KKR

LEVERAGED CREDIT

Benefits of Multi-Asset Credit

Why Choose One When You Can Have Them All?

For Professional Investors Only

Benefits of Multi-Asset Credit

Why Choose One When You Can Have Them All?

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INTRODUCTION

Investors are increasingly looking for 'all-weather' flexible strategies that can offer both resilience and growth across market cycles. The current macroeconomic environment continues to play an outsized role in investors' asset allocation decisions. Over the past 36 months, global markets have experienced volatility in response to the Fed's tightening monetary policy, evolving geopolitical issues, and broader macroeconomic factors, underscoring the benefits of incorporating a Multi-Asset Credit (MAC) strategy to build a more resilient portfolio.

We believe we are now in a 'non-obvious' market where investors need to look beneath the surface and across asset classes to identify compelling relative value. The market's 'higher resting heart rate' for rates and inflation highlights the importance of dynamic capital and asset allocation, especially for long-term investors. MAC also provides a diversified risk-reward model with consistent income and the potential for principal appreciation, making it an attractive option for investors looking to maximize returns while managing volatility.

In this paper, we will discuss what MAC is, its benefits, and why we believe KKR's approach to MAC stands out in today's non-obvious market.

What is Multi-Asset Credit (MAC)?

MAC is an investment and asset allocation strategy that aims to optimize and manage risk dynamically by diversifying exposure across credit assets classes globally. A MAC portfolio encompasses a range of credit instruments across the risk spectrum, including high-yield, convertible bonds, leveraged loans, structured credit, and more.

Benefits of MAC Strategy

- **Flexibility:** MAC portfolios are designed to adapt to changing market conditions by flexibly shifting allocations among various asset classes and geographies. The nimble approach enables portfolio managers to capitalize on emerging opportunities, often stemming from volatility or fast-paced catalysts while effectively mitigating risks, such as rate volatility. For example, during periods of rising interest rates, the portfolio can be adjusted to include more floating-rate instruments to benefit from higher yields. Investing in different jurisdictions as part of a MAC strategy also provides the flexibility to capitalize on diverse economic conditions and regulatory environments, enhancing overall portfolio resilience and return potential.
- **Diversification:** By investing in a range of global credit assets, MAC strategies reduce exposure to any single asset class, issuer, or country. The diversification of the portfolio can mitigate risk and help achieve stable and consistent performance over time. Different credit assets with different characteristics, such as bank loans vs. high yield, often react differently to economic and market conditions, which can contribute balance to the overall risk-return profile of the portfolio. A MAC portfolio can expand the investible universe of credit assets and positions to allow the manager to take advantage of more opportunities as they arise. We believe the blend of different asset classes coupled with strong credit selection can provide a better risk-adjusted return profile compared to traditional fixed income products. By carefully constructing a MAC portfolio, investors can achieve higher returns without proportionately increasing the level of risk. In other words, the portfolio construction and highly curated asset allocation can help dampen correlation effects.
- **Ease of Access:**[1] Commingled MAC products allow investors with smaller ticket sizes to still access the capability of strong managers. This inclusivity allows even smaller investors to participate in sophisticated investment strategies that were previously only available to larger institutional investors. Just a decade ago, many investors could not build a diversified portfolio across multiple different asset types if they wanted to, especially at scale.
- **Liquidity:** MAC represents a deliberate approach to accessing credit risk with ample liquidity without overly reaching for risk. A MAC product that is exclusively comprised of 100% liquid asset options enhances this profile and allows portfolio managers to be nimble and address relative value opportunities at a moment's notice. It also provides easier access to funds when needed for redemption requests or rebalancing portfolios.
- **Operational Efficiency:** MAC provides operational efficiency for limited partners (LPs) by consolidating various asset class exposures into one access point. The single access point streamlines the investment due diligence process across multiple strategies accelerating readiness to market. The MAC approach also reduces the need for LPs to engage with multiple managers for portfolio updates, reporting and administrative items.

1. Note: Strategy may be accessed via a commingled fund which provide ease of access and/or diversified sub-portfolios.

Growth of the MAC Product Opportunity Set

The provision and globalization of credit is a key driver of the expanding MAC opportunity set, highlighting the significant potential for growth and the importance of having exposure to this strategy. Diversifying across global markets is a key component to MAC because it allows investors to access higher yields and various diversification benefits. We believe several factors contribute to this expanding opportunity set:

Sustained Opportunities for Credit Markets:

The credit markets are supported by persistent macroeconomic conditions, including elevated interest rates, uncertain economic growth, lower default rates, and strong corporate balance sheets.

Structural Shift in the Market:

There has been a noticeable structural shift toward credit in the financial markets. Investors are increasingly seeking alternatives to traditional fixed income investments due to a prolonged period of low interest rates and the need for higher yields.

Notably, many investors experienced a rude awakening when a world of low rates rapidly became one of elevated rates, catalyzing realized losses in many portfolios. This shift is expanding the universe of credit products and creating new opportunities for MAC strategies to capture value across different credit segments. We believe the ability to take advantage of the interplay among different asset classes supports thoughtful capital allocation and portfolio management decisions that generate optimal yield and position for relative value.

Despite the increase in the number of MAC strategies over the past decade, not all approaches are equal. In our experience, a MAC strategy with the following characteristics is most appropriate for today's market environment:

- **A focus on portfolio construction and asset allocation**
- **Scaled and experienced manager with a track record**
- **Deep fundamental credit selection with single-strategy management**
- **Global and collaborative approach**

Note: Unless indicated, the above reflects the current market views, opinions and expectations of KKR based on its historic experience and other analysis. Historic market trends are not reliable indicators of actual future market behavior or future performance which may differ materially, and are not to be relied upon as such.

The KKR MAC Advantage: A Competitive Perspective on Global Markets

For 48 years our culture has been built upon partnership, collaboration, and trust. These pillars allow us to bring the best of KKR together, customize solutions and package them to address client needs and expectations, knowing that investing is not a one-size-fits-all exercise. Markets move in days, weeks and months, and many investors are making static decisions based on quarters and years and leaving opportunities on the table by limiting themselves to more traditional fixed income strategies. Because we strive to allocate opportunistically across asset classes and tend to be more diversified, we have seen that a MAC strategy can help investors better position to capture relative value, especially in fast-moving markets.

The breadth and connectivity across our global platform provides us with the subject matter expertise needed to underwrite companies in different sectors, industries, and macroeconomic environments. Our portfolio managers work with a dedicated asset allocation research team that draws insights from across all KKR asset classes globally, and performs quantitative research on portfolio construction and asset allocation. This integrated approach ensures that investment decisions are informed by comprehensive research, providing a robust foundation for portfolio management. We believe it is important to marry a fundamental bottom-up investing approach with top-down macro and asset allocation. There are inherent synergies that come from this global connectivity, which further contribute to the desired ‘all-weather’ portfolio. This is why KKR’s investment and asset allocation research teams work hand in hand to assess portfolio positioning relative to the markets every day.

Note: Unless indicated, the above reflects the current market views, opinions and expectations of KKR based on its historic experience and other analysis. Historic market trends are not reliable indicators of actual future market behavior or future performance which may differ materially, and are not to be relied upon as such.

Key Characteristics of KKR MAC

Dynamic & Agile Asset Allocation:

KKR's dynamic asset allocation model allows the portfolio manager to quickly identify relative value and reposition the book accordingly. This agility is crucial during mark-to-market volatility, enabling the portfolio to adapt and reflect optimal positioning relative to the market. This is one of the reasons private credit strategies are not included in our Leveraged Credit MAC. Given diversification is essential, offering various exposures and themes in the credit markets further enables our team to be tactical throughout the asset allocation process. The efficient frontier also helps in identifying the right combination of assets that minimizes overall portfolio risk while maximizing returns. KKR's standing framework facilitates consistent benchmarking of performance while also assessing overall portfolio positioning and targets.

Deep Fundamental Credit Selection:

Capital preservation and durability of cash flow are the north star of credit investing. Fundamental credit metrics provide a deep picture of an issuer's financial health, i.e. free cash flow profile and debt-to-equity ratios, enabling us to make informed investment decisions and ensure consistent long-term value for our clients. Coupled with fundamental credit analysis, security selection provides a core foundation to the model. The investment team is intentionally structured to cover sectors versus asset classes, helping them to see the market broadly and persistently assess relative value across capital structures, sectors, and regions. This allows the team to select not only the right company but also the right asset type within that company, optimizing relative value.

Global One-Firm Culture:

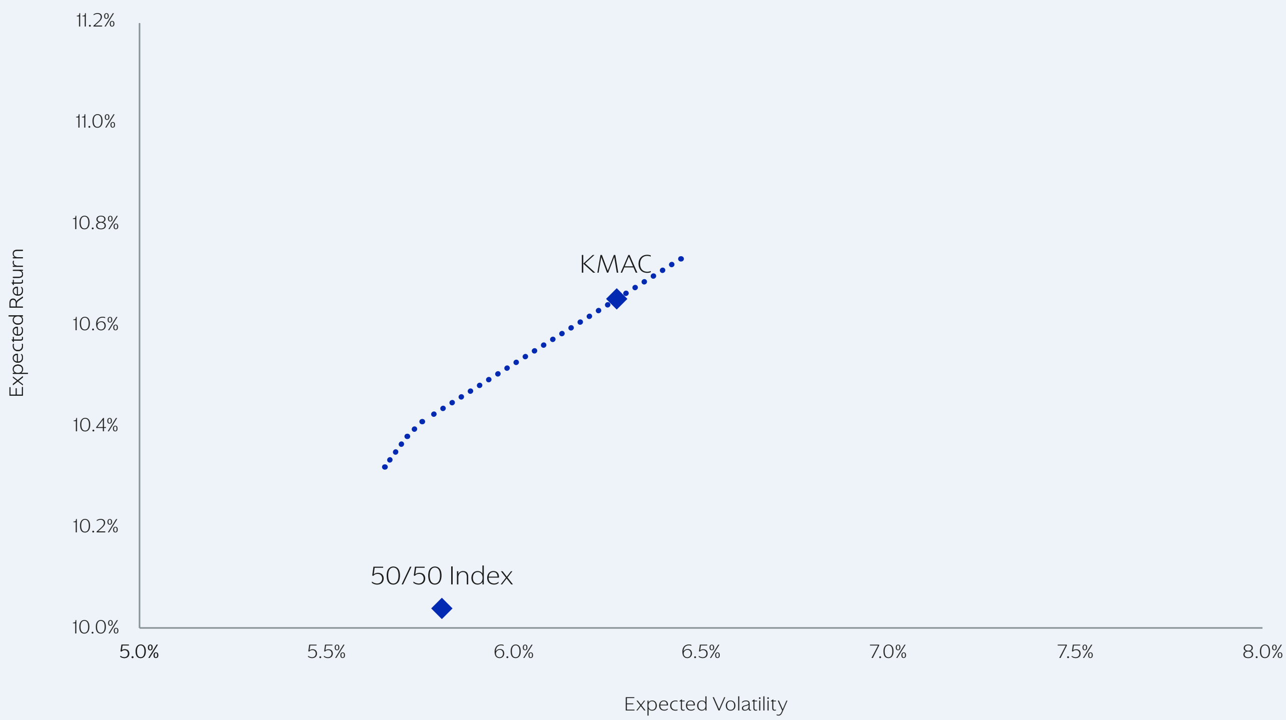
The firm's integrated platform and 'One-Firm' culture fosters true collaboration across investment strategies, business functions and geographies. This connectivity fuels our creativity, and our extensive network enables us to tap into local expertise and market knowledge 24/7. Our collaborative approach propels teams to leverage perspectives and opportunities across various asset classes, providing a holistic view and alignment with KKR's house views, which we believe enhances our investment process.

Investment Track Record and Expertise

KKR's flagship Leveraged Credit composites[2] across single and multi-asset strategies have been top quartile and top fifth percentile, respectively, over the last 15-plus years. The genesis of KKR's MAC was our desire to lean into our proven and consistent track records while bringing all our expertise into one solution: credit selection, fundamental bottom-up underwriting, and portfolio management — all of which is complemented by top-down asset allocation and portfolio construction.

Specifically, KKR's MAC does not rely on elevated trading with high portfolio turnover, but rather on deep underwriting based on a long-term thesis for selection in conjunction with careful attention to portfolio diversification. Our dedicated asset allocation team has had a direct impact on our results and remains critical to our process. Our team employs a disciplined, scaled process that leverages KKR's efficient frontier model, relative value framework, and other quantitative research to inform our current thinking on portfolio construction.

EXHIBIT 1 | **Illustrative Returns on the Efficient Frontier**



Sources: ICE BofAML, Morningstar LSTA, JPMorgan Research, KKR Portfolio Construction & Asset Allocation Analysis as of October 2023

2. Note: KKR Leveraged Credit flagship strategies include Multi-Asset and Bank Loans. High Yield is top quartile over a seven-year period.

Dynamic Asset Allocation is the Backbone of Our Framework and Leads to Results

Using our asset allocation model, we adapt portfolios based on market movements and our expectation of how the market will perform based on our research. By integrating qualitative and quantitative inputs, our asset allocation framework assesses risk/reward in each asset class, considering relative value indicators and in-depth research tailored to the specific moment.

We employ a distinct and independent research process for asset allocation, which hinges upon continuous monitoring of asset class behaviors, metrics, and characteristics to understand correlations and deviations. For instance, we analyze asset classes across markets to identify peak drawdowns, recovery timelines, and variations between ratings, as well as behavior following each FOMC meeting, which has significantly influenced our decisions over the past 24 months.

This methodical process, using relative value indicators, consistently helps us select assets offering the best risk-adjusted returns while effectively managing overall portfolio construction.

Our team employs a mean-variance optimization approach that strives to generate optimal portfolios on the efficient frontier by taking the following into consideration:

- **Expected return**
- **Expected volatility**
- **Emphasis on lower pairwise correlations among asset classes**

EXHIBIT 2 | Optimization Framework on Asset Allocation: The Building Blocks of Our Approach

Quantitative Top Level Optimization Process

A — Expected Return, Based on Yields
- Considerations on return drivers for each asset class, including but not limited to:
  - Duration
  - Spread
  - Current income
  - Convexity
  - Expectation on credit losses
  - Currency hedges

B — Expected Risk
- Estimated using market and KKR proprietary data for each asset class
- Take into account fat tails when performing Conditional Value-at-Risk (VaR) Optimization

C — Asset Class Correlations
- Estimated using market and KKR proprietary data for each asset class

1 — Mean-Variance Optimization
Minimize [Portfolio Variance]
Given Target [Portfolio Expected Return]

2 — Conditional VaR Optimization
Minimize [Portfolio Conditional Value-at-Risk]
Given Target [Portfolio Expected Return]

Quantitative & Qualitative Overlays

Top Level	Cross Asset Class	Individual Asset Class
Global Macro Insights	Relative Value Assessment	Relative Value Assessment
Rates / Duration Exposure	Market Research: Fundamental & Technical Drivers	Market Research: Fundamental & Technical Drivers
Geographical Exposure	Performance Attribution	Performance Attribution
Quantitative Model Portfolio		

Sources: KKR Portfolio Construction & Asset Allocation as of June 30, 2024

These inputs guide our team on creating baseline allocations, which we believe are optimal from a risk-adjusted return perspective. This methodology also enables us to calibrate portfolios that satisfy the desired risk/return appetite. Staying true to the ethos of MAC, our team dynamically adjusts baseline allocation in response to real-time market opportunities.

The concept of the efficient frontier is crucial for optimizing portfolios to achieve the best possible return for a given level of risk. In MAC, leveraging the efficient frontier can significantly enhance portfolio performance. In mathematical terms, the efficient frontier is the boundary of the practical region formed by plotting risk (typically measured by standard deviation or variance of returns) on the x-axis and expected return on the y-axis. Portfolios on the efficient frontier dominate those below it, meaning that for any given level of risk, they provide higher expected returns.

Additionally, we conduct extensive qualitative and quantitative analyses to further complement the optimization process and baseline portfolio model. We begin with a deep dive on each asset class, drilling down to further ascertain market behaviors by rating, sector, spread, duration, and price across several scenario analyses. This then informs us of any potential credit losses to consider and brings to light fundamental and technical drivers of each market segment across credit cycles. The interplay and relationships among the asset classes and technical attributes enable our team to evaluate trade-offs contributing to positioning decisions, for example carry vs. convexity.

A crucial part of our asset allocation framework is the constant assessment of relative value across all segments of global investible markets. We have created relative value indicators from both spread and yield perspectives to support our process. As an example, the computed pairwise Z-scores in Exhibit 3 illustrate how the current spread differential between a pair of assets, i.e. HY B and Leveraged Loan B, deviates from the historical mean. An absolute Z-score that veers dramatically from zero means that there may be dislocations present between the specific pair of assets, and thus relative value opportunities, given the spread basis should ultimately revert to its longer-term mean. For European asset classes, FX hedge carry has also been part of the consideration. At times, more nuanced adjustments are made to these indicators to better reflect the true investible universe, accompanying liquidity profile, and bid-ask spread, based on a qualitative overlay from the portfolio management team.

EXHIBIT 3 | Illustrative Relative Value Indicators: Z-Scores Changes – Spread

Time Period Differential Q4 2023

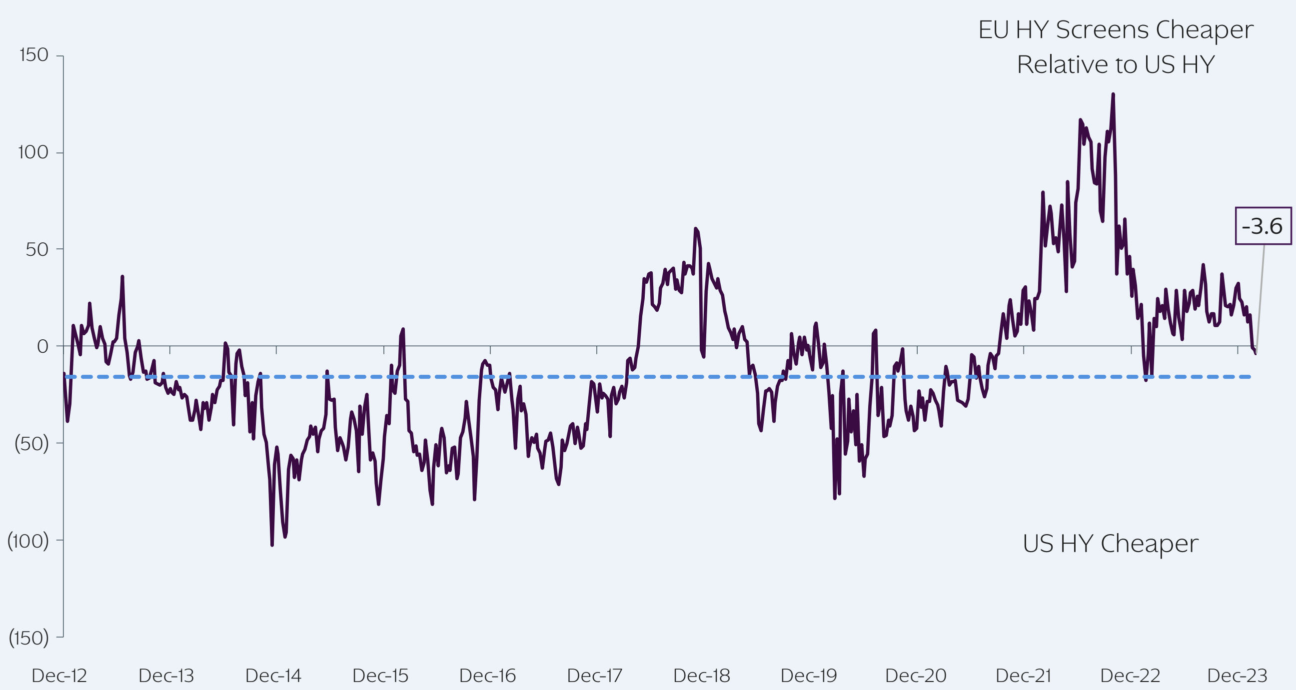
	US HY BB	US HY B	US HY CCC	EU HY BB	EU HY B	EU HY CCC	US LL BB	US LL B	US LL CCC	EU LL BB	EU LL B	EU LL CCC	US CLO AAA	US CLO AA	US CLO A	US CLO BBB	US CLO BB	EU CLO AAA	EU CLO AA	EU CLO A	EU CLO BBB	EU CLO BB
US HY BB		0.2	0.1	0.3	0.4	0.3	-0.3	-0.1	0.1	0.6	0.8	0.0	-0.1	-0.1	-0.3	0.0	0.0	0.0	-0.2	-0.2	-0.2	0.0
US HY B	-0.2		0.1	0.1	0.3	0.3	-0.3	-0.4	0.1	0.3	0.6	0.0	-0.2	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.1
US HY CCC	-0.1	-0.1		0.0	0.0	0.3	-0.2	-0.2	0.0	0.0	0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1
EU HY BB	-0.3	-0.1	0.0		0.2	0.3	-0.5	-0.3	0.0	0.4	0.7	-0.1	-0.4	-0.4	-0.5	-0.3	-0.2	-0.3	-0.6	-0.6	-0.5	-0.2
EU HY B	-0.4	-0.3	0.0	-0.2		0.2	-0.5	-0.4	0.0	0.1	0.4	-0.1	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.3
EU HY CCC	-0.3	-0.3	-0.3	-0.3	-0.2		-0.3	-0.4	-0.2	-0.2	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4
US LL BB	0.3	0.3	0.2	0.5	0.5	0.3		0.1	0.1	1.1	1.1	0.0	0.1	0.2	-0.1	0.3	0.1	0.2	0.0	0.0	0.0	0.1
US LL B	0.1	0.4	0.2	0.3	0.4	0.4	-0.1		0.1	0.5	0.9	0.0	0.0	0.1	-0.1	0.2	0.0	0.1	0.0	0.0	-0.1	0.0
US LL CCC	-0.1	-0.1	0.0	0.0	0.0	0.2	-0.1	-0.1		0.0	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
EU LL BB	-0.6	-0.3	0.0	-0.4	-0.1	0.2	-1.1	-0.5	0.0		0.3	-0.1	-0.8	-0.8	-1.0	-0.6	-0.3	-0.7	-1.0	-0.9	-0.8	-0.3
EU LL B	-0.8	-0.6	-0.1	-0.7	-0.4	0.1	-1.1	-0.9	-0.1	-0.3		-0.2	-0.8	-0.8	-0.9	-0.9	-0.6	-0.7	-1.0	-1.1	-1.5	-0.7
EU LL CCC	0.0	0.0	0.1	0.1	0.1	0.3	0.0	0.0	0.1	0.1	0.2		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US CLO AAA	0.1	0.2	0.1	0.4	0.4	0.3	-0.1	0.0	0.1	0.8	0.8	0.0		0.3	-0.1	0.2	0.0	0.5	0.0	0.0	-0.1	0.0
US CLO AA	0.1	0.1	0.1	0.4	0.3	0.3	-0.2	-0.1	0.1	0.8	0.8	0.0	-0.3		-0.3	0.1	0.0	0.2	-0.2	-0.1	-0.2	0.0
US CLO A	0.3	0.3	0.2	0.5	0.4	0.3	0.1	0.1	0.1	1.0	0.9	0.0	0.1	0.3		0.4	0.1	0.4	0.1	0.1	0.0	0.1
US CLO BBB	0.0	0.1	0.1	0.3	0.3	0.3	-0.3	-0.2	0.1	0.6	0.9	0.0	-0.2	-0.1	-0.4		-0.1	0.0	-0.2	-0.2	-0.3	-0.1
US CLO BB	0.0	0.1	0.2	0.2	0.3	0.4	-0.1	0.0	0.1	0.3	0.6	0.0	0.0	0.0	-0.1	0.1		0.0	0.0	0.0	-0.1	0.0
EU CLO AAA	0.0	0.1	0.1	0.3	0.3	0.3	-0.2	-0.1	0.1	0.7	0.7	0.0	-0.5	-0.2	-0.4	0.0	0.0		-0.5	-0.3	-0.2	0.0
EU CLO AA	0.2	0.2	0.1	0.6	0.4	0.3	0.0	0.0	0.1	1.0	1.0	0.0	0.0	0.2	-0.1	0.2	0.0	0.5		0.0	-0.1	0.0
EU CLO A	0.2	0.2	0.1	0.6	0.4	0.3	0.0	0.0	0.1	0.9	1.1	0.0	0.0	0.1	-0.1	0.2	0.0	0.3	0.0		-0.1	0.0
EU CLO BBB	0.2	0.3	0.2	0.5	0.5	0.4	0.0	0.1	0.1	0.8	1.5	0.0	0.1	0.2	0.0	0.3	0.1	0.2	0.1	0.1		0.1
EU CLO BB	0.0	0.1	0.1	0.2	0.3	0.4	-0.1	0.0	0.1	0.3	0.7	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	-0.1	

Sources: ICE BofAML, Morningstar LSTA, JPMorgan Research, KKR Portfolio Construction & Asset Allocation Analysis as of June 30, 2024

As highlighted in Case Study 1, when evaluating European high yield relative value, in 2023 we stripped out distressed credits that were trading above 1,000 basis points (bps) OAS from our analysis to ensure we had a clearer view of what could be driving the market and index spread levels. While the indicator may seem simple on its face, our research shows that it has been very effective. Our team has statistically back-tested each pair of assets to determine whether they have been effective in the past. The results have helped us build conviction in the methodology. To us, these relative value assessments are an essential step of making asset allocation decisions — they can either catalyze an allocation shift discussion or help the team calibrate the potential risk/return trade-off.

We have also seen the benefits of including a MAC allocation in customized multi-asset solutions (MAS) as many asset allocators consider incorporating MAC as a part of their semi-liquid allocation in a broader portfolio of private and public assets. We have found that MAC continues to play a critical role in the total portfolio asset allocation, both as a strategic allocation and one that is abundant in liquidity. Following a similar framework as outlined above, we have partnered with many institutional investors to construct similar customized portfolios given our breadth of platform and product offering.

EXHIBIT 4 | Spread Differential: European HY vs U.S. HY



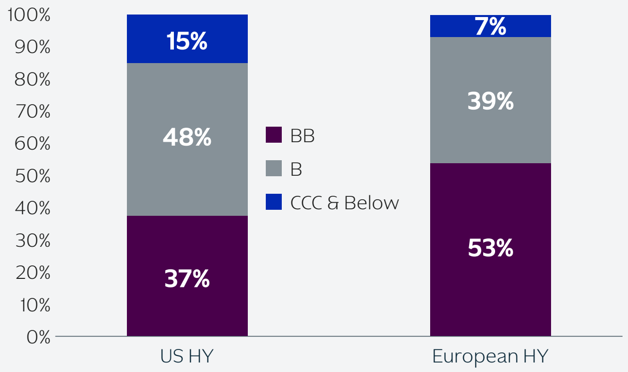
Sources: ICE BofAML, Factset, KKR Portfolio Construction & Asset Allocation as of March 31, 2024
Note: Excludes distressed securities defined by securities with OAS > 1,000bps

CASE STUDY 1

Geographic Lens: European vs U.S. High Yield

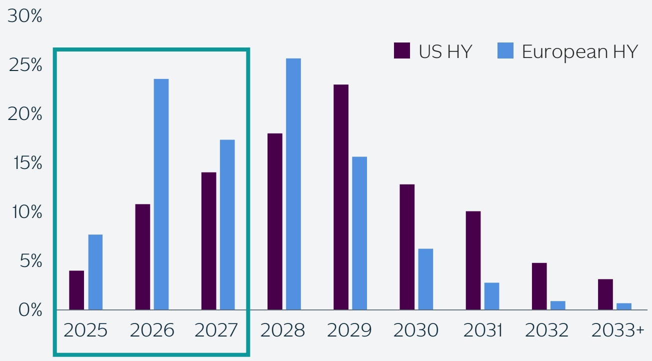
In the back half of 2023, we started to see that fixed vs. floating-rate assets were approaching fair value and began evaluating ways to increase fixed-rate exposure in the MAC strategy. Through our asset allocation process, our team discerned that European high yield (EU HY) offered several compelling characteristics compared to U.S. high yield (U.S. HY) on a relative value basis. European HY provided the opportunity to rotate into higher quality credit names with higher spreads. Specifically, the European HY market comprises a larger percentage of BB-rated credit at 53% versus U.S. HY at 37%, and at the time offered a spread of over 100 bps versus the U.S. HY market.

Global High Yield Market Credit Rating Composition



Additionally, by evaluating historical trends we concluded that there could be more opportunity for European HY to tighten on a go-forward basis. While the European HY market appeared tight, it was masking convexity and price appreciation potential that our framework highlighted.

Global High Yield Maturity Walls



European HY has historically traded at similar spread levels, and the market has largely traded to call or above par. The weighted average price in Q1 2024 was $93 which indicated that there was still increased room for price appreciation. This was particularly true for any issuers addressing existing short-term debt, as Europe had the shortest maturity wall with 31% of the market set to mature in 2026.

Percentile of Spread Differential: EU HY vs U.S. HY

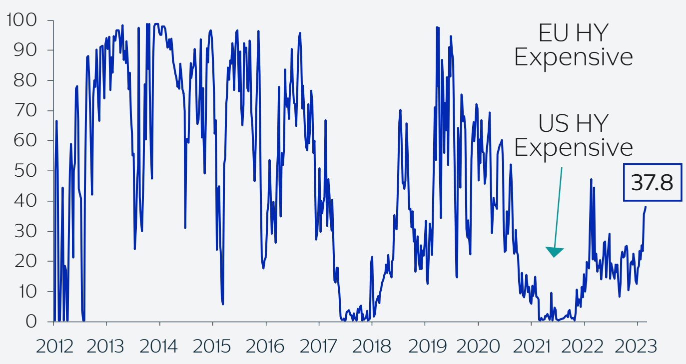


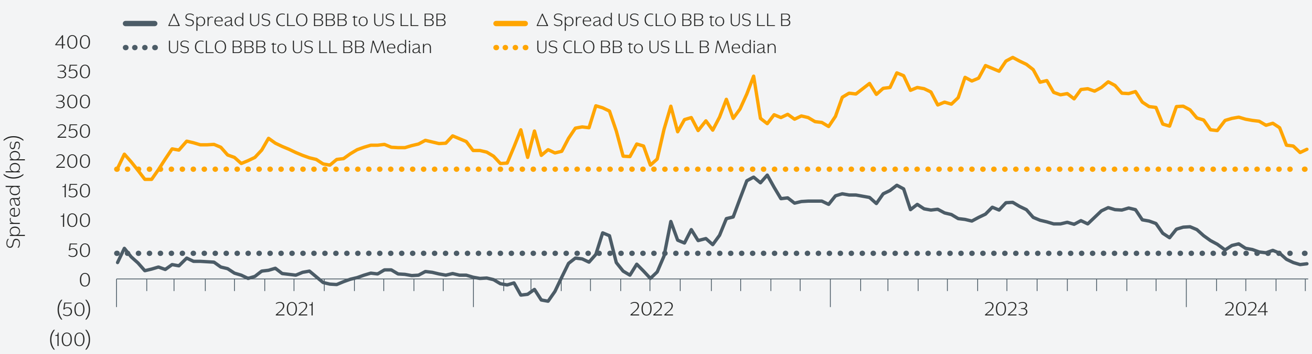
Chart 1: Sources: ICE BofAML, Factset, KKR Portfolio Construction & Asset Allocation Analysis as of 4/15/2024 Note: Ratings are based on the minimum rating of S&P and Moody's. Chart 2: Sources: ICE BofA, Factset, KKR Portfolio Construction & Asset Allocation Analysis as of June 30, 2024. Chart 3: Sources: ICE BofAML, Factset, KKR Portfolio Construction & Asset Allocation Analysis as of data as of 4/15/2024. Note: Excludes distressed securities defined by securities with OAS > 1,000bps.

CASE STUDY 2

Structured Credit Conviction

Throughout 2023 and into 2024, structured credit presented a compelling opportunity to supplement leveraged loan allocations with collateralized loan obligation (CLO) debt, offering superior carry on a risk-adjusted basis and additional diversification. We observed that CLO BBs relative to single-B leveraged loans captured north of 280 bps of carry beginning in January 2024 and over 300 bps in late Q3-24 2023 while still above the historical median.

Historical Rel-Val Structured Credit vs U.S. Leveraged Loans



This thesis was supported by the elevated rate environment, augmenting income for portfolios. On a spread basis, the relative value of CLOs over bank loans remained attractive, well above long-term averages in both the U.S. and Europe. This was particularly evident in CLO BBB and BB tranches. The average 2023 spread level for CLO BBBs and BBs hovered at +450bps and +940bps, respectively, offering superior rating-adjusted carry, increased downside protection if spreads were to further widen, and ample cushion from credit losses. CLOs provided consistent carry in both secondary and primary markets, with diversification benefits continuing to play out in the current rates environment due to relatively low correlations to HY and leveraged loans.

Long Term Correlations Since 2012

CLO BBB/BBs are less correlated to HY than loans are. CLOs should continue to be a good diversifier to the portfolio in the current environment and after PF of the shift from Loans to HY

2012-2023	CLO BBB	CLO BB	HY BB	HY B	HY CCC	LL	LL BB	LL B	3-5y US Treasury TR	5-7y US Treasury TR	3-7y US Treasury TR
CLO BBB	1.00	0.84	0.34	0.39	0.44	0.57	0.47	0.60	-0.07	-0.07	-0.07
CLO BB	0.84	1.00	0.28	0.33	0.44	0.46	0.33	0.49	-0.07	-0.06	-0.06
HY BB	0.34	0.28	1.00	0.97	0.88	0.74	0.73	0.73	0.12	0.14	0.13
HY B	0.39	0.33	0.97	1.00	0.94	0.77	0.74	0.76	0.00	0.02	0.01
HY CCC	0.44	0.44	0.88	0.94	1.00	0.77	0.70	0.77	-0.09	-0.08	-0.08
LL	0.57	0.46	0.74	0.77	0.77	1.00	0.97	1.00	-0.10	-0.06	-0.08
LL BB	0.47	0.33	0.73	0.74	0.70	0.97	1.00	0.96	-0.07	-0.04	-0.06
LL B	0.60	0.49	0.73	0.76	0.77	1.00	0.96	1.00	-0.10	-0.07	-0.08
3-5y US Treasury TR	-0.07	-0.07	0.12	0.00	-0.09	-0.10	-0.07	-0.10	1.00	0.98	0.99
5-7y US Treasury TR	-0.07	-0.06	0.14	0.02	-0.08	-0.06	-0.04	-0.07	0.98	1.00	0.99
3-5y US Treasury TR	-0.07	-0.06	0.13	0.01	-0.08	-0.08	-0.06	-0.08	0.99	0.99	1.00

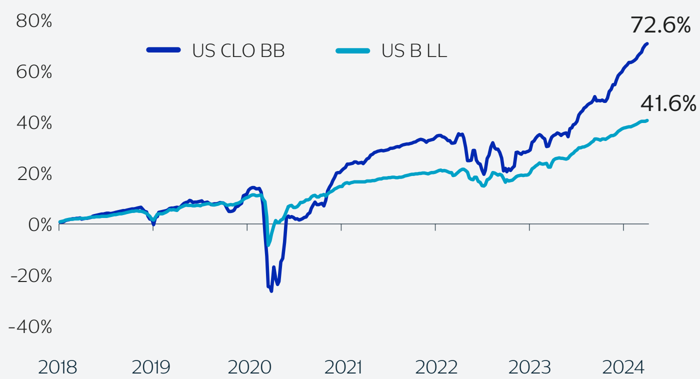
First Chart: Sources: Morningstar LSTA, KKR Portfolio Construction & Asset Allocation Analysis as of June 30, 2024. Second Chart: Sources: ICE BofAML, Morningstar LSTA, KKR Portfolio Construction & Asset Allocation as of October 2023 Note: Weekly returns from 1/1/2012 to 10/13/2023.

CASE STUDY 2 | CONTINUED

Historical default risk for CLO BBB/BB tranches has been muted and has compensated investors nicely for the risk premium. For example, CLO BBs returned 24.62% for all of 2023 outperforming the blended 50% Morningstar LSTA Leveraged Loan Index / 50% BofAML High Yield Index by 11.2%. Over the course of 2023, we materially increased the allocation of CLO tranches, contributing meaningful alpha to the portfolio. The strong market performance in 2023 was expected to continue into 2024, with BBB/BB tranches ticking up in price toward par, maintaining attractive all-in yields. European CLOs followed a similar trend, with last twelve months (LTM) returns of 18.3%/26.3% and OAS of 375/675 bps, presenting additional convexity. The robust pipeline and significance of the CLO market supported ongoing strong performance and increased carry.

If one incorporated CLO BBB and BBs debt into a portfolio, a cumulative alpha of +100bps in the last twelve months could have been generated relative to the 50% Morningstar LSTA Leveraged Loan Index / 50% BofAML High Yield Index benchmark, demonstrating the healthy risk/reward from this asset allocation decision. In the same vein, the inverse is also true: our asset allocation framework also ensured we were focused on reducing respective CLO tranche positions when the risk tightened. For example, as CLO BB spreads compressed to tighter levels during the life of the trade, we pivoted our positioning and reduced exposure, crystallizing the results. This reloaded our ability to redeploy into the risk upon the next sell-off, reinforcing our view that agile investors are a prerequisite in fast moving, non-obvious markets.

Total Return Since 2018: U.S. CLO BB's vs. U.S. Single B Leveraged Loans



Sources: JPMorgan Research, Pitchbook | LCD, and KKR Portfolio Construction & Asset Allocation Analysis as of 4/15/2024. Note: Historical data as of December 29, 2017.

Conclusion

Ultimately, a Multi-Asset Credit strategy can offer a compelling and efficient way to navigate complex market environments, providing diversification, flexibility, and enhanced risk-adjusted returns. We believe KKR's MAC approach, with its holistic, dynamic, and quantitative research-driven model stands out amongst the crowd especially in a non-obvious market. It embodies a sophisticated blend of fundamental and quantitative analysis, nimble asset allocation, and a one-firm approach that ensures every investment decision is well-informed and strategically sound.

Please reach out to learn more on how KKR's Multi-Asset Credit strategy can benefit your portfolio.

Disclaimer

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