June 2024 Market Review

KKR Credit & Markets

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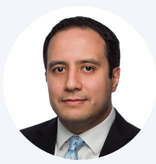

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> "We feel like we have been running behind Forrest for 3 years, 2 months, 14 days and 16 hours as markets have gone up and back, up and back..."

Executive Summary

The 1994 American classic film, Forrest Gump, adapted from Winston Groom's 1986 novel, is a timeless depiction of the important role perseverance can play when navigating the unpredictable journey of life and its hurdles. Forrest, the non-obvious eponymous protagonist, learns that you can leave destiny up to chance, floating where the wind takes you like a feather, or instead use intention and determination to drive outcomes. Forrest's story captured the hearts and minds of many over the last 30 years as he defied the perceived odds to rise above challenges. His story reminds us of the significant value of being nimble, creative and remaining disciplined can have in what we are calling today's 'non-obvious market'.

Forrest's journey unfolds over the transformative decades of the 1950s, '60s, '70s, and '80s, which allows him to witness and participate in some of the most pivotal moments of recent history. In some ways, the past four years have felt like four decades — global markets have thrown twists and turns that have kept investors on their toes, trying to anticipate what could come next: rate cuts, CPI print, labor numbers!? There has been no shortage of inputs for markets to react to and follow. Some might even say it feels like we have been running behind Forrest for 3 years, 2 months, 14 days and 16 hours as markets have gone up and back, up and back...and we don't intend to stop!

There is no doubt that the past 36 months have been a memorable and non-linear ride for the global credit markets. "Fixed income" has finally earned its last name back again on the heels of monetary policy tightening sending rates to a 23-year high, with SOFR squarely at 5.33% as of June 12th. We have leaned into this new chapter of history as the global markets evolved into a new paradigm, one characterized by a 'higher resting heart rate' for both rates and inflation as our colleague Henry McVey says. Throughout the whipsaw, teams that have exercised discipline and remained structurally nimble within and across public and private credit markets were able to identify relative value amidst growing dispersion, yielding attractive risk adjusted returns and bringing us to where we are today.

We believe we are now squarely in a 'non-obvious market' characterized by growing asset level dispersion fueled by an overt focus on spread versus absolute yield, technicals that are increasingly disconnected from fundamentals coupled with the overhang of rapidly developing geopolitical matters. We call it non-obvious because this market requires investors to go beneath the surface to identify compelling relative value and act swiftly because everything can change at a moment's notice. As one of the film's most iconic lines states, "...Life is like a box of chocolates, you never know what you're gonna get." We believe this sentiment holds true for the credit markets these days and the surprises they can bring.

We believe we are now squarely in a 'non-obvious market'

With this in mind, we address the following themes that stood out to us this quarter:

What's Normal Anyways?
Level setting the Fed's toehold on markets and persistent imbalance of supply/demand

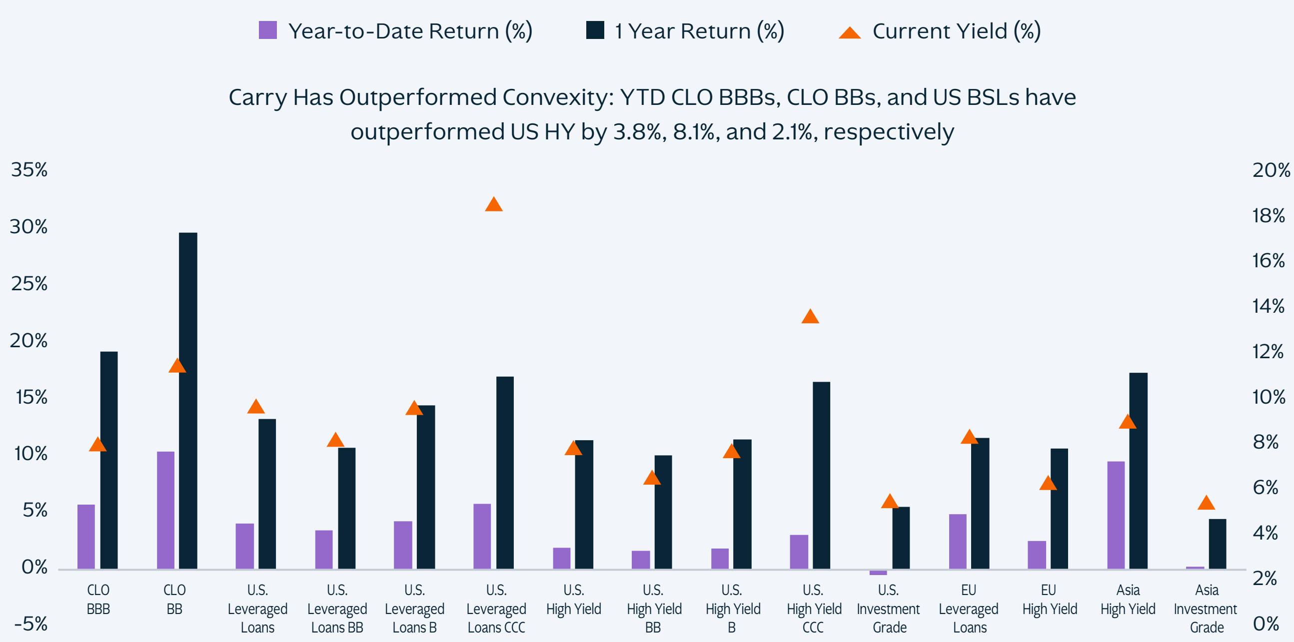
Peas & Carrots
Complementary dynamics within markets go together like peas and carrots

Bubba-Gump
Solutions come in all flavors and sizes, but creativity is the main ingredient

Keep Your Eye on the Ball
...and keep it simple

EXHIBIT 1

Year-to-Date and 1 Year Returns Across Global Credit Markets



Source: S&P LSTA LL Index, Ice BofAML, JPMorgan CLLIE, Bloomberg and KKR Credit Analysis as of May 31, 2024.

What's Normal Anyways?

We have heard the phrases "return to normalcy" or "this is the new normal" for almost four years across a myriad of topics. The normal debate now focuses on rates, economic data and portfolio allocations. In line with the unconventional zero-interest rate policy ("ZIRP") which describes conditions with very low nominal interest rates, many have touted that the last 12+ years have in fact been, abnormal. A stark depiction of this debate became evident as global central banks facilitated a sharp move away from negative rates — there were $15 trillion of negative yielding assets in aggregate as of 2021,[1] today there are zero. So, what is considered normal in a market that has arguably thrived off the unconventional? One thing is for certain, everything is relative, making it almost impossible to define what truly constitutes normal while simultaneously emphasizing the importance of adaptation. This is reminiscent of how Forrest navigates through life amidst transformative and often turbulent periods in history, reiterating to us that continuously recalibrating risk and reassessing relative value is paramount — and begging the question, "What's normal anyways?".

Continuously recalibrating risk and reassessing relative value is paramount

The first half of 2024 started off running with gusto as global credit exuded a risk-on tone, sending spreads tighter and reigniting fervor in the public markets. As of May 31st, U.S. bank loans have returned +4.04% , European bank loans +4.83%,[3] U.S. high yield +1.93%[4] and European high yield +2.50%.[5] This rally in credit followed the return of investor demand resulting in positive inflows back into both the loan and bond markets totaling ~$14.5 billion.[6]

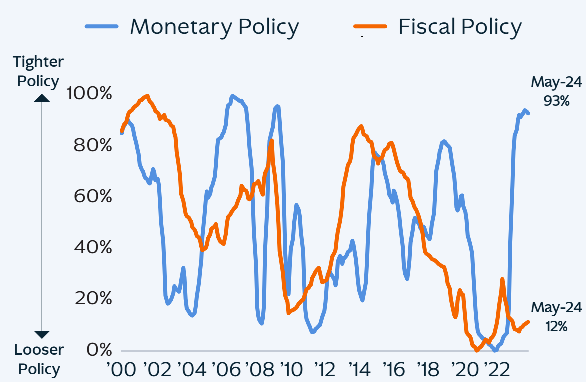
New CLO creation also resumed in Q1 resulting in the highest volume of issuance, $48.8 billion[7] since the post-GFC era. April and May brought forth an additional ~$37 billion[8] of CLO issuance (ex-refi and resets) representing a 3x increase in activity year-over-year, bringing year-to-date activity to $105.7 billion globally as of May 31st.

It is important to note that ~$77 billion of the gross CLO issuance consisted of refinancings and resets year-to-date,[9] which do not contribute to net new supply. This fact pattern sharpens the technical supply/demand impact that is sending spreads tighter throughout the leveraged finance market. Combined with ~$9 billion[10] of retail loan fund inflows year-to-date, total measurable investor demand was $51.7 billion[11] in the first quarter alone, the highest reading since the Fed started hiking rates early in 2022. As a point of reference, retail investors withdrew over $10 billion by end of March 2023.[12] The record CLO vehicle creation continued with $22.6 billion of new issue (ex-refi/resets) volume in May, representing the second highest monthly volume on record. That activity compounds the current supply/demand imbalance that persists as CLO issuance continues at a record pace.

Increased issuance and improved investor sentiment provided further fuel to the metaphorical fire with the CLO machine finally back in action. Given the muted activity in new CLO formation in the year prior, the first quarter focused on securitizing attractively ramped assets and extending existing deals via CLO resets and CLO debt refinancings. In Q1, KKR issued four New-Issue CLOs totaling $1.6 billion, with third party investor equity participation in every deal.

EXHIBIT 2

Fiscal and Monetary Policy as Percentile of Historical Range



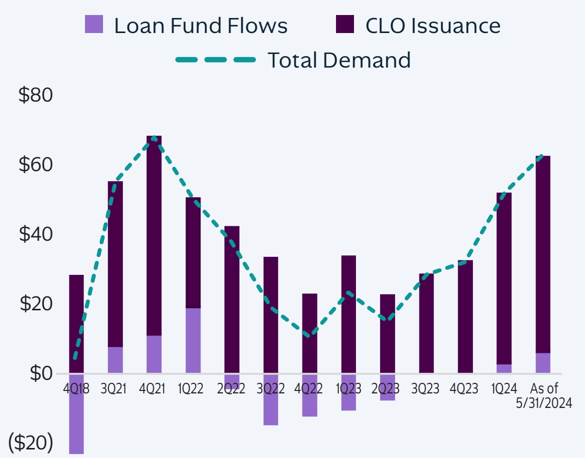
Data as of May 31, 2024; Monetary tightness measures the difference between real fed funds and potential GDP growth. Fiscal tightness measures the difference between the budget deficit and U.S. output gap as a % of GDP. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

We foresee continued demand for CLO investments and, despite CLO AAAs tightening considerably with new-issue BSL CLOs averaging ~140bps[13] for tier 1 managers, we could envisage further tightening upon confirmation of the Fed's timeline and a constructive economic backdrop. However, we still think CLO liabilities screen attractively relative to historical spread levels, specifically CLO AA/As relative to other asset classes providing high quality credit diversification in a higher for longer environment.

Within the broader leveraged loan market, elevated rates and the resurgence of CLO issuance serve as mighty tailwinds for the asset class. It is important to note that despite the record levels of gross CLO issuance year-to-date, net issuance is negative for the first time in CLO 2.0 history. In addition to positive sentiment and flows, the reopening of the broadly syndicated market has spurred an influx of sponsors and issuers to reprice and refinance existing debt as the public capital markets had not been readily accessible. As a result, the supply/demand imbalance persists, driving spreads to compress in both public and private credit (direct lending) deals. This trend would be alleviated by the return of M&A transactions in the market otherwise there could be further tightening.

EXHIBIT 3

Investor Demand Met with CLO Creation



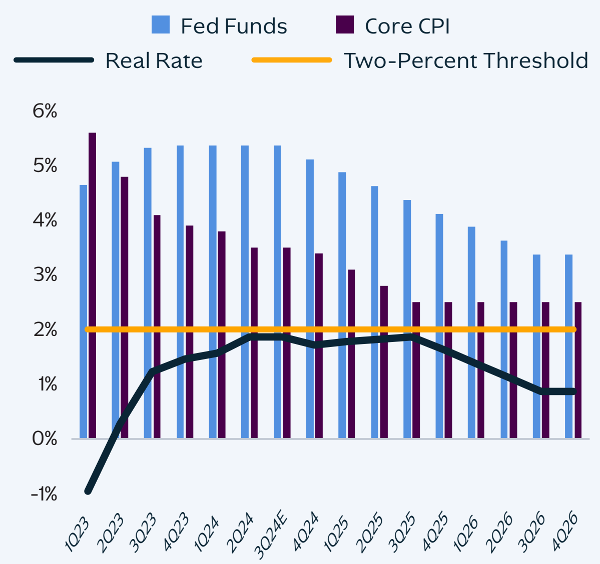
Source: PitchBook | LCD, Morningstar Direct Data and KKR Credit Analysis as of May 31, 2024.

Despite the record levels of gross CLO issuance year-to-date, net issuance is negative for the first time in CLO 2.0 history

At the June 12th Federal Open Market Committee ("FOMC") meeting, the committee unanimously decided to leave rates unchanged, maintaining the target range for the federal funds rate at 5.25%-5.50%, a two-decade high, in support of its goal to bring the inflation rate down towards a sustainable 2%. June's statement brought forth an acknowledgement that there has been "modest further progress",[14] albeit inflation remains "elevated". The CPI report released earlier that day offered some reassurance that progress toward the 2% inflation target has resumed as it finally showed important moderation in services inflation ex-shelter and marked the lowest month-over-month reading for Core CPI since August 2021.

EXHIBIT 4

KKR GMAA Base Case: Real Rates



Source: Bloomberg and KKR Global Macro & Asset Allocation analysis as of June 12, 2024.

The key takeaway from the June print is that 'super core' CPI, which is a key metric for the Fed, declined outright in May after running at a very heated +0.6% average monthly rate for the first four months of the year. Chairman Powell's remarks coupled with the new data have now shifted the KKR house view to revise our forecast to one cut in December. We maintain that markets are still likely too optimistic about near-term cuts, but we are on the cusp of modest easing. Consensus continues to expect two rate cuts this year (the first in September), even though payrolls remain strong and Chair Powell has endorsed a "careful" approach to easing. Importantly, Powell stated that labor and inflation are less out of balance, and acknowledged some of the stickiness in services we have been highlighting, "the question of whether it's sufficiently restrictive is going to be one we know over time".

Our colleague Henry McVey, Head of Global Macro & Asset Allocation and CIO of KKR's balance sheet, believes the data points are supportive for markets and a weaker dollar which can contribute to a gradual drift lower in 10-year yields to 4.25% by year-end '24 and 4% longer term. On a go-forward basis, our analysis at KKR suggests that rates are likely to settle at higher nominal levels than markets were "used to" prior to the pandemic.

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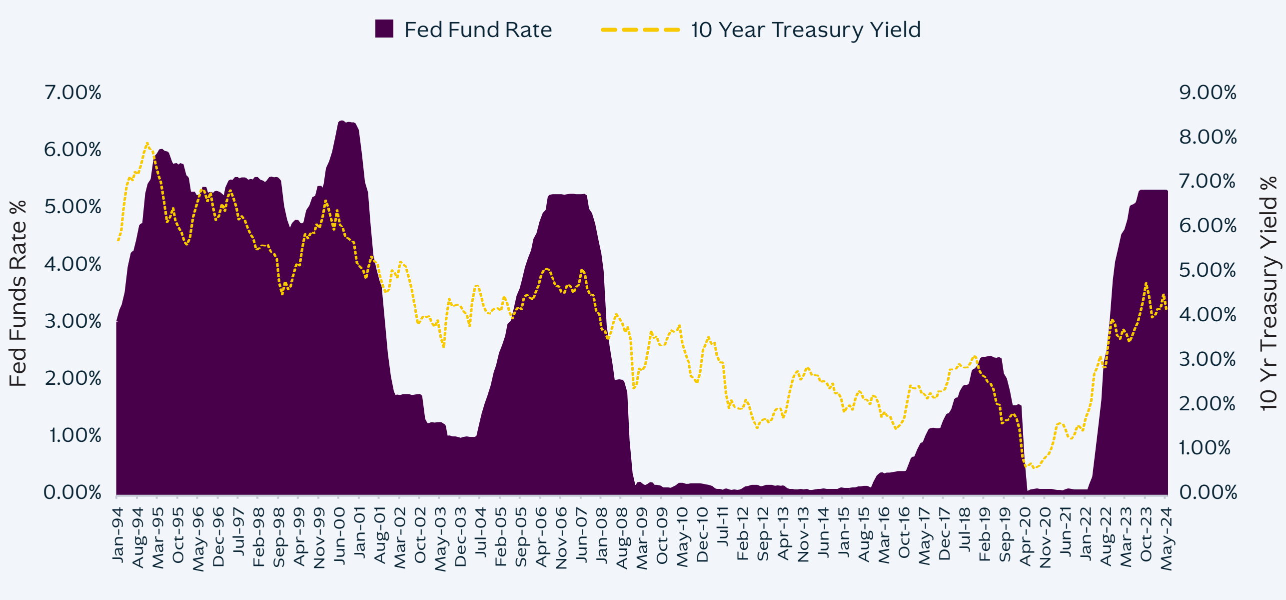
EXHIBIT 5

The Fed Funds Rate Reverts Back to '07 Levels



Source: Federal Reserve Bank of St. Louis Economic Data and KKR Credit Analysis as of May 31, 2024.

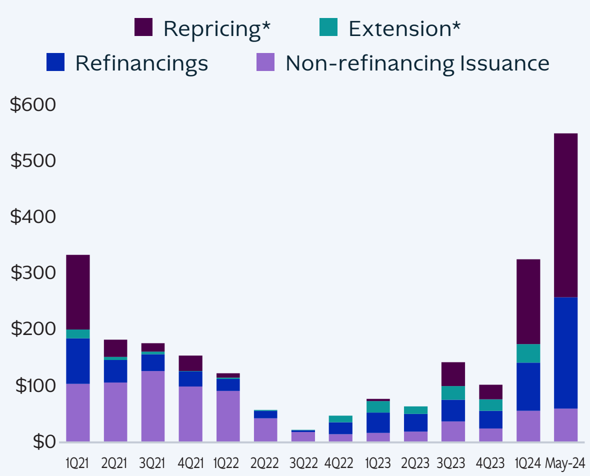
Peas & Carrots

Returning to our story, a young Forrest meets Jenny in the beginning of the film when she is the only one who will let him sit with her on the school bus. It is not long before the two become fast friends. (In fact, it is Jenny who first encourages Forrest to run — and discover his aptitude for it.) From that day on, Forrest believed the two complemented one another like "peas and carrots." Similarly, we believe the structural shift in the provision of global credit has enabled historically siloed parts of the market to work together, for example, asset managers partnering with banks on capital relief trades that provide benefits to both sides. We believe these complementary dynamics are contributing to diversification of risk and capital providers, which benefits investors and issuers alike.

It is important to remember that the first structural shift actually occurred post GFC and was followed more recently by the catalytic shock of last year's regional banking crisis. This latest shift created a massive opportunity for private non-bank lenders and its impacts continue to reverberate across the lending ecosystem. An on-going result of continued bank deleveraging has given rise to a broader opportunity set that matches investors' appetite for more risk-adjusted spread while issuers seek more certainty and tailored terms. As we noted earlier this year, investors now have more access than ever before to diversified pools of credit portfolios across the public space, across the private corporate space and across the Asset-Based Finance ("ABF") space. A decade ago, many investors could not build a diversified portfolio across multiple different asset types if they wanted to, especially at scale. This is why staying the course through the highs and lows matters. Investors can now build, and curate, diversified multi-asset portfolios and customize them to meet their needs. The ability to take advantage of the interplay between different asset classes supports thoughtful capital allocation and portfolio management decisions that generate optimal yield and position for relative value. That's the power of what is happening in this evolution of the market — those that embrace the "peas and carrots" together will be best positioned to perform.

EXHIBIT 6

Repricings + Refinancings Accounted for ~73% of U.S. Loan Volume in Q1



Source: JPMorgan Research, PitchBook | LCD and KKR Credit Analysis as of May 31, 2024. *Reflects repricings and extensions done via an amendment process only.

That's the power of what is happening in this evolution of the market — those that embrace the "peas and carrots" together will be best positioned to perform

As we have seen of late, the interplay between public and private credit has become more apparent as the relationship has evolved over the last several years. While private credit remains a popular option for many issuers, in this chapter public credit gets its groove back. Leveraged loan repricing volumes have been record hot, standing at $305[15] billion year-to-date ($112 billion alone in the month of May) — exceeding total full year volumes from 2018-2023. With little net new supply coming online, the supply/demand imbalance referenced earlier is however becoming more acute. This shines a spotlight on the need (and welcome comeback) for M&A, given its outsize contribution to keeping the public and private financing markets' heart beating.

While M&A activity in 2024 has trended positively year-over-year, that comparison comes from a very low starting point, with the first half of 2023 seeing the lowest activity on record since 2010. Year to date sponsor M&A volumes have reached $61.2 billion[16] across the U.S. and Europe, although they are still well below historical levels. The first quarter of 2024 in contrast saw 16 syndicated LBO loans, the highest since Q2 2022, with 20 year-to-date, nearly matching the 21 syndicated LBO loans for the entire of 2023.[17] Additionally, the ~$2 trillion of private equity dry powder globally continues to be an encouraging forward-looking data point as we feel increasingly confident that capital will be deployed once the delta between valuation expectations and reality closes.

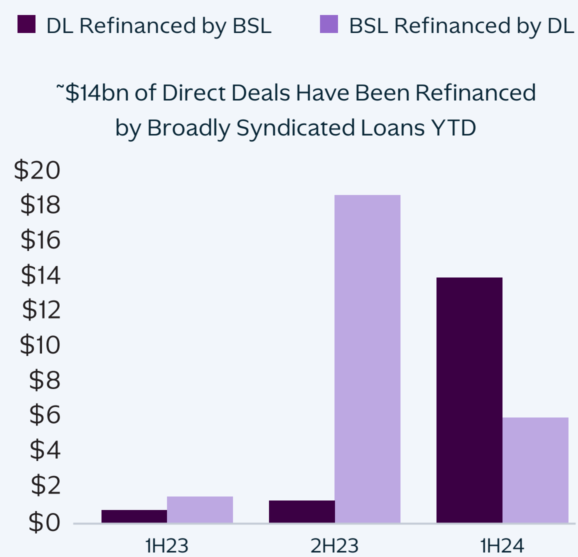
Both financing channels are trending in the right direction and are positive contributors to overall market health

When the capital markets were stalled — many were quick to assume the syndicated markets' demise. That thought never crossed our minds. In fact, last summer we took the opportunity to remind the market why private credit still needs public markets. As activity in the syndicated markets resumed, we witnessed the flip of the late '22 and 2023 trade. In fact, approximately $14 billion[18] of direct deals have been refinanced by broadly syndicated loans year to date. An example of this trend was demonstrated by our Private Equity and Capital Markets colleagues who executed one of the largest LBOs this year, the $5 billion financing of Cotiviti, which accounted for more than half of Q1 volume. The Cotiviti transaction encapsulates the market's shifting sands as the borrower bounced between private credit and the syndicated loan market for a solution — several times. Since 2020, the number of LBOs financed in the private credit market has grown steadily as more borrowers have utilized the channel, particularly in 2022-23, which accounted for ~50% of private credit volume in the last four years. In fact, from Q2 2022 to Q4 2023 over 100 loan-only issuers migrated to the private credit space due to market volatility and constrained capital markets.[19] This movement resulted in a contraction in the broadly syndicated loan market, but has now expanded with the modest uptick in M&A. Overall notional volume still favors the syndicated markets, but both financing channels are trending in the right direction and are positive contributors to overall market health.

Similar in its ethos, we intentionally aligned our Credit and Capital Markets businesses a decade ago because they are complementary. This enabled us to maximize our origination capabilities and foster a growing pipeline of diverse and high-quality investment opportunities across public, private, corporate, and asset-backed credit.

EXHIBIT 7

Ebb & Flow ~$14bn of Direct Deals Have Been Refinanced by Broadly Syndicated Loans Year-to-Date



Source: JPMorgan Research, Pitchbook | LCD, and KKR Credit Analysis as of May 31, 2024

The last few years clearly illustrated this benefit as we saw several strong incumbent KKR relationships transition from syndicated solutions to private financing and vice versa, as they opted to do business with those, they 'like and trust'. The ABF business unequivocally demonstrates complementary dynamics fueled by the structural shifts in the credit markets. Further, the on-going bank deleveraging and increased overhang of new regulation, i.e. Basel III Endgame, have created opportunities spanning the asset-backed spectrum: from illiquid to club deals to significant risk transfers ("SRTs"). SRTs are great examples of the peas and carrots dynamic: banks need to manage and optimize regulatory capital associated with their core lending activities (reduce RWA) while ABF investors look to identify high quality and consistent cashflows in non-corporate assets. By working together and complementing one another's needs, a trade is born. Our global ABF team has the specialized expertise to evaluate these kinds of opportunities and can identify the best relative value, positioning us as a go-to solutions partner for banks.

In great part, that is why we believe origination begets origination, just as scale increasingly begets scale. Being scaled is not about sheer size but rather it is about the collective capability set an aligned team can bring, the access to specialized resources, and the intangibles that come from our unconstrained connectivity. For example, we have directly experienced the benefits of scaled origination from our strategic partnership with Global Atlantic. This symbiotic relationship is evident as we fuel and feed one another's growth, unlocking value and opportunity for all parties. The increased origination and scale that it brings along with the ability to speak up and down the capital structure unlocks incremental value and opportunity for all parties.

We believe origination begets origination

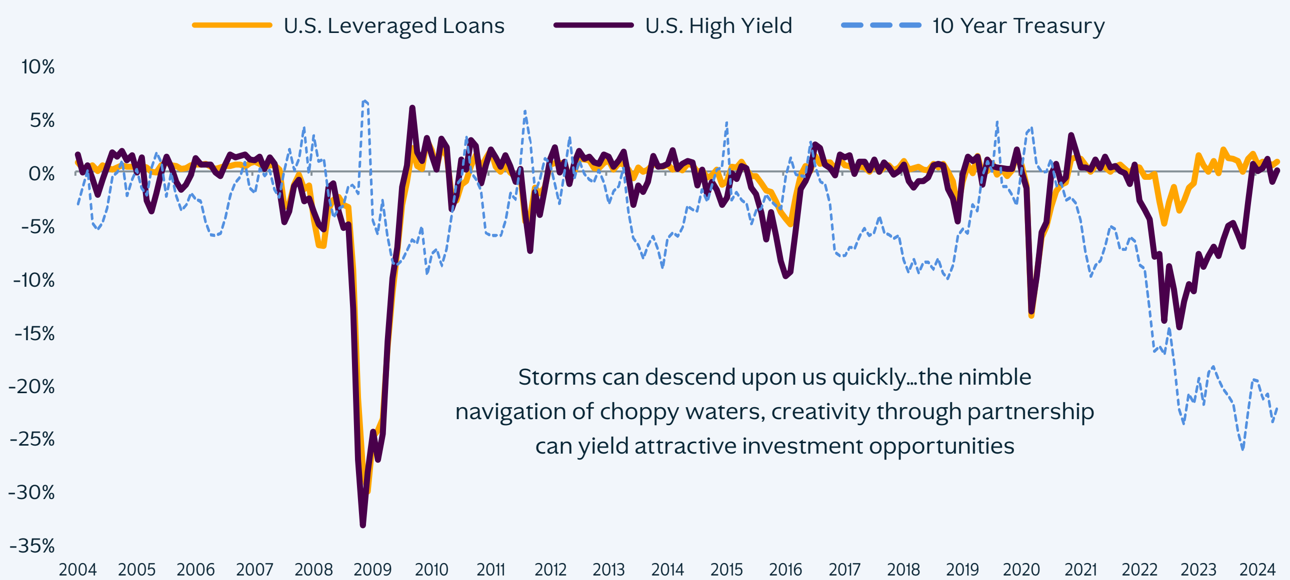
Bubba-Gump

This market backdrop has also been ripe for creative capital solutions spanning all shapes and sizes. We learned the value of perseverance from Forrest, but it is Benjamin “Bubba” Buford Blue who shows us the value partnership can create. Bubba knew everything there was to know about shrimping - preparing it, cooking it, seasoning it — barbeque, boil, broil, bake, sauté. This friendship directly inspires the business Forrest and Lieutenant Dan will build in Bubba’s honor, and their success grows out of that partnership. As we have seen over the years, storms can descend upon us quickly, and as many ways as there are to prepare shrimp, the nimble navigation of choppy waters, creativity through partnership and astute risk management is always required to prosper. The beauty of this story is that we can see the parallels between running a shrimping business, teamwork on the front lines, and originating compelling credit risk. The common value ‘unlock’ turns out to be expertise, experience and the ability to cook up one big shrimp gumbo. Across the Credit & Markets platform, we find we are often selected for our partnership mentality and ability to deliver all of KKR’s metaphorical shrimping capabilities to help companies drive and create value.

As referenced previously, the continued structural shift of global credit markets has warranted a need for more opportunistic capital solutions. The lending market has also shifted to be more agile with capital solutions more oriented towards engineering the right design for the borrower and capital structure versus a one-size-fits-all approach. This reinforces the value-add of partnership, breadth of platform and the ability to creatively problem solve and customize solutions across the capital structure. The LBO financing of Cotiviti would not have been possible without the expertise of our capital markets franchise, which had assessed both direct and syndicated financing routes and demonstrates the invaluable power of having a deep and diversified toolkit in an evolving market environment.

EXHIBIT 8

Historical Drawdowns Over the Past 20 Years



Source: S&P LSTA LLI, ICE BofAML, Bloomberg and KKR Credit Analysis as of May 31, 2024

For many years we have highlighted the technical constraints that can arise from passively managed rules-based models and equity linked vehicles, such as Mutual Funds, ETFs and CLOs. Their respective impact on demand or outflows in the public markets are abundantly apparent during drawdowns or mark-to-market volatility. But what we believe is not highlighted or talked about enough are the similar structural constraints that can impact the private credit markets. For example, BDCs are the largest and most popular vehicle and wrapper for raising capital for direct lending, but leverage providers prefer to finance senior secured loan exposure. As most direct lending portfolios consist of senior secured loans, that seems non-controversial. However, what it implies is an inability to craft multi-asset portfolios or to be customizable to meet an issuers' more-specific needs. In the same vein, structured equity is not considered debt — despite its 'debt-like' features — resulting in ineligibility for financing. This goes to say that while specificity of function can be warranted, it can also narrow the opportunity set.

We have discussed the origination benefits of working with a global scaled player with breadth of platform. In addition, we believe our model is differentiated and enables us to be dynamic, multi-asset investors who can curate the shrimp menu at a moment's notice. We are not constrained but rather have overarching and complementary strategies that are managed with aligned incentives to yield the best results for both our investors and our partners. While the traditional fixed income and credit asset managers have attempted to diversify into alternatives, not all possess the expertise or scope of toolkit to effectively do so.

In addition, niche, one-offering platforms that are narrowly focused often cannot see beyond their specific market segments. While such platforms are important to the broader ecosystem, their one-core-competency approach coupled with investment constraints and lack of aligned incentives frequently do not support a growing constituency of multi-asset credit investors. In fact, we expect to see more M&A activity amongst these investment managers going forward. The ability to have both peas and carrots in a continuously evolving market is manager alpha.

As another example, today structured, partnership-oriented capital is in very high demand. This trend has been fueled by several themes including, but not limited to the ability to help bridge valuation gaps for private businesses, facilitating a return of capital, owners that are looking for a strategic partner to help accelerate growth and value creation without ceding control, and broader capital structure optimization in this higher-for-longer rate environment. The departure from ZIRP has made many financing sources more expensive, increasing the value of multiple offerings such as non-contractual forms of return. The ability to creatively structure a diverse menu of securities that are well aligned with the equity, while also being downside protected, is unique and valuable. In other words, many are seeking new ways to obtain additional leverage for acquisitions or strategic investments while also minimizing cash-pay debt service. This has contributed to more interest around hybrid financings such as preferred equity investments or HoldCo financings. Partnership, extensive expertise, and like and trust is critical to this recipe.

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Keep Your Eye on the Ball

Market swings can be reminiscent of the rhythm of ping-pong, and to play well you must keep your eye on the ball. Forrest not only remains dedicated to improving his game but also remains extremely focused. Non-obvious and volatile markets are our version of ping-pong. As we have said before, there is no doubt that the increased velocity of volatility can result in whiplash for investors, and as vicious as it can be on the way down, history has taught us that the snapbacks can be equally fast and furious. As this volatility has become a more frequent occurrence, it has underscored the importance for using a dynamic and nimble multi-asset approach.

Forrest's unwavering persistence and determination is at the forefront of our minds. Looking at 2023, and first half of 2024, our team has demonstrated the value-add that discipline can produce for portfolios. As the market rallied and relative value became less obvious, we continued to be convicted in our positioning — across both security selection and portfolio construction. One method we employ is maintaining a multi-asset and opportunistic approach where appropriate, expressing several asset allocation changes to reflect our views across the public markets and identifying compelling risk, which is now increasingly masked by the blurry lines of dispersion. The swift ability to keep up with the market rhythm and play a good game of ping-pong can contribute to positive returns in a portfolio.

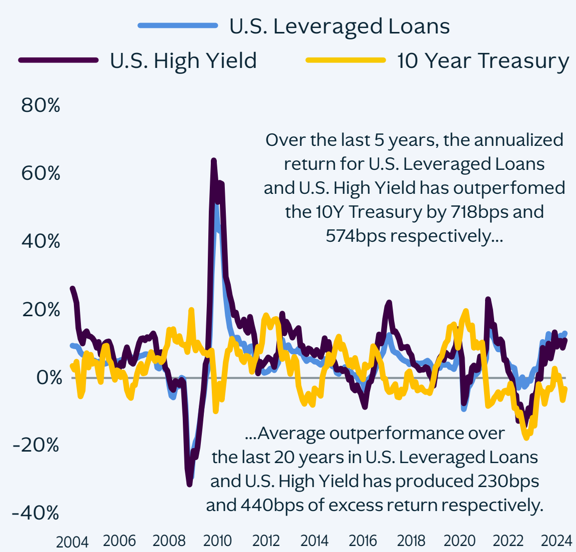
In the back half of 2023, we detailed thoughts on increasing exposure to fixed rate, particularly in Europe, where there was, we felt, an opportunity to rotate into higher quality credit and access wider spread. We also expressed conviction to structured credit by supplementing leveraged loan allocations with CLO debt that offered superior carry on a risk-adjusted basis and additional diversification in portfolios. These themes have played out nicely. Given the increased dispersion, there are now areas of the market that look more attractive to us than they did in prior quarters absent dispersion. As such, we think of this chapter as the carry over convexity mind-set as we continue to assess the relative value between rating buckets, asset classes and geographies. Now is the time to keep it simple — you are getting compensated to be prudent and be patient as the market bullseye becomes brighter.

Today, the biggest question on investors' minds is: how much tighter can the market go? Yes, we have seen spread compression on the heels of increased demand, proactivity in addressing near-term maturities and technical supply/demand factors despite the $6.4 trillion[20] still parked in money market funds. At the same time, we also think that the rhetoric and singular focus on spread compression is overdone; investors should be assessing absolute yield driving home the non-obvious market we are living in. For example, it is not apparent on the surface that there is increased asset-level dispersion evident by 7% of the CCC high yield market averaging spread of 800-1,000bps while 34% are trading sub 400bps. Triple C loans have also recently sold off with one contributing factor being the rising number of CLO resets amidst tightening triple-A levels.

Today, the biggest question on investors' minds is: how much tighter can the market go?

EXHIBIT 9

Last 20 Years Annual Rolling Returns: It Pays to be a Credit Investor



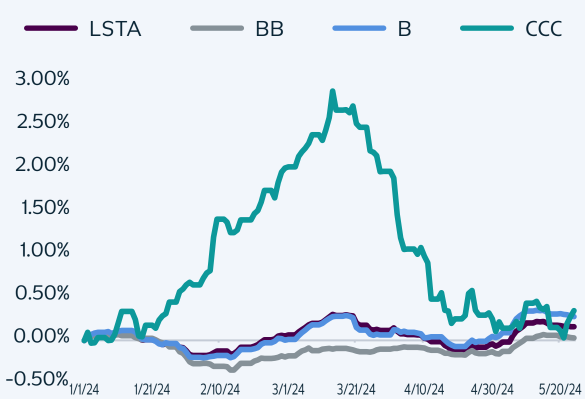
Source: S&P LSTA LLI, ICE BofAML, Bloomberg and KKR Credit Analysis as of May 31, 2024

The resets are prompting a de-risking of the CLO CCC basket to bring exposures back within or under the 7.5% portfolio limit. This is another example of a technical "rules based" constraint that is now contributing to the non-obvious and compelling risk/reward for the opportunistic credit investor. As such, we are leaning into specific CCC loan assets. This is why we believe you must keep your eye on the ball in this market. We saw the laser focus Forrest had as he perfected his game; investing in a non-obvious market is riddled with ebullient signs on the outside, but can contain potential uncorrelated risk and dispersion on the inside.

After the most recent rate move, we believe U.S. high yield's yield-to-worst (YTW) looks more compelling as the per unit of duration is at the 19th percentile versus 41st on an absolute basis, which is close to pandemic levels. If you believe that rates have peaked, then yields presumably do not run up further and thus high yield appears closer to fair value relative to leveraged loans. We observed this through our asset allocation process while evaluating portfolio sector exposure. For example, we believe leisure has started to potentially peak as the consumer increasingly feels more cost pressures, particularly at the lower end.

EXHIBIT 10

CCC Leveraged Loans Have Sold Off Over the Last 2 Months Creating Pockets of Compelling Rel-Val



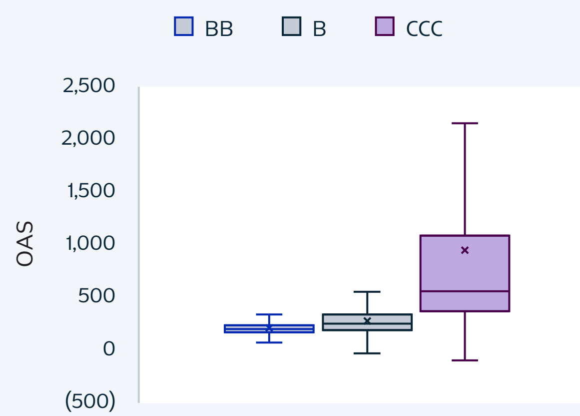
Source: Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024.

We are also more cautious on healthcare and consumer goods where there has been accruing pressure. This ties into the concept of a rolling-recession where 'the-have-and-have-nots' of the market experience their moments at different points in the macroeconomic cycle. Additionally, there has also been a growing lack of incentive to take risk in specific sectors, such as healthcare, telecom, or media. These sectors have been experiencing more signs of secular decline due to margin and/or wage compression. They are also home to the largest, more storied capital structures in the high yield index, such as Bausch or Altice. This fact pattern is important to note as it exacerbates the sectoral dispersion growing in the market given the robust flight to quality. There are areas of the market that are priced to perfection ushering in the non-obvious market.

Growing lack of incentive to take risk exacerbates sectoral dispersion

EXHIBIT 11

High Yield Market "Dispersion" Driven by Storied CCCs



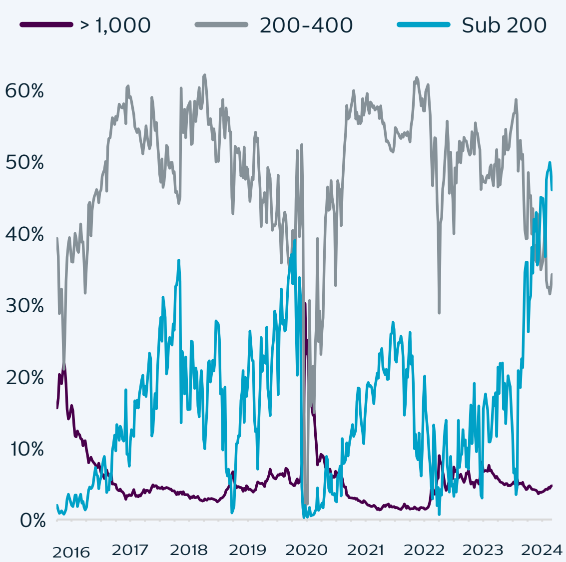
Source: Factset, ICE BofAML and KKR Credit Analysis as of May 31, 2024.

As a result of presumed peak rate levels, we have been opportunistically adding duration to achieve closer to market neutral duration versus skewing shorter dated. Stylistically, we have always been partial to shorter dated paper and keeping our public credit portfolios on the shorter end of the curve. A big part of manager alpha, particularly in managing multi-asset portfolios, is having expertise in both public and private credit markets. A public credit knowledge base and visibility can often create reverse-inquiry ideas for near term take-out candidates, which can be great private credit opportunities. The reverse can also be true — near term maturities in private credit portfolios can oscillate into public credit. This dynamic demonstrates the value of a multi-disciplined platform and the ability to toggle across (and within) both markets to capture best relative value for investors while contributing to an origination pipeline.

While we are on the topic, we do believe opportunistically extending duration, without sacrificing yield, is appropriate at this time. For example, curating a basket of high yield new issue that has been pricing attractively around mid-to-high single digits can contribute to consistent income generation and help to close the duration gap while keeping yield constant. We believe there is incremental return to be had if there is an ability to pivot into short duration, such as banks loans, when one is more cautious and uncertain on the Fed's next move, or pivot back into an asset with duration when the market has overshot its conviction on monetary policy. This can be achieved by creating exposure to various tenors that add duration on a blended basis as the curve remains inverted. We note, the yield curve has never steepened out of an inversion, leading us to believe Fed Funds will most likely cap yields at 5.5% (i.e. we are not sure we are going back to October 2023 levels).

EXHIBIT 12

Perception vs. Reality: ~50% High Yield Market Trading Sub-200bps Spread

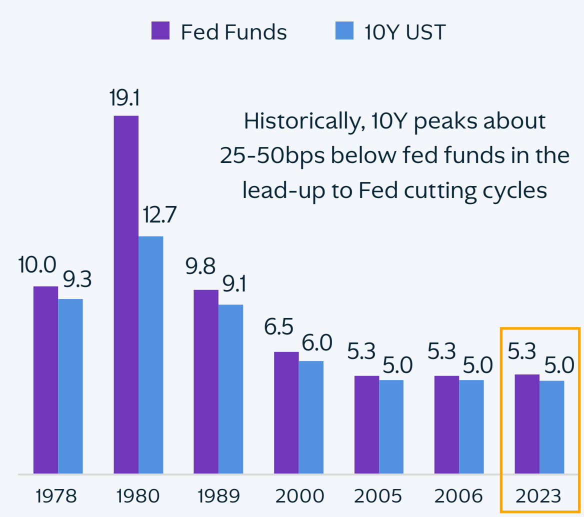


Source: Factset, ICE BofAML and KKR Credit Analysis as of May 31, 2024

Investors should be assessing absolute yield

EXHIBIT 13

How Close Did 10Y Yields Get to Fed Funds During Prior Tightening Cycles With Inverted Yield Curves?



Source: Bloomberg and KKR GMAA Analysis as of December 31, 2023.

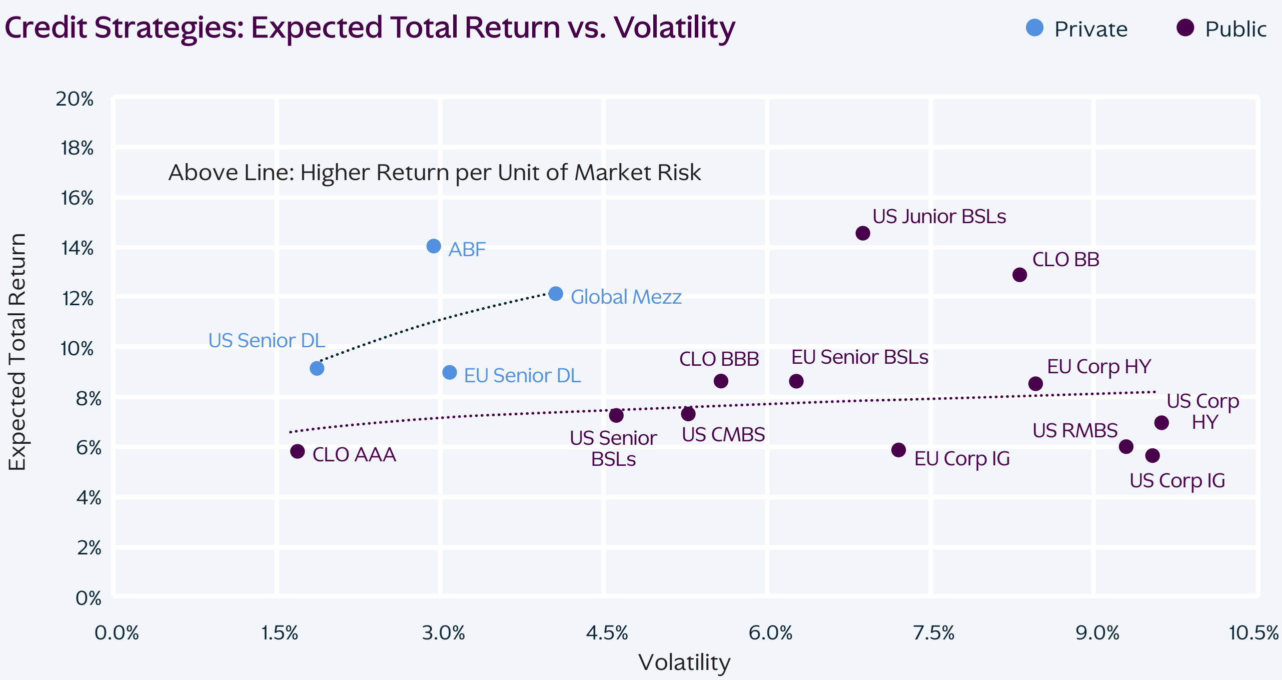
As previewed above, the multi-asset approach is not just limited to public credit markets. In fact, there has been increasing demand and interest to construct customized multi-asset portfolios that allocate across global corporate private credit, asset-based finance, junior debt, CLO equity, Asia credit and capital solutions. These portfolios can be designed to either enhance yield or total return by specifying target allocations to multiple asset classes spanning the risk spectrum in accordance with the desired risk tolerance. The exposure to various credit strategies also acts as a diversifier for the portfolio which is extremely valuable in a non-obvious market. Compelling relative value has become less apparent in this market, and many believe there are limited pockets of opportunity. This is another reason why a multi-asset portfolio is an efficient approach to managing risk assets during a non-obvious market: there is full visibility of the global credit landscape to originate investments with less operational burden to individually manage several strategy sleeves, sometimes amongst multiple managers.

The multi-asset portfolio approach also demonstrates the value of comprehensive global platform that is in the market all day, every day which is a form of "around the clock" risk management. There are inherent synergies that come from this type of platform, which further contribute to the desired "all-weather" portfolios, while simultaneously delivering active portfolio management, market color, risk monitoring and reporting. All of which supports economies of scale for clients.

A multi-asset portfolio is an efficient approach to managing risk assets during a non-obvious market

EXHIBIT 14

Credit Strategies: Expected Total Return vs. Volatility

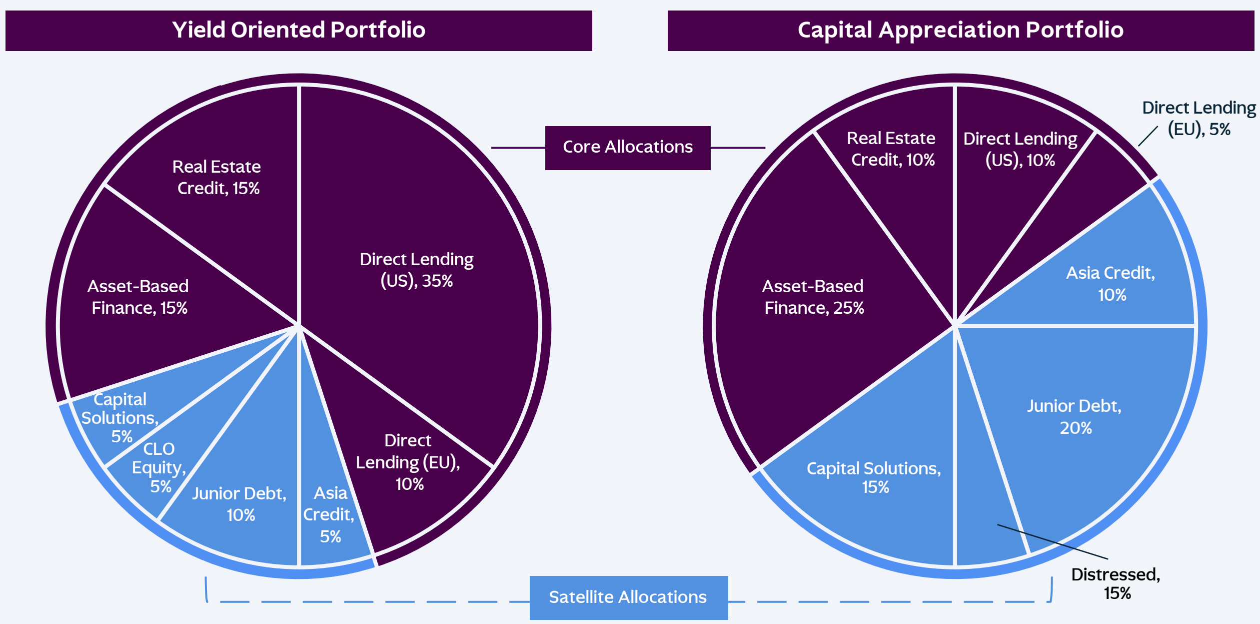


Source: KKR GMAA analysis and KKR Credit Analysis as of April 2024.

As we have previously noted, the current macroeconomic environment is playing an outsized role in investors' asset allocation decisions and active portfolio management — hence, keeping your eye on the ball. Institutional investors are increasingly prioritizing 'all-weather portfolios' as recently noted in KKR's *No Turning Back, a 2024 survey of Insurance CIOs*. As discussed earlier, all the patterns, interplays and complementary moves in the most recent investing environment have created a mentality shift that we believe leverages both public (liquid) and private (illiquid) allocations to build a more resilient portfolio. The prolonged period of market volatility that we saw in response to the Fed's rate hikes over the past two years underscored the value of capturing relative value through dynamic capital and asset allocation, especially for long-term investors. Markets move in days, weeks and months, while many investors are making static decisions based on quarters and years — leaving opportunities on the table by limiting themselves to more traditional fixed income strategies.

EXHIBIT 15

Indicative Multi-Asset Private Credit Portfolio



Modeled Total Return (Gross)	12.8%
Modeled Total Yield (Gross)	9.3%

Modeled Total Return (Gross)	14.2%
Modeled Total Yield (Gross)	7.4%

For Discussion Purposes Only. The data presented herein is based upon the assumptions detailed on Footnotes page. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used have been stated or fully considered. Actual performance may differ substantially from the model performance presented. Changes in the assumptions may have a material impact on the model returns presented. The data presented above is based on information obtained from sources believed by KKR to be reliable; however, KKR does not guarantee or give any warranty as to the accuracy, adequacy, timeliness or completeness of such information. Source: KKR Global Macro & Asset Allocation (GMAA) analysis, Q1 2024. Please see Footnotes page for further information regarding Target or Modeled Returns. Target allocations are subject to change, and there is no assurance that the target allocations will be achieved. Actual allocations may be significantly different than those shown here.

Because we allocate more opportunistically across asset classes and tend to be more diversified, we have seen that a multi-asset credit strategy or portfolio can help investors better position to capture relative value, especially in fast-moving markets. To execute this effectively, it is important to marry fundamental bottoms-up investing with top-down macro and asset allocation views, which is why KKR's investment and asset allocation research teams work hand in hand to assess our positioning relative to the markets every day.

We have seen that a multi-asset credit strategy or portfolio can help investors better position to capture relative value

Carl Contemplating his Chocolate Portfolio

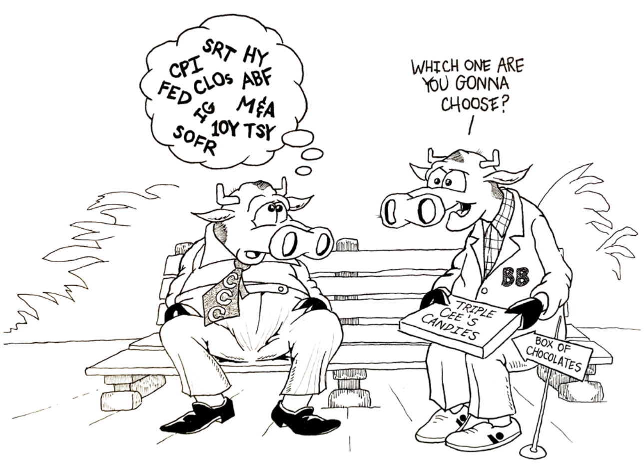


Illustration by: Jerry Capria, KKR Credit.

And that's all I have to say about that...

In every great story, life lesson or market chapter there is a break free "a-ha" moment. Forrest's leg braces break free as he learns to really run - and run - and run. Investing and active risk management is a marathon, not a sprint. It requires moving with the market through intense structural shifts and proactively leaning into the resulting global asset class symbiosis.

Our Credit & Markets model is predicated on running our public or private corporate and asset-backed businesses with aligned, side-by-side objectives, allowing us to capitalize on the massive synergies that stem from our own intellectual property and origination footprint. What strikes me as most exciting today is that, given our positioning as a scaled and global platform, we truly are able to see the market from all angles. This is even more exciting when you think about our multi-asset capabilities and affinity to customize solutions in a market environment compounded with supporting technicals for credit.

It should go without saying, the forward path will continue to be non-obvious in several ways: increased asset dispersion, open macroeconomic questions, increasing geopolitical tensions and a looming U.S. presidential election. But that's why we have built a weatherproof platform and team — to always be prepared.

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

Christopher A. Sheldon

Footnotes

1. KKR Global Macro & Asset Allocation Analysis, "No Turning Back: KKR 2024 Insurance Survey"
2. S&P LSTA and KKR Credit Analysis as of May 31, 2024
3. S&P LSTA and KKR Credit Analysis as of May 31, 2024
4. ICE BofAML and KKR Credit Analysis as of May 31, 2024
5. ICE BofAML and KKR Credit Analysis as of May 31, 2024
6. JPMorgan Research, Lipper LMI and KKR Credit Analysis as of May 31, 2024
7. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
8. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
9. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
10. Refinitiv Lipper and KKR Credit Analysis as of June 5, 2024
11. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
12. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
13. KKR Credit Analysis as of May 2024
14. https://www.federalreserve.gov/monetarypolicy/files/monetary20240612a1.pdf
15. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024. **For Discussion Purposes Only.** The below metrics are not reflective of KKR strategies, funds, or investments, which may have gross returns, net returns, yields, and LTVs that differ from those shown. "CMBS" here to represent Single-Asset Single-Borrower (SASB) CMBS strategies. "Opportunistic CRE" here to represent private real estate loans.

Assumptions	Target Return	Target Cash Yield	Typical LTV
US Direct Lending	11.00%	10.00%	50.00%
EU Direct Lending	10.50%	9.50%	50.00%
Junior Debt	15.00%	6.00%	40-70%
Capital Solutions	16.00%	Varies	0-65%
Asia Credit	13.00%	9.50%	0-70%
CLO Equity	15.00%	15.00%	90-100%
Distressed	16.00%	Varies	Varies
ABF	15.00%	8.00%	Varies
CMBS	7.00%	6.50%	55-65%
Opportunistic CRE	13.50%	12.00%	0-60%

16. Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
17. JPMorgan Research and KKR Credit Analysis as of May 31, 2024
18. JPMorgan Research, Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
19. JPMorgan Research, Pitchbook | LCD and KKR Credit Analysis as of May 31, 2024
20. Federal Reserve Bank of St. Louis Economic Data and KKR Credit Analysis as of May 31, 2024

Disclaimer

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