expected to look like there is expected to be differences, as discussed below.

KLPE I Portfolio Construction

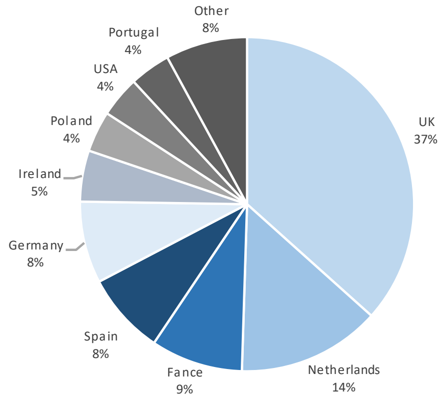
Key Metric	30 June, 2019
Total Dollars Invested (committed cash basis)(1)	~€1,114m / $1,246m
Total Number of Positions	32
Current Number of Positions	22
Average Position Size *	~€23m / $26m
Weighted Average LIBOR/EURIBOR Floor	0.6%
Weighted Average Spread	6.2%
PIK	0.6%
Weighted Average Purchase Discount / Upfront Fees (amortized over three years)	3.0%
Weighted Average All-in Yield	8.5%
Weighted Average Leverage Through the KLPE I Investment	4.6x

***** Relates solely to KLPE I. KKR Credit's total loan size across its commingled funds and separately managed accounts generally leads to substantially larger lend size.

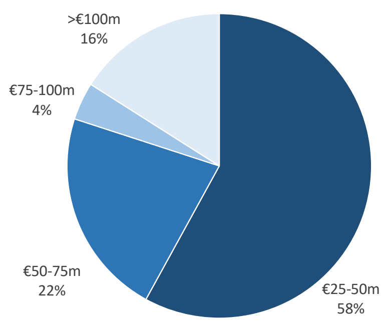
Capital Spectrum



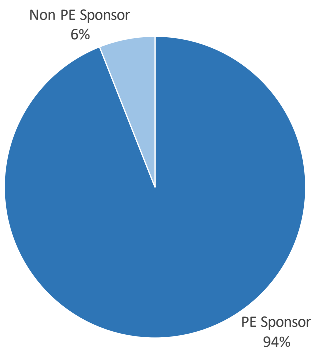
Geographical Split



Ebitda of Borrower



PE Sponsor vs Non PE Sponsor



Source: KKR Credit as at June 30, 2109

We anticipate that KLPE II will be diversified across a number of attributes. In addition to the 10% cap on non-European investments, a minimum of 70% of the portfolio to be senior secured (1st lien, 2nd lien, unitranche).

From a sector diversification standpoint, we anticipate that KLPE II will be at least as, if not more, diversified relative to KLPE I given the maturing European Direct Lending market and the increased number of market participants in the direct lending space.

The key difference will be with respect to KKR Credit's role, with a target of around 85% being sole (60% target) and lead (25% target) roles.

By loan type, IIR's expectation is that there is likely to be more first lien senior secured, less second lien and, potentially, less 'stretch' first lien senior secured, given the credit market cycle.

From a sourcing perspective, it is expected the majority of investments in KLPE II will be private-equity sponsored companies. That being said, we do expect to see more non-sponsored deal flow going forward as KKR Credit continues to build out its direct relationships with companies.

PERFORMANCE ANALYTICS

The key performance metrics for the predecessor fund KLPE I include those summarised below. All metrics are on a gross, pre-fees basis as investors in the Trust will not be charged at the KLPE II level:

- A realized unlevered gross IIR of 13.4% p.a and a weighted average all-in-yield (gross) on deployed capital of 8.5% p.a.;
- Four payment defaults, all of which are still in various stages of workout (potential loss / recovery rate to be determined). Investors should note that for private debt programmes the impact of defaults can be material given the concentrated portfolios (generally in the range of 15-30 underlying deals).

- European direct lending has, to date, presented an attractive income opportunity, partly through a persistent illiquidity premium and attractive arrangement fees / OID (3-4%). Since launching KLPE I in 2015 KKR Credit has seen an attractive illiquidity premium. As at 31 December 2018, the new-issue spread of B+/B loans in the syndicated bank loan market in Europe was ~4.5%.

CREDIT LIT COMPARATIVE ANALYSIS

Over the course of the last 18-months, or so, there has been a welcomed addition (from a portfolio perspective) of listed fixed income mandates. Furthermore, the general quality of these mandates has been high to very high. That said, all said strategies differ either materially or significantly. As such, the point of this section is limited to a comparative fee analysis of the Trust to determine competitiveness in this regard.

Comparable Listed Credit Funds

Fund	ASX Code	MER	Perf. Fee	Target Return (post fees)	Credit Segment	IIR Rating
Moelis Australia Fixed Income Fund	N/A	0.5%	n/a	RBA + 4.0% (5.0%)	Consumer, commercial ABS	Recommended +
MCP Master Income Trust	MXT	0.6%*	Possibly **	RBA + 3.25% (4.25%)	Corporate loans	Recommended +
MCP Income Opportunities Trust	MOT	1.03%*	15.4% over RBA + 6% p.a.	8.0 - 10.0%	Private debt	Not Rated
Gryphon Capital Income Trust	GCI	0.86-0.96%	n/a	RBA + 3.5% (4.5%)	ABS, RMBS	Recommended
NB Global Income Trust	NBI	0.85%	n/a	5.25%	Global high yield	Recommended +
Perpetual Credit Income Trust	PCI	0.88%	n/a	RBA + 3.25% (4.25%)	Diversified credit	Recommended +
Qualitas Real Estate Income Fund	QRI	2.34%	20.5% over 8% p.a	8.0% p.a. net	Commercial real estate loans	Recommended
KKR Credit Income Trust	**KKC**	**0.90-%**	**5% over RBA Cash Rate + 4% p.a.**	**6% - 8%**	**Diversified credit, private debt**	**Recommend +**

* Inclusive of a 0.22% Investor Equalisation Expense (IEE). ** Underlying wholesale fund investments may charge a performance fee.

The table above details the fee structure of ASX LITs that have debt related investment strategies. We have included Moelis Australia Fixed Income Fund in the analysis due to the expectation of a 2H 2019 ASX listing. While the fee structures and expected levels are relatively variable (albeit with the higher risk-return strategies universally applying a performance fee, and vice versa), we note the Trust is at the upper end of the peer group when the performance fee is factored in. That said, we acknowledge the intensive process associated with private debt.

APPENDIX A - SENIOR TEAM MEMBERS

GCOF

The key members of the investment team are detailed below.

Christopher Sheldon (San Francisco) joined KKR in 2004 and is a Member of KKR. Mr. Sheldon serves as the Head of Leveraged Credit. Mr. Sheldon is a portfolio manager for KKR Credit's leveraged credit and private credit funds and portfolios and a member of the US Leveraged Credit Investment Committee, Global Private Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Sheldon was a vice president and senior investment analyst with Wells Fargo's high yield securities group. Previously, Mr. Sheldon worked at Young & Rubicam Advertising and SFM Media Corporation in their media-planning departments.

John M. Reed (San Francisco) joined KKR in 2008 and is a member of KKR. Mr. Reed serves as the Head of Credit Trading and a member of the US Leveraged Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Reed was an Associate Director at Bear Stearns & Co. in their institutional fixed income department. Previously, he was an analyst at BNY Capital Markets in the syndicated loan, private placement and high yield groups, and also worked in the Asset Strategies Group and The Office of Management & Budget of New York City.

Jeremiah S. Lane (San Francisco) joined KKR in 2005 and is a Member of KKR. Mr. Lane is a portfolio manager for KKR Credit's leveraged credit funds and portfolios and member of the US Leveraged Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining, Mr. Lane worked as an Associate in the Investment Banking / Technology, Media and Telecom Group at J.P. Morgan Chase. Mr. Lane holds an A.B. with honors in History from Harvard University.

European Private Credit

European Direct Lending Investment Committee

All European private credit investments are approved by KKR Credit's European Direct Lending Investment Committee which is responsible for all private credit investments made by the team, including privately originated senior and subordinate lending opportunities. The European Direct Lending Investment Committee meets twice a week or as needed on an ad hoc basis. All private credit investment opportunities require unanimous approval from the European Direct Lending Investment Committee.

KKR European Direct Lending Investment Committee		
Member	**Title**	**Role**
Matthieu Boulanger	Member	Portfolio Manager of Private Credit funds and portfolios
Daniel Pietrzak	Member	Portfolio Manager of Private Credit funds and portfolios
Eddie O'Neill	Managing Director	Managing Director at KKR Credit
Blaine MacDougald	Managing Director	Managing Director at KKR Credit

Matthieu Boulanger (London) joined KKR in June of 2017 and is a Member of KKR. Mr. Boulanger is a portfolio manager for KKR's private credit funds and accounts and a member of the Global Private Credit Investment Committee, European Direct Lending Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Boulanger was a Managing Director at HPS Investment Partners, where he focused primarily on private credit strategies. Previously, Mr. Boulanger held various roles in Citigroup's Global Special Situations Group and in the Infrastructure and Energy Finance Group at Citigroup. He holds an MSc in Economics from the London School of Economics and a B.A. in Finance and Economics from the University of Paris IX (Dauphine).

Daniel Pietrzak (New York) joined KKR in 2016 and is a Member of KKR. Mr. Pietrzak is a portfolio manager KKR's private credit funds and portfolios and a member of the Global Private Credit Investment Committee, Europe Direct Lending Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Pietrzak was a Managing Director and the Co-Head of Deutsche Bank's Structured Finance business across the Americas and Europe. Previously, Mr. Pietrzak was based in New York and held various roles in the structured finance and credit businesses of Societe Generale and CIBC World Markets. He holds an M.B.A. in Finance from The Wharton School of the University of Pennsylvania and a B.S. in Accounting from Lehigh University.

Eddie O'Neill (Dublin) joined KKR in 2014 and is a Managing Director of KKR. Mr. O'Neill is a portfolio manager for KKR's European leveraged credit funds and portfolios and member of the European Leveraged Credit Investment Committee and US CLO Investment Committee. Prior to joining KKR, Mr. O'Neill was a senior portfolio manager responsible at Avoca Capital. Before joining Avoca, Mr. O'Neill was an associate director at Allied Irish Banks Acquisition Finance, in which he was involved in structuring and arranging senior and mezzanine debt for leveraged finance transactions. He was also responsible for the overall management of Allied Irish Bank's leveraged loan portfolio. He has a B.A. in Economics and Politics from Trinity College and an M.B.S from University College Dublin.

Blaine MacDougald (London) joined KKR in 2011 and is a Managing Director of KKR. Mr. MacDougald is a portfolio manager for KKR's Special Situations funds and portfolios and is Co-Head of European Special Situations. Previously, Mr. MacDougald was Co-Head of Credit Research for KKR Credit in New York and before joining KKR, he was a vice president with the credit opportunities group at D.E. Shaw. Mr. MacDougald began his career at RBC Capital Markets where he was predominantly focused on leverage finance and mergers and acquisitions in New York and Toronto. He graduated from Queen's University and is a CFA Charterholder.

KKR Credit Portfolio Management Committee

The Portfolio Management Committee ("PMC") is responsible for reviewing performance and performance dispersion/style drift as it relates to KKR Credit Funds and Other Clients as well as within strategic mandates. Further, the PMC will monitor the portfolio level risks and exposures of KKR Credit Funds and Other Clients.

KKR Credit Portfolio Management Committee		
Member	**Title**	**Role**
Matthieu Boulanger	Member	Portfolio Manager of Private Credit funds and portfolios
Jeremiah Lane	Member	Portfolio Manager of Leveraged Credit funds and portfolios
Eddie O'Neill	Member	Portfolio Manager for our European Leveraged Credit funds and portfolios
Daniel Pietrzak	Member	Portfolio Manager of Private Credit funds and portfolios
John Reed	Member	Head of Credit Trading
Christopher Sheldon	Member	Head of Leveraged Credit and Portfolio Manager KKR Leveraged Credit and Private Credit funds and portfolios
Nathaniel Zilkha	Member	Head of Alternative Credit and Portfolio Manager Special Situations funds and portfolios

Matthieu Boulanger See above.

Jeremiah Lane (San Francisco) joined KKR in 2005 and is a Member of KKR. Mr. Lane is a portfolio manager for KKR Credit's Leveraged Credit funds and portfolios and member of the US Leveraged Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining, Mr. Lane worked as an Associate in the Investment Banking/ Technology, Media and Telecom Group at J.P. Morgan Chase. Mr. Lane holds an A.B. with honors in History from Harvard University.

Eddie O'Neill See above.

Daniel Pietrzak See above.

John Reed (San Francisco) joined KKR in 2008 and is a Member of KKR. Mr. Reed serves as the Head of Credit Trading and a member of the US Leveraged Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Reed was an Associate Director at Bear Stearns & Co. in their institutional fixed income department. Previously, he was an analyst at BNY Capital Markets in the syndicated loan, private placement and high yield groups, and also worked in the Asset Strategies Group and The Office of Management & Budget of New York City.

Christopher Sheldon (San Francisco) joined KKR in 2004 and is a Member of KKR. Mr. Sheldon serves as the Head of Leveraged Credit. Mr. Sheldon is a portfolio manager for KKR's leveraged credit and private credit funds and portfolios and a member of the US Leveraged Credit Investment Committee, Global Private Credit Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Sheldon was a vice president and senior investment analyst with Wells Fargo's high yield securities group. Previously, Mr. Sheldon worked at Young & Rubicam Advertising and SFM Media Corporation in their media-planning departments.

Nathaniel Zilkha (New York) joined KKR in 2007 and is a Member of KKR. Mr. Zilkha serves as the Head of Alternative Credit, which includes the firm's private credit, principal finance and special situations businesses. Mr. Zilkha is also a portfolio manager for KKR's special situations funds and portfolios, which he has managed since their inception in 2009, and a member of KKR's Investing & Distribution Committee, Private Credit Investment Committee, Special Situations Investment Committee and KKR Credit Portfolio Management Committee. Mr. Zilkha also spent time as a member of KKR's Private Equity Team in KKR's Menlo Park office. Prior to joining KKR, Mr. Zilkha was a member of the Principal Investment Area of Goldman, Sachs & Co., where he invested in private equity and principal debt transactions.

APPENDIX B - BANK LOANS AND DIRECT LENDING MARKETS

A bank loan, also referred to as a leveraged loan or leveraged bank loan, is a commercial loan to a high-yield company (rated below investment grade) by a group of lenders. Within a company's capital structure, bank loans rank the highest in terms of payment priority and are considered senior secured credit.

Broadly syndicated loans (BSLs) are the largest portion of the bank loan market; they are syndicated by originating banks to investors. Investors in institutional bank loans include collateralised loan obligations (CLOs), mutual funds and insurance companies.

In addition to BSLs, middle market loans—generally, loans to companies with EBITDA up to $100m — are a subset of the bank loan market. Middle market loans are generally smaller in size than BSLs. Middle market loans may be highly customised in relation to the debt terms and, unlike BSLs, either completely lack secondary market liquidity or such liquidity is restricted. As such, middle market loans are typically entered into on a hold-to-marurity basis and are generally also referred to as private debt. Many such loans may represent direct lending, which is a strategy where nonbank entities lend their capital directly to companies. There is no defined definition of a direct loan, although some participants refer to a direct loan as any middle market loan in which, as a lender, it represents 10% or more of the total tranche size.

Middle market loans typically have certain characteristics other than their smaller size that differentiate them from BSLs.

- Middle market companies typically have more robust reporting packages and protective covenants due to deal terms being customized between the lender and the borrower. Negotiations to structure middle market loans are typically highly bilaterally negotiated between lender/s and the borrower. Given the smaller number of participants, lenders will act as the sole, lead, co-lead, or club participant lender and generally exert considerably or substantially greater influence on lending terms and conditions as well as their role in the event of a payment default.
- Middle market loans are generally buy-and-hold in nature, with limited or no secondary market liquidity. Direct lenders will charge an illiquidity premium due to lack of a tradeable market for the loan. Historically, middle market loans have averaged a 118 bps yield premium over BSLs since 2009, according to Fitch Ratings. Further, direct lenders typically earn higher interest rates on their portfolios than bank lenders, given their riskier portfolio profiles (less total investments).
- Deals are primarily financed by nonbank institutions — business development companies (BDCs) and fund/asset managers — as opposed to banks. An estimated 90% of middle market loans are now made by nonbank institutions, up from 28% in 1994, according to Fitch Ratings.
- Sponsored middle market transactions refer to deals that have a private equity sponsor backing the equity of the company. Transactions with a sponsor typically have more seasoned management teams compared with nonsponsored deals due to the private equity company's ability to leverage personnel from their portfolio companies. Sponsors will typically work with lenders more quickly to resolve any potential issues a credit may have, more so than in nonsponsored deals. Furthermore, sponsored borrowers can have additional access to equity capital that nonsponsored borrowers do not.

Bank are often floating rate and priced at a spread over a referenced rate. They are generally issued with maturities of seven to eight years but can be prepaid sooner. These term loans generally have minimal amortization through the life of the loan (e.g. 1% per annum), with the bulk of the balance due at maturity.

Bank loans are generally first or second-lien senior secured in relation to security. A second-lien loan is differentiated from a first lien loan by priority, security and pricing. Second-lien issuers tend to be highly leveraged with low 'B' or 'CCC' category credit profiles. The priority is second to first-lien facilities, the security is generally a second lien on the first assets and the pricing is wider by 300bp–500bp. Second-lien loan spread premiums over first-lien facilities averaged 3.64% based on data available for 2003–2017, according to Fitch Ratings.

The table below highlights the key characteristics of both the private / direct debt and bank loans asset classes. We have also included high yield bonds for comparative purposes.

Private Debt vs Bank Loans vs High Yield Bonds

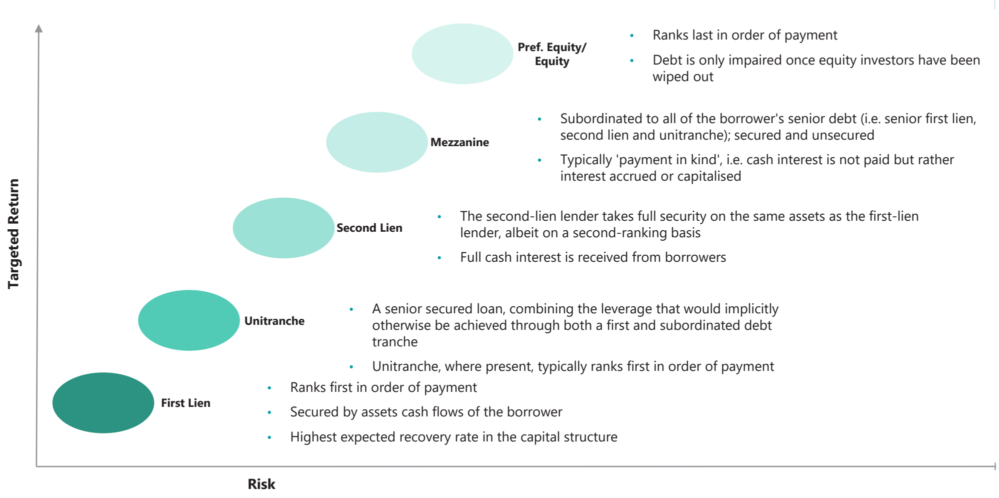
Characteristic	Direct / Private Debt	Senior Bank Loans	High Yield Bonds
Instrument	Loans (contract)	Loans (contract)	Bonds (securities)
Borrower information flow	High-very high	Moderate	Moderate
Coupon structure	Mainly floating (LIBOR + X%)	Floating	Fixed rate
Prepayment option	Yes, often with penalties for borrower	Yes	No
Arranged by	Investment managers	Banks	Banks
Liquidity	Low	Low to moderate	Moderate
Strategy	Active sourcing, then buy-and-hold	Active portfolio management	Active portfolio management
Typical positions per fund / portfolio (concentration)	15-30	100-150	80-120
Market volatility	Low	Moderate	Moderate-high
Illiquidity mismatch risk	n/a	Moderate-high	Low-moderate
Typical target return	Senior LIBOR + 4-6%, Unitranche LIBOR + 5-7%, Second lien LIBOR + 7-9%, Mezzanine LIBOR + 10-12%	First lien LIBOR + 4.0-5.5% Second lien LIBOR + 6-8%	4.5-6.5%
Recovery in default	Depending on seniority, but typically secured	High (senior secured)	Low (unsecured)
Sources of return	LIBOR, Credit spread, Illiquidity premium, Arrangement fees	LIBOR, credit spread, upgrades/price moves	Credit spread/coupons, upgrades/price moves, interest rate risk

Direct lending may also be extended on the basis of unitranche debt and mezzanine debt. Unitranche is a hybrid loan structure that combines senior and subordinate debt into a single secured-credit facility. The borrower pays a blended price of the senior and junior rate. The margin often includes a cash pay component and may include an accrued interest, or payment in kind (PIK), component.

Mezzanine debt usually rank junior in priority of payment to secured debt. Accordingly, mezzanine debt may include a heightened level of risk and volatility or a loss of principal, which could lead to the loss of the entire investment. Mezzanine offers interest payments, which typically consist of both cash and accrued interest (PIK).

The chart below encompasses the common direct lending investment strategies by debt type and commensurate risk-return profile, with first and second lien being relevant to the bank loans market.

Bank Loans & Direct Lending Strategies - by Risk/Return Spectrum



Covenants

Bank and direct loans are originated with covenants, which are restrictions on what the borrower can and cannot do relative to the loan terms, throughout the life of the loan. There are three main types of covenants:

- Affirmative covenants state what a borrower must do to be in compliance during the life of the loan (e.g. provide financial statements and maintain insurance);
- Negative covenants limit what the borrower can do during the life of the loan (e.g. limits on additional incurrence of debt or limits on dividend amounts);
- Financial (maintenance) covenants require the borrower to maintain certain financial performance measures during the life of the loan. These are typically measured on a quarterly basis (e.g. leverage ratio tests and coverage ratio tests).

Negative Covenants	Affirmative Covenants	Financial Covenants
Incur debt	Payment of taxes	Max senior debt to Ebitda ratio
Grant lien or pledge assets	Maintain insurance	Max total debt to Ebitda ratio
Sell or dispose of assets	Access to information	Max Ebitda to total interest ratio
Make investments or loans	Books and records	Min fixed charge coverage ratio
Make acquisitions	Maintain condition of assets	Max capex limit
Merge or consolidate with another entity	Additional collateral	Min tangible net worth ratio
Make dividends or distributions		

Source: Fitch Ratings

Covenant-lite ('cov-lite') generally refers to a loan with no financial maintenance covenants, have high-yield bond-like negative and affirmative covenants. Cov-lite has become the norm in recent years in the bank loans market, with around 80% of new loans issued in 2018 being cov-lite. There has also been a marked variation in negative covenant parameters in recent years.

Cov-lite has become a frequently discussed topic in recent years, as it is generally seen as a part of a broader trend in the general erosion of traditional creditor protections in new issue loan documentation (both private debt and senior bank loans), reflecting an increasingly borrower friendly market given the inflows of capital. This erosion also includes a steady rise in the proportion of senior secured debt in a capital structure (vis a vis a steady decline in subordinated debt) and marked variation in negative covenant parameters, the strength in which lenders can negotiate on varies deal by deal and is impacted by the overall strength of the market at the time of issuance. Less subordination, taken together with weaker covenants, suggests events of default will be extended (relative to the credit cycle) but that lenders may experience lower overall recoveries in future bankruptcies than has been observed historically.

Loan Pricing

The yield on bank loans and direct lending is floating rate based on a referenced rate, such as LIBOR or the Fed Funds Rate. The reference rates to which loans are priced change periodically. The reference rate may include a floor (often 1%, 0.75%, and most recently 0%), such that the base rate is the greater of the benchmark and the predetermined floor. Bank loans and direct debt typically also includes an Original Issue Discount (OID).

Bank loans may also have soft call provisions to protect investors' income streams by including a prepayment premium. These are especially in relevant in a declining interest rate environment, given the incentive to reprice at a lower rate. Typical soft call provisions are 101% for a length of time following the issuance.

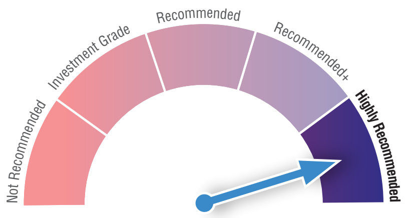
Component / Fee	Details
Reference rate	Overall pricing on a loan is based on a spread over a reference rate. Common reference rates include LIBOR or prime.
Spread	The rate added to the reference rate to determine the overall rate on the loan. The spread is based on the credit quality of the borrower and can change based on changes in the borrower's performance.
LIBOR floor	Sets a minimum reference rate (i.e. LIBOR) on which the loan pricing is based. If the market LIBOR rate falls below the floor rate, pricing will be based upon the floor rate rather than the current market LIBOR rate.
Original Issue Discount (OID)	A discount to par (100). The OID is offered in the primary market during the syndication process to enhance investors' yield on the loan. OIDs typically range from 0.5%-3%, and are effectively amortised over the term of the loan.
Call provisions	A prepayment premium, typically 101% of par value.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

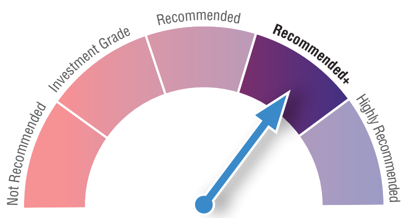
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**



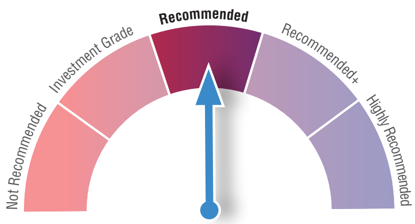
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	**79–83**



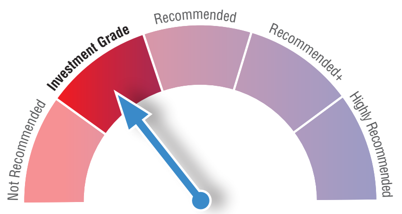
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	**70–79**



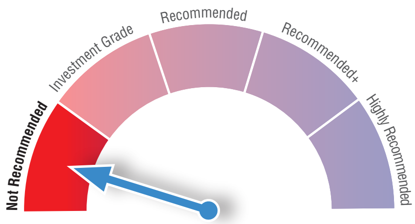
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	**60-70**



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	**<60**

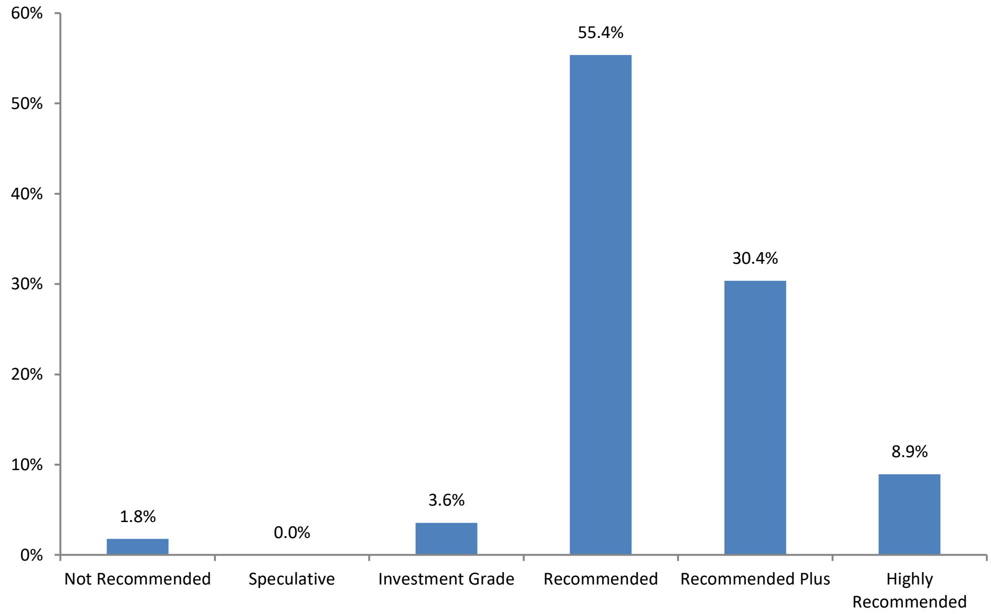


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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