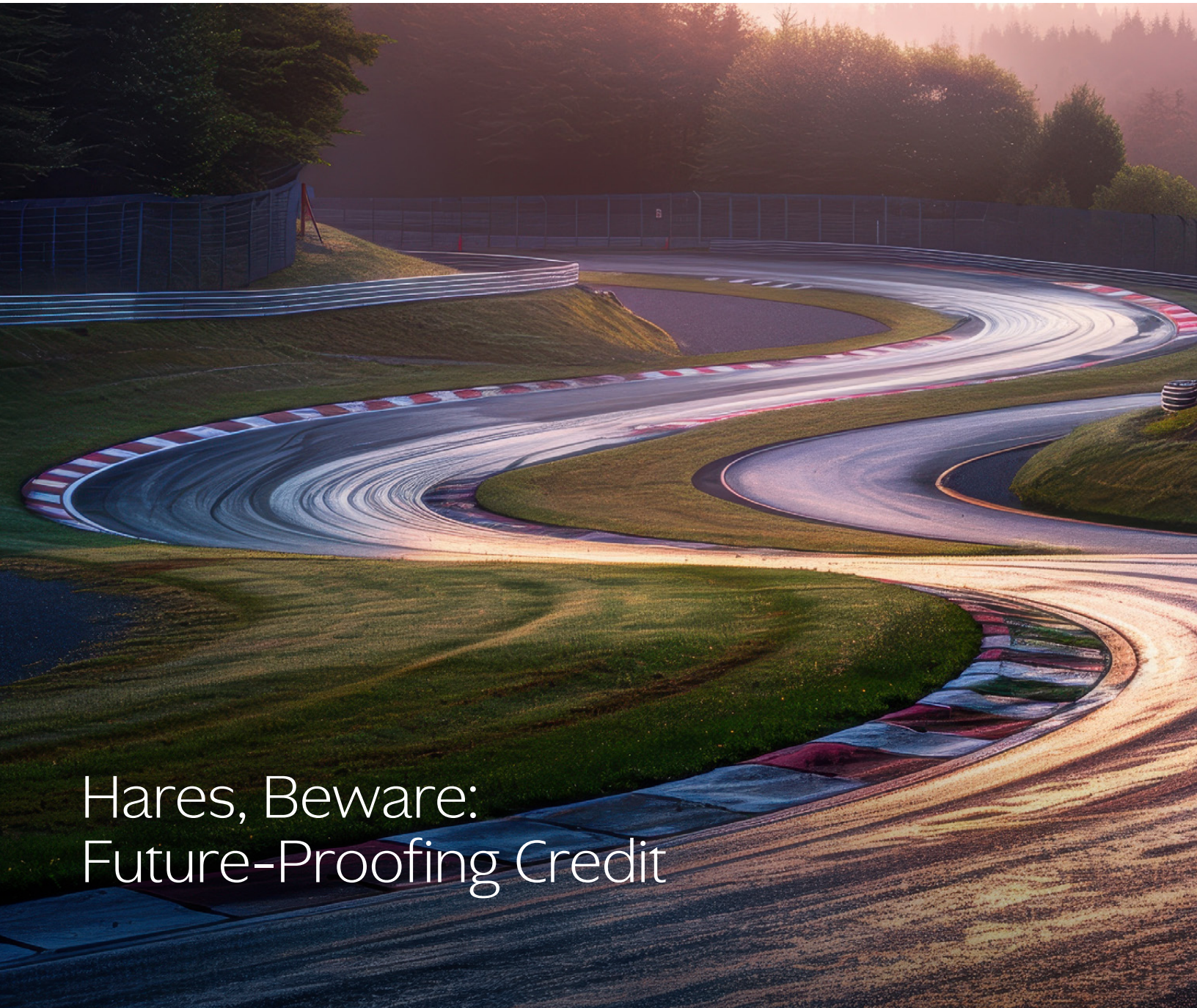


KKR Credit & Markets



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Future-Proofing Credit

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The Finish Line

Written by:



Christopher A. Sheldon
Partner and Co-Head
Credit & Markets



Tal Reback
Director, Credit & Markets



Kristopher Novell
Managing Director,
Asset Allocation & Portfolio
Construction

“Beware the investment activity that produces applause; the great moves are usually greeted by yawns.”

— Warren Buffett

Executive Summary

Many of us know the story of *The Tortoise and the Hare*, one of Aesop’s timeless fables. The story, originating from Aesop’s collection of fables first told in ancient Greece circa the 6th century B.C., has been retold through the ages to impart a simple but powerful concept: “Slow and steady wins the race.” In our view, the key takeaways are about more than just speed — rather, they highlight the shortcomings of being too reactive, the virtue of persistence, and the rewards of consistency and trusting your instincts.

In today’s financial world, these principles are as relevant as ever. Building off our June Market Review, *Run Credit, Run!*, we remain steadfast in our belief that this market will challenge investors’ resilience going forward. In light of rising macro and geopolitical uncertainty, constructing a multi-asset credit portfolio with an eye toward a materially larger diversification strategy is one of a few proactive approaches to future-proofing a portfolio’s credit exposure. Last quarter, we emphasized the importance of staying nimble across markets and asset classes — just as the tortoise in Aesop’s tale relies on adaptability to outpace the hare in the seemingly uneven contest. The same principle holds for investors in the marathon that is today’s non-obvious market. As a result, we maintain our position of prioritizing carry over convexity as we head into year-end and next year, while acknowledging there may be a need to originate your own carry.

History has taught us that investors often fall into the hare’s trap: chasing quick wins, perhaps overly confident due to past successes, and reacting to short-term gains. But, as the fable reminds us, it is the tortoise’s disciplined, long-term approach that crosses the finish line first. For credit investors, the focus should always be on consistency and the preservation of capital, especially in a rapidly evolving market. This philosophy has been instrumental in future-proofing our platform — through steady investments in team structure, origination, organizational collaboration, and product innovation. It is important to stay focused on each step of the race and avoid complacency, even when growth is rapid or things seem easy.

As Warren Buffett once said, “Beware the investment activity that produces applause; the great moves are usually greeted by yawns.” Like the tortoise, Buffett has long prioritized thoughtful, steady growth and meticulous planning over chasing the latest trends. He has not been swayed by the hares — or, as the market likes to call it, the ‘herd mentality.’

Similarly, we focus on making long-term, fundamentally sound decisions that allow us to stay ahead of market shifts. By developing a dynamic platform with scalable credit and insurance origination, we hope to be in a position to navigate the ever-evolving global landscape and proactively position ourselves for future market shifts. Whether through portfolio construction, evolving investment strategies, differentiated origination and/or continuously refining our risk management processes to support a broader opportunity set, we remain committed to architecting an approach for longevity that maintains the flexibility to stay nimble rather than just prioritizing short-term gains.

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

Ready, Set, Go

The Fed’s much-anticipated September Federal Open Market Committee (FOMC) meeting and what we hope it means for M&A.

Thoughtful Navigation

Strategies for weathering volatility or leaning into asymmetric risk in an increasingly uncertain environment.

Steady Ingenuity

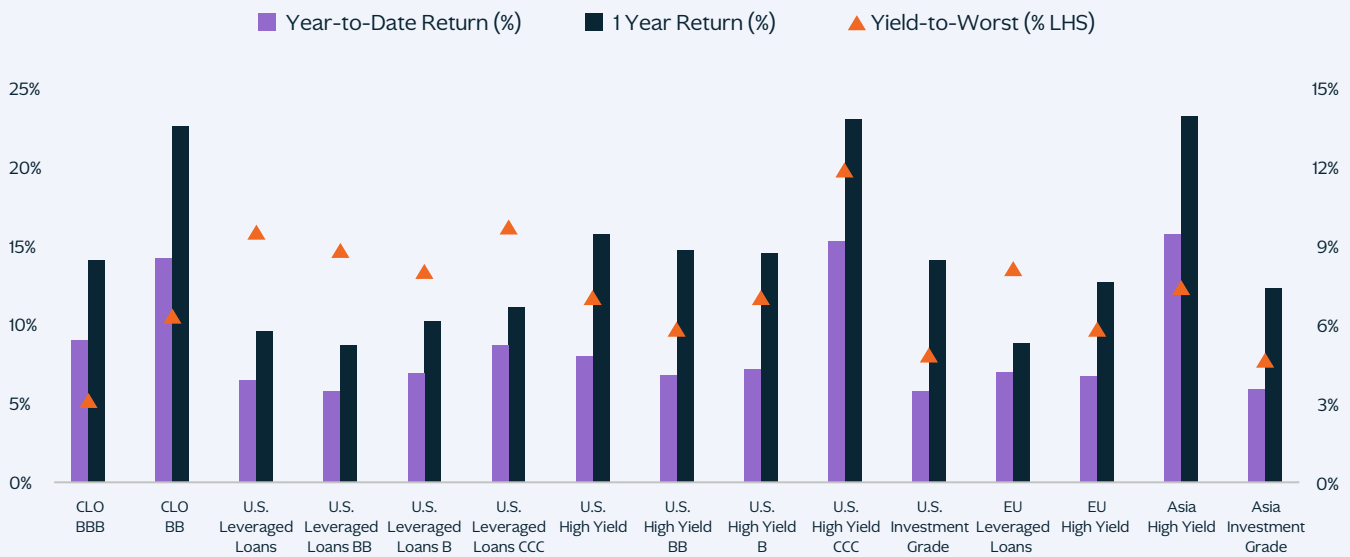
Evolving alternative asset ecosystem and how increased access to diversification safeguards against risk.

The Finish Line

The structural and organizational strategies that enable long-term portfolio positioning.

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 September 30, 2024.

Ready, Set, Go

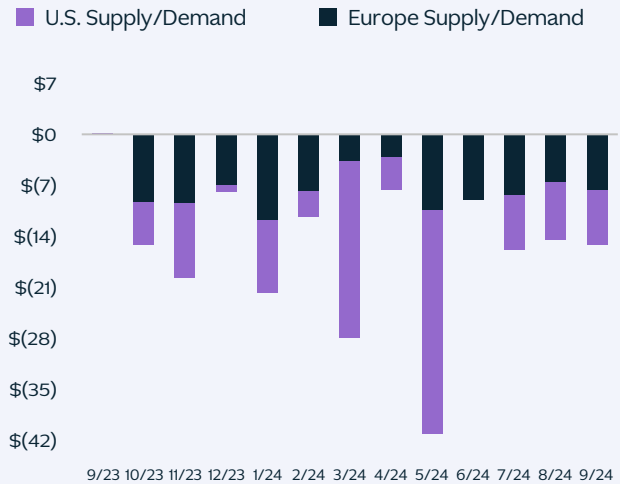
The long-awaited question of when the U.S. Federal Reserve would begin its easing cycle was finally answered at the September FOMC meeting. In the lead-up to the announcement, market participants found themselves either rooting for the tortoise-like 25 basis-point (bps) cut or for the hare-like 50bps cut. Ultimately, the Fed’s Sept. 18 decision to cut 50bps brought some clarity to monetary policy moving forward, potentially paving the way for increased M&A activity. For the first time in nearly two years, refinancings took a back seat to buyouts, acquisitions, and recapitalizations – transactions that typically expand net supply for investors. But this is just the beginning. While this shift is a positive trend, we would emphasize the need for further acceleration in M&A. This is where the market can take a cue from the hare: Current supply is still insufficient to meet demand, and while we remain constructive that net new issuance should improve next year as the cost of funding comes down, high equity valuations and any deviations to a lower terminal federal funds rate could, in the worst case, cause a market impasse for corporates in 2025.

Last quarter, we advised keeping things simple, as investors were being compensated with carry for patience and prudence. That advice still holds but as spreads continue to compress and the economy shows clearer signs of slowing, we will explore what it truly means to keep things simple and various ways to express that in your portfolio.

Accelerating M&A is where the market should take a cue from the hare.

EXHIBIT 2

Global Net Supply is Still Negative

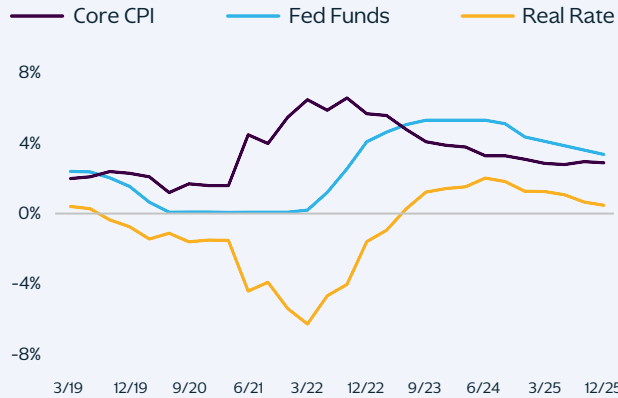


Source: Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024.

Our colleague, Henry McVey, Head of Global Macro & Asset Allocation and CIO of KKR’s Balance Sheet, believes the recent 50bps cut was not necessarily a pro-market move, but rather an adjustment signaling two key points: First, the labor market may be softer than expected (i.e., 800k+ reduction in payrolls), and second, rates are likely too high relative to post-pandemic GDP growth. The latter argument continues to resonate with us at KKR. Despite the accommodative rate cut, the Fed will continue its balance sheet run-off, a more restrictive policy action that signals a cautious approach to unwinding monetary support. Ahead of the meeting, our view had aligned more with a 25bps cut alongside a more accommodative balance sheet stance, especially considering that credit spreads remain tight and unemployment is still low. Looking forward, we expect long-term credit spreads to widen slightly and see a need for additional risk premium at the long end of the yield curve, especially with services inflation still hovering at 5%. But if M&A does not pick up and create net issuance, we could envisage further spread-tightening in the near term given the global net-negative supply in the market.

EXHIBIT 3

Fed Funds, CPI, and Real Rates (%)



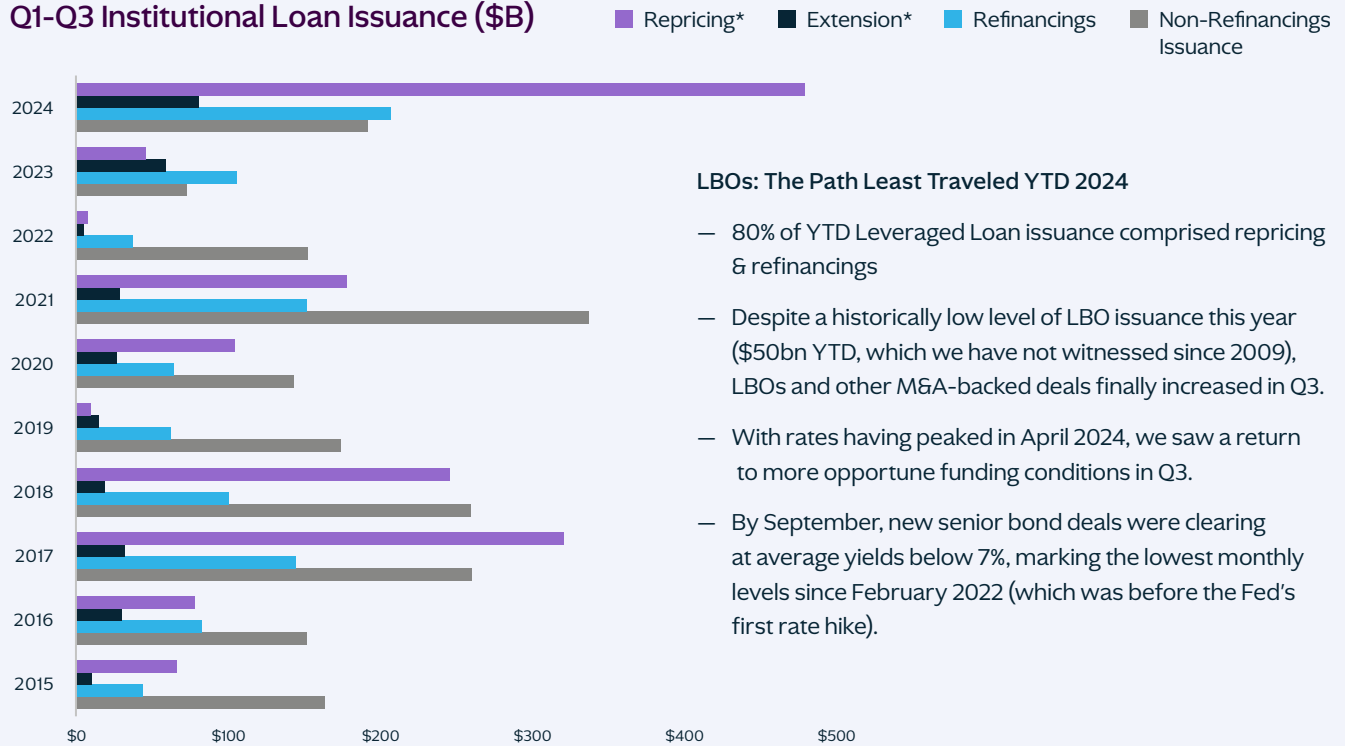
Note: Inflation data as at August 31, 2024.
 Source: KKR Global Macro Asset Allocation Analysis and Bloomberg as of September 30, 2024.

Turning back to the market’s reaction, leveraged loan issuance unrelated to refinancings, especially for new leveraged buyouts (LBOs), reached its highest volume in over two-and-a-half years, printing ~\$21 billion in Q3.¹ This uptick in LBO activity is still early, so while it was a welcome change for direct lenders, don’t get too excited just yet. Still, as a result of the uptick, direct lending volumes hit multi-year highs in August despite tightening spreads – a trend we will discuss further in this note.

In line with the broader pace of issuance for 2024, the third quarter was active, though gross activity was slower than the first half of the year as refinancings and repricings took a breath. Third-quarter primary volume came in at roughly half of the record-breaking \$405 billion² seen in the prior six months. Still, despite being the slowest quarter of 2024, issuance in Q3 surpassed figures from Q2 2021 through Q4 2023.³ Year-to-date, U.S. leveraged loans have returned +6.54% and EU leveraged loans +6.97%⁴ as of September 30, 2024.

EXHIBIT 4

Q1-Q3 Institutional Loan Issuance (\$B)



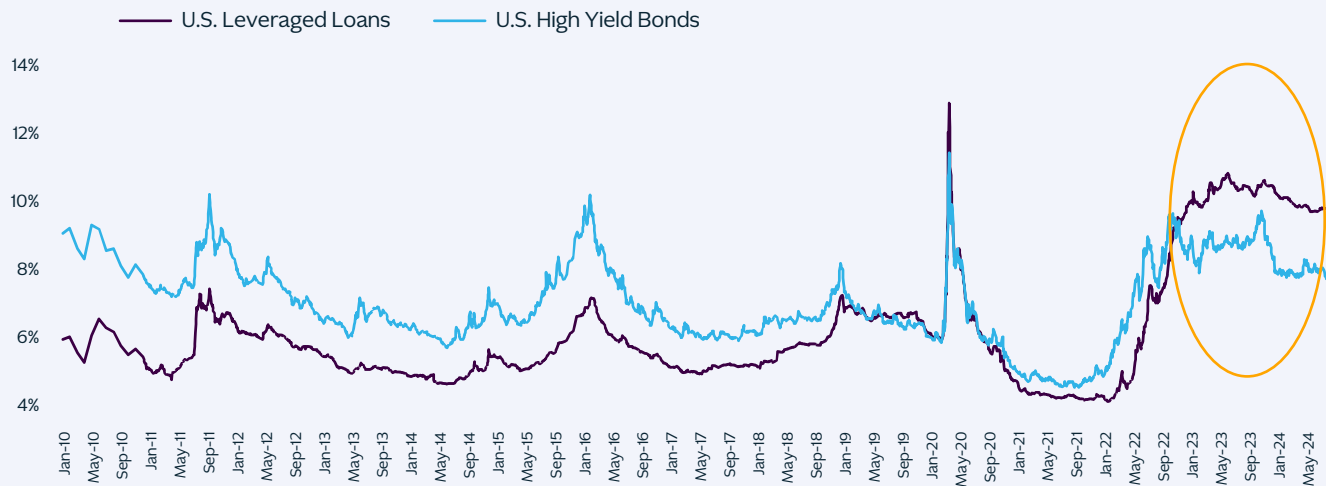
LBOs: The Path Least Traveled YTD 2024

- 80% of YTD Leveraged Loan issuance comprised repricing & refinancings
- Despite a historically low level of LBO issuance this year (\$50bn YTD, which we have not witnessed since 2009), LBOs and other M&A-backed deals finally increased in Q3.
- With rates having peaked in April 2024, we saw a return to more opportune funding conditions in Q3.
- By September, new senior bond deals were clearing at average yields below 7%, marking the lowest monthly levels since February 2022 (which was before the Fed’s first rate hike).

Source: Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024.

EXHIBIT 5

Carry Over Convexity: U.S. Leveraged Loans vs High Yield YTW



Source: ICE BofAML, S&P LSTA LLI and KKR Credit Analysis as of September 30, 2024.

Meanwhile speculation about rate cuts created a more favorable environment for fixed-rate and high-grade issuance in Q3. Quarterly high yield volume exceeded \$73.7 billion,⁵ pushing year-to-date totals to \$328 billion,⁶ more than double 2022 activity and surpassing last year's entire annual figure. Demand for high-grade debt has also surged in recent quarters, with \$1.2 trillion in issuance year to date⁷. Issuers have been taking advantage of every opportunity to lock in deals ahead of the U.S. election in November.

Refinancing remains the dominant driver of leveraged credit activity in 2024, with high yield refinancings accounting for 72% of total bond issuance year to date (up from 62% last year and 48% in 2022).⁸ The current refinancing wave is second only to 2009,⁹ when crisis-era refinancings reached 76% of total issuance. Persistently higher rates and inflation have kept investors on edge, but for those following the tortoise's steady approach, patience is paying off. Year to date, U.S. high yield has returned +8.03%, European high yield +6.72%, and Asia high yield +15.73% as of September 30, 2024.¹⁰ The performance of fixed-rate assets has been supported by tightening spreads.

Thoughtful Navigation

As our readers know, CLOs remain a cornerstone of the leveraged loan market, and they made a significant comeback in 2024 following two years of muted activity. As CLOs comprise nearly 70% of the loan market, they drive supply-demand dynamics in both the broadly syndicated loan (BSL) and middle-market segments. Year to date, there has been ~\$142 billion in U.S. CLO issuance across 309 deals, setting a record pace compared to this time in 2021.¹¹ While the pace of CLO creation slowed slightly in Q3, overall activity remains robust, supporting liquidity in the leveraged loan market and giving companies critical access to capital. However, demand continues to outpace supply, which contributes to compressing spreads and ultimately amplifies reinvestment risk as CLO paydowns enter the market.

Interestingly, we have also seen the demand for CLOs beginning to be buoyed by increased retail investor participation, particularly through CLO ETFs. We were surprised to learn how much this segment has grown, now boasting ~\$17 billion in AUM across at least 12 actively managed funds,¹² with more in the pipeline. We are

intrigued by this trend, as it represents the potential for a new rules-based market technical. We don't know how meaningful this may be yet, but the intrinsic connectivity to the loan market vis-à-vis AAAs is something to keep your eye on. The surge in retail interest has introduced a new, diversified buyer into the mix, as AAA buyers predominantly consist of banks and insurance companies, and added an additional layer of demand, further deepening the market for these structured products. However, it also underscores a growing challenge: New-issue CLO activity has largely been driven by refinancings and tightening credit spreads. The average AAA spread for top-tier CLOs has dropped by nearly 40 bps since December 2023, from SOFR+176 bps to just SOFR+138 bps by the end of Q3 2024.¹³ These tighter spreads have improved arbitrage opportunities for CLO managers, allowing them to issue new deals at more attractive terms — a classic example of the tortoise's methodical, long-term gains. Despite the heightened issuance levels this year, the BSL CLO AAA market has shrunk by \$12 billion year to date¹⁴ marking the first time

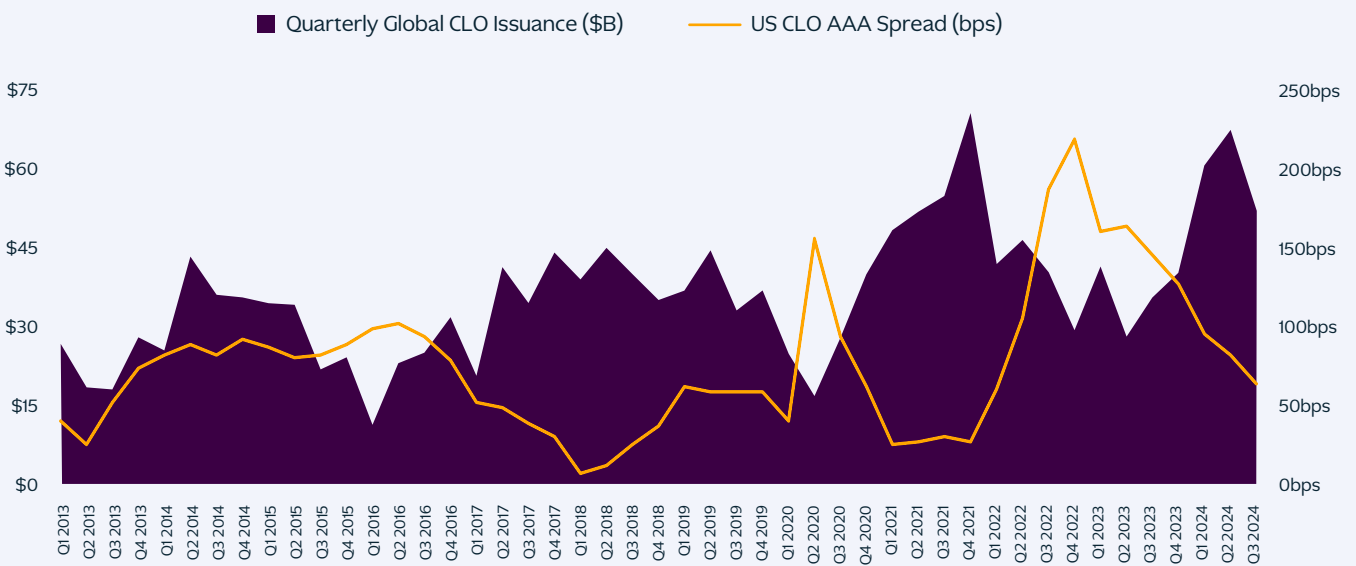
in the post-GFC, CLO 2.0 era. In fact, net of AAA ETF inflows, non-ETF investors have seen their holdings shrink by about \$20 billion year to date.

Much of the activity in 2024 has centered on reset activity, which has hit record levels with 286 deals totaling \$138.6 billion,¹⁵ surpassing the previous annual record set in 2021. Managers have focused on resetting existing CLOs by lowering coupons and extending maturities, which helped maintain liquidity and reinvestment capacity in a market where up to 40% of deals had exited their non-call and/or reinvestment periods (i.e., they were in amortization).

The market has never seen such a rapid pace of AAA amortization in the CLO 2.0 era.

EXHIBIT 6

Global CLO Issuance Nears 2021 Highs as AAAs Tighten



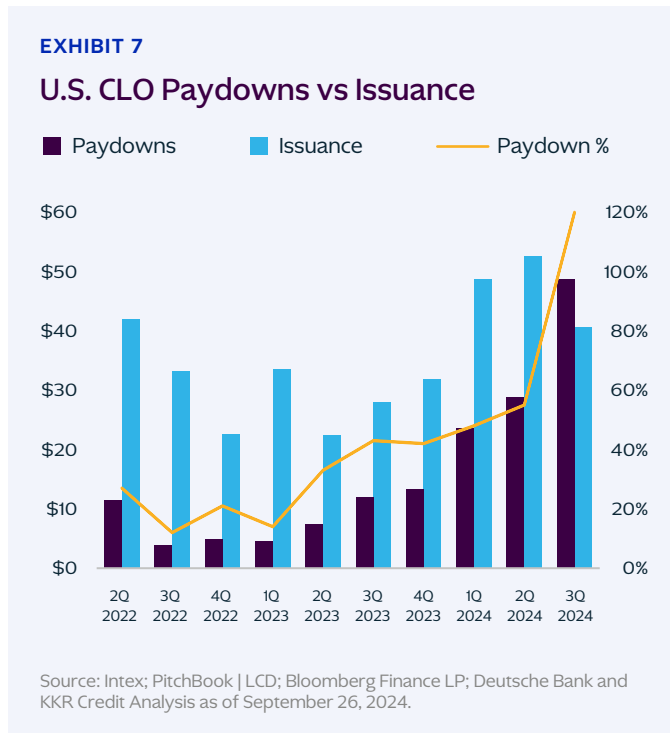
Source: Pitchbook | LCD and KKR Credi Analysis as of September 30, 2024.

The market has never seen such a rapid pace of AAA amortization in the CLO 2.0 era. This balancing act between reinvestment capacity, available supply, and the speed of deployment highlights a recurring dilemma in the loan market, akin to Aesop’s fable of the tortoise and the hare — where careful pacing often proves more sustainable than a sprint.

As we have seen before, heightened reset activity, tighter AAA spreads, and an increase in rating downgrades contribute to rules-based technical pressures in the loan market, resulting in increased dispersion. CLOs are managing their portfolios closely, aiming to maintain a Weighted Average Rating Factor (WARF) that aligns with the covenants specified in their indentures and stays within the 7.5% CCC exposure limit. If the WARF becomes too high (indicating lower credit quality), CLO managers may need to adjust the portfolio by either reducing exposure to lower-rated assets or increasing exposure to higher-rated assets to maintain the ability to reset the vehicle and extend maturity. With more downgrades in sectors such as healthcare, consumer products, and services over the past year, we have seen increased dispersion.

This fact pattern once again highlighted the interplay between the syndicated loan market and the private credit market as direct lenders leaned into a significant share of new issues and refinancings. Many LBO credits are lower rated, which may impact a CLO’s demand if it has a higher WARF level. Coupled with the risk of further downgrades into CCC territory, CLO managers tend to exercise more caution about adding lower rated credits. This, in turn, supported private credit issuance through the quarter and highlights how the rules-based technicals permeates both the public and private markets through their reciprocal relationship. Direct lenders have maintained market share better than many anticipated due to this dynamic. In fact, in some cases, direct lending has been a cheaper financing option than the syndicated market.

In Q3 2024, the notional volume of buyouts financed by the syndicated loan market surpassed those backed by private credit for only the second time since interest rate hikes began in 2022. Over the past three years, there has not been a consistent winner in terms of market dominance — rather, the ebb and flow of activity has highlighted the complementary nature of private credit and syndicated markets. While some may have felt that the syndicated markets took a metaphorical nap during 2022-2023, they have since regained momentum. The demand for syndicated deals remains strong and growing, with the third quarter marking one of the lowest ratios of number of private credit-to-BSL-financed buyouts since the Fed initiated its rate-hiking cycle.¹⁶ Despite the lower ratio, this quarter, direct lenders have also increasingly refinanced existing syndicated credits, resulting in the removal of these loans from the traditional leveraged loan indices and contributing to the shift in composition of the public market.

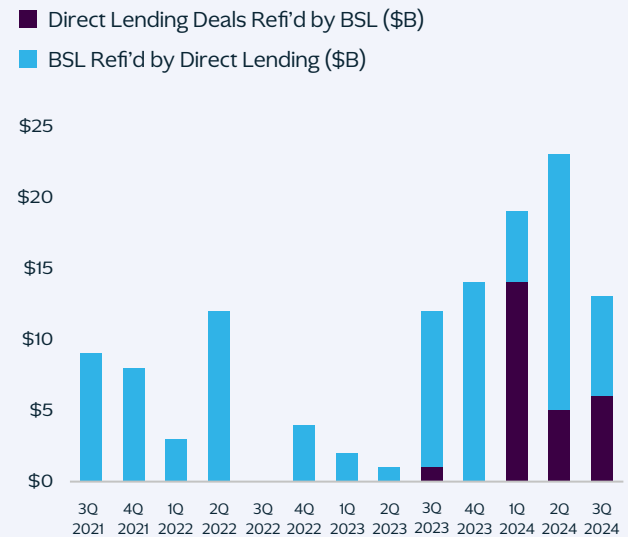


The challenge of obtaining duration and protecting yield through transactional assets, such as traded investment grade credit, has become increasingly pronounced.

We get the following question often: Why is direct lending still attractive if rates are coming down and spreads are tightening? Direct lending’s consistent, tortoise-like, long-term approach to generating steady income makes this strategy a staple. Not too long ago, floating rates were near zero and the reliance for income was simply on margin. Now, as M&A activity picks up and capital deployment accelerates, investors are not only benefiting from elevated rate levels, with 3-month SOFR at ~4.60%, but are also capturing the loan spread, creating an attractive all-in spread and absolute yield for senior secured risk. This allows investors to secure strong returns without compromising credit quality or moving too far down the risk spectrum. That is why we have seen product innovation in the private credit space through the growth of evergreen structures — to facilitate long-term access to the asset class through quicker capital deployment. Many investors have also chosen to reinvest income within these structures rather than opting for distributions, allowing capital to be continuously redeployed at gross high single digit to low double-digit coupons, compounding over time. This provides an additional buffer against potential credit losses. It is yet another example of future-proofing credit portfolios through a steady and measured approach, aligning well with our broader strategy of ensuring resilience in a slowing economy.

EXHIBIT 8

The Interplay: Broadly Syndicated and Direct Lending Takeouts



Source: JPMorgan Research, Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024

As CLOs fuel demand in both the leveraged loan and private credit markets, the broader credit landscape is also seeing strong investor interest in high-grade credit given elevated rates. This demand is driven not only by traditional institutional investors, but also by insurance companies, which play a critical role in the credit ecosystem due to their long-duration liabilities and need for stable returns. However, the challenge of obtaining duration and protecting yield through transactional assets, such as traded investment grade credit, has become increasingly pronounced. Why? Many corporates have been reluctant to issue at the presumed rate peak. This persistent supply/demand imbalance highlights the importance of creative and scaled origination, as well as diversification through non-correlated credit assets such as asset-based finance (ABF). Proactively manufacturing optionality through thoughtful reverse inquiry and methodical origination is essential once you get to a certain scale. While trading desks will continue to play a valuable role, not all solutions will be publicly available in size anymore, making tailored approaches and innovative strategies increasingly critical to meeting issuers’ evolving needs.

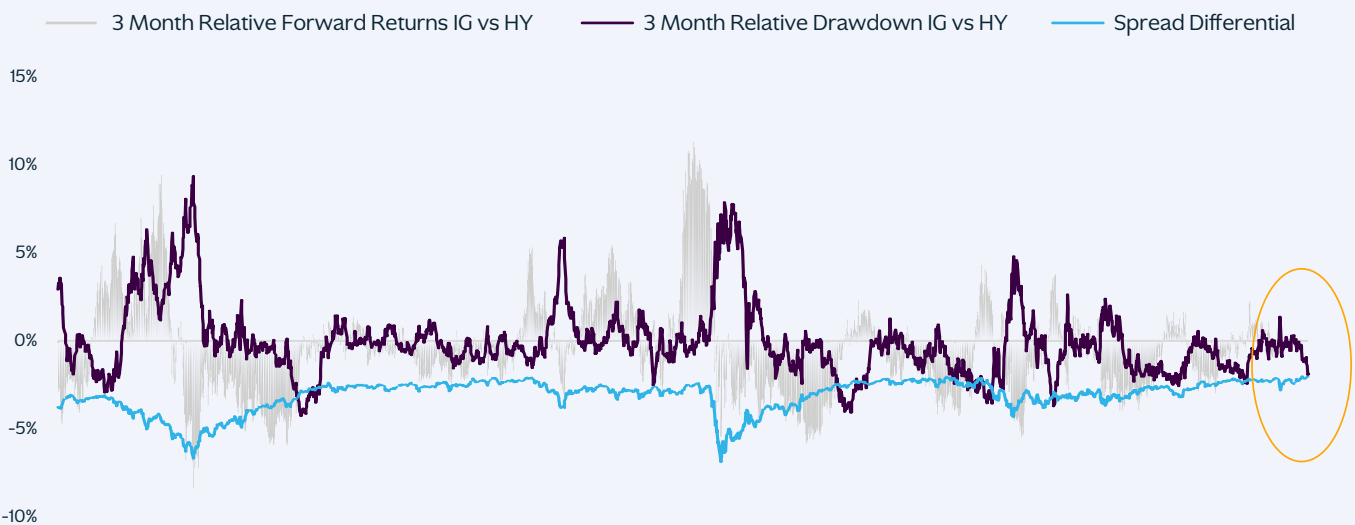
This is where partnerships between asset managers and insurers come to mind. Many have asked, why are asset managers looking to acquire or partner with insurers? We think the question should be flipped: Why are insurers looking to partner with asset managers? Insurers are increasingly looking to credit to diversify their portfolios and match their liabilities, while achieving steady, risk-adjusted income. This creates a symbiotic relationship: Insurance companies benefit from the steady cash flows generated by credit instruments, while credit markets gain a reliable source of demand from insurers looking to match long-term liabilities with long-duration assets. Origination plays a vital role in supporting insurers as partners, especially since not all assets are a perfect fit for their portfolios, and many are not readily or publicly available in the market.

In a world where you cannot always rely on the markets to meet your needs in size, the ability to manufacture assets that offer critical financing to borrowers while delivering long-dated, yield-generating assets for insurers allows both parties to take control of their destiny. This approach not only enhances the insurer’s portfolio but also ensures that essential capital reaches those who need it, creating a win-win scenario.

In a world where markets can’t always meet demand in size, access to proprietary origination is a critical tool for both borrowers and insurers.

EXHIBIT 9

**When is the right time to opportunistically add duration to your portfolio?
A potential indicator: IG & HY 3 Month Relative Price Drawdown vs Current Spread Differential**



Source: Source: ICE BofAML, Bloomberg and KKR Credit Analysis as of September 30, 2024

Steady Ingenuity

In a world growing more complex by the day, what does it really mean to keep it simple, and how can investors embrace steady ingenuity? For credit investors, simplicity lies in adhering to the core principles of credit: focusing on high-quality credit selection, avoiding the temptation to chase yield by taking on excessive risk, and staying agile and innovative as markets shift and evolve both in the short term and the long term. By grounding decisions in these fundamental pillars, investors can navigate complexity, uncertainty, and volatility effectively while also providing creative capital solutions amid shifts in the public capital markets. That is where there is opportunity to be scrappy and create your own issuance in growing market segments. This can be achieved in several ways: private ABF, custom financing solutions and asset-intensive reinsurance. This is not necessarily a net-new concept, but the approach is evolving as financial institutions reduce their balance sheets in favor of better return-on-equity metrics, coupled with the impending impacts of Basel III Endgame.

As mentioned, insurers and institutional investors alike are seeking solutions outside of transactional assets that can provide duration and yield. This includes public pensions, which are increasingly looking to diversify away from traditional IG credit and often adding a private IG bucket to enhance their portfolio returns. They are seeking ingenuity. Let's unpack what that road looks like. We are often asked about the perceived risks in these investments and why the new, so-called "exotic" assets are being introduced. What makes them different? The truth is, there is no difference in the asset type or risk profile, it is now simply offered in private form to third party investors. The key distinction today often lies in the liquidity profile. By investing in these private assets, investors may sacrifice

some liquidity but gain access to exclusive origination opportunities with the potential for higher returns as compensation. This trend is also evident in the wealth channel given the transactional asset supply/demand imbalance. Innovation in vehicle structures is making these assets accessible to a broader audience. For example, KKR's strategic partnership with Capital Group will enable a broader subset of investors to gain exposure to privately originated assets through an investor-friendly vehicle.

The truth is, there is no difference in the asset types, it is now simply offered in private form.

This growing demand for creative, yield-generating solutions highlights the increasing importance of collaboration across sectors, particularly between credit and insurance markets as investors look to hedge against rising inflation and interest rate volatility. Insurance and reinsurance have historically played a stabilizing role in credit markets, and their involvement is likely to grow as the need for diversified income streams progresses. By future-proofing their portfolios with insurance as a component, for example, investors can secure both stability and growth potential in an ever-evolving macroeconomic landscape. As McVey observed in his recent note, *"An Alternative Perspective: Past, Present and Future,"* non-correlated private asset classes — especially higher-yielding ones like ABF — are becoming integral to asset allocation decisions, much like the tortoise's steady progress towards long-term success.

Availability of new product is expanding the definition of the current ~\$15 trillion Alternatives market, with insurance and reinsurance playing a leading role. Four decades ago, insurance was seen primarily as a necessary but solid component of the financial world — a tool for managing risk and providing a safety net in times of crisis. It was a slow and reliable metaphorical tortoise in a fast-paced financial landscape. Today, however, insurance has evolved beyond its traditional role. It is no longer just a means of

managing risk, it has become a distinct asset class that investors can allocate capital to, offering diversification benefits and a stable complement to credit investments.

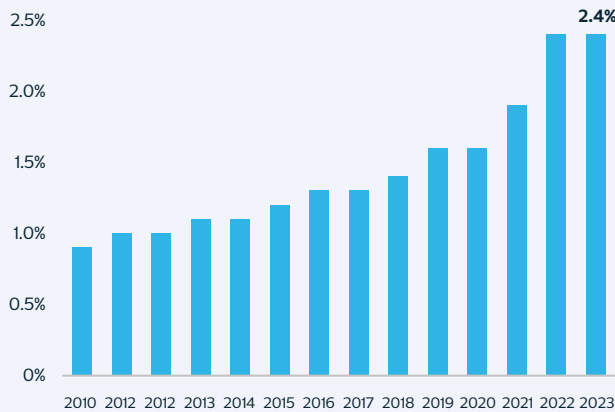
We and our partners at Global Atlantic see today’s market as a compelling investment opportunity for reinsurance as a non-correlated, high quality portfolio diversifier. Reinsurance allows insurers to transfer liabilities and free up regulatory capital, enabling them to pursue strategic goals such as growing core business lines or enhancing capital efficiency. Reinsurance investments typically involve purchasing blocks of assets and annuities from existing insurers and rotating them into asset classes where the reinsurer has an advantage in sourcing or credit selection – demonstrating the value of comprehensive origination capabilities. As demographic shifts increase demand for retirement products, particularly in the Asia-Pacific region, insurance companies need efficient ways to manage their

balance sheets and optimize regulatory capital. Asset-intensive reinsurance offers a solution to insurers, freeing up capital while delivering predictable, low-correlation returns to investors. A solution for both parties.

The objective of asset-intensive reinsurance is to generate a positive spread between the cost of reinsured liabilities and the net investment yield from underlying assets. While the spread generated may be modest, the high credit quality of the assets insulate reinsurance investments from broader market volatility and interest rate fluctuations, allowing reinsurance companies to hold assets to maturity and avoid reinvestment risk. This makes reinsurance a valuable addition to credit-focused portfolios.

EXHIBIT 10

Private Capital Under Management as a % of Global Financial Assets



Note: Prequin defines private capital as a broad term that refers to investments in assets not available in public markets. These investments include Private Equity, Venture Capital, Private Debt, Real Estate, Infrastructure, and Natural Resources. Data consists of the 21+EA-group: Argentina, Australia, Brazil, Canada, Cayman Islands, Chile, China, Euro Area, Hong Kong, India, Indonesia, Japan, Korea, Mexico, Russia, Saudi Arabia, Singapore, South Africa, Switzerland, Turkey, the United Kingdom, and the United States. Global financial assets include stocks, government debt, corporate credit, and bank credit. Data as at December 31, 2023 or latest available.

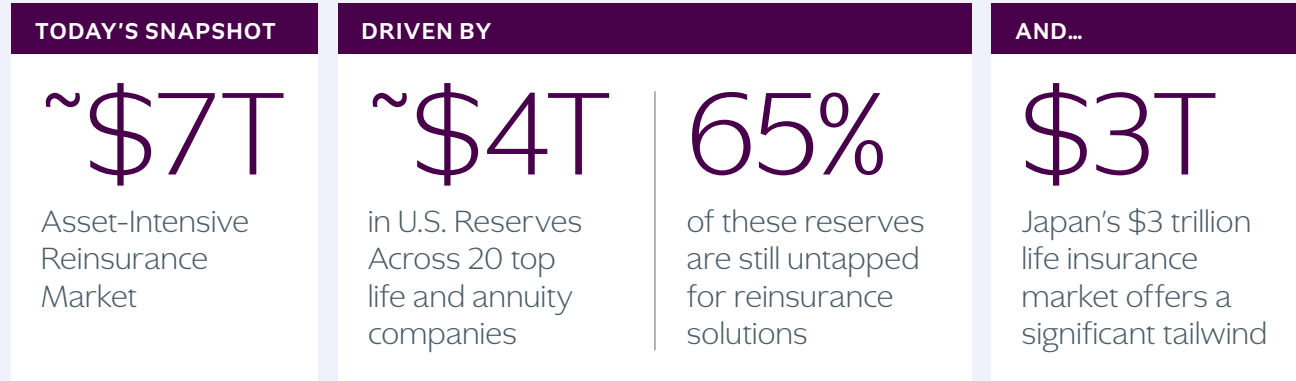
Source: Financial Stability Board, Prequin Future of Alternatives 2028, Bloomberg. 2023 value for Global Financial Assets is an estimate.

We Believe Reinsurance Transactions Can Provide Meaningful Diversification, Reduced Volatility, and Enhanced Performance

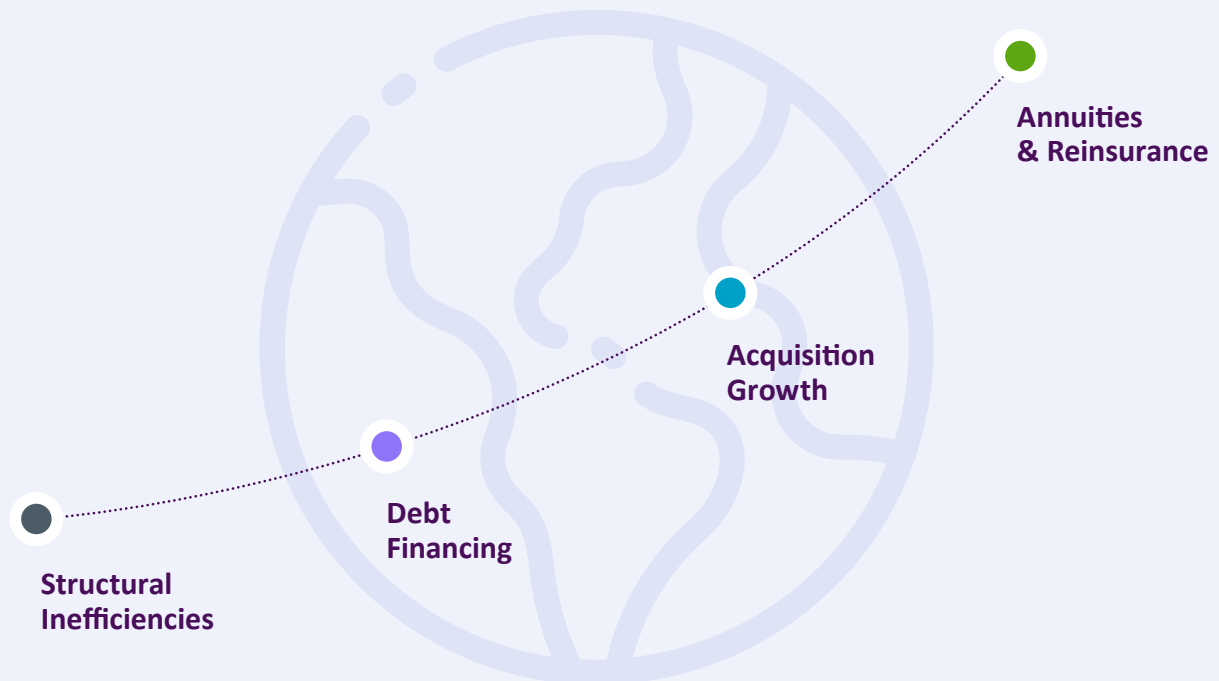
Asset	Model Portfolio (Weighting or Ratio)	Alternative 1	Alternative 2	Alternative 3
Equities	60%	60%	55%	55%
Bonds	40%	35%	40%	35%
Insurance Assets	0%	5%	5%	10%
Annualized Return	6.1%	6.4%	6.3%	6.6%
Volatility	11.6%	11.5%	10.8%	10.6%
Return Risk Ratio	0.52x	0.56x	0.59x	0.62x
Difference in Basis Points				
Annualized Return	6.1%	+29	+23	+52
Volatility	11.6%	-15	-83	-97
Return Risk Ratio	0.52x	+0.03x	+0.06x	+0.1x

Equities: MSCI ACWI Gross Total Return USD Index; Bonds: Bloomberg Global-Aggregate Total Return Index. Alternative Portfolio: Reinsurance transactions. Data from 1Q03 to 1Q24. Source: KKR GBR analysis.

Demand for Reinsurance has been Amplified by Structural Shifts in the Global Credit Markets



Key takeaway: The limited number of reinsurers offering these solutions has created a supply-demand imbalance, positioning credit investors and platforms with scaled origination to capitalize on this opportunity.



Sources: Global Atlantic analysis, SNL Financial, S&P Capital IQ, and industry data, as of December 31, 2023, including the U.S. and Japan. Global Atlantic analysis, public company filings and announcements as of September 30, 2024.

“The Finish Line”

No doubt many of us feel as though we have been running a marathon over the past few years, navigating the relentless pace of market, macroeconomic, and geopolitical change. That is why our third quarter theme is still running — from *Forrest Gump* to *The Tortoise and the Hare*. Ultimately, investing and managing risk is about playing the long game — there is no true “finish line.”

This quarter, through the lens of Aesop’s fable, our message remains firm: Resilience, through strategic positioning and consistent performance, is the north star of the credit universe. In August, we celebrated 20 years of KKR Credit. One of the defining features of that journey, we feel, has been the ability to lay a strong foundation while continuously evolving. Like the tortoise, we have not rested on our laurels. From the start of our Credit business in 2004, we have focused on improving, adapting, and seeking new investments and origination capabilities.

In today’s environment, creativity within the capital structure, ingenuity with solutions, and thoughtful portfolio construction are more important than ever. Differentiated origination and long-term thinking are essential; it’s no longer enough to simply jump at a trade to set it and forget it. Often, the best opportunities are not immediately executable but can be woven into a proactive,

long-term strategy. Investors should continue to focus on absolute yield and credit’s relative dependability. After all, prospective returns today are more attractive than they were for the ten years post-GFC. This is why staying invested is key — carefully managing risk and strategically leveraging carry over convexity when appropriate. The punchline? Challenges will persist and it will be hard, from increased dispersion and tightening spreads to a slowing economy. But that is exactly why having a broad set of tools and a trusted and dedicated team with aligned incentives is critical to performing in this environment.

As a team, we leaned into bringing KKR and Global Atlantic together through 100% ownership, ensuring that our partners and clients can benefit from our combination of specialized knowledge, global footprint, and market insights. Whether it is public, private, corporate, or asset-backed markets, we continue to leverage our fundamental credit toolkit and strong origination capabilities to deliver tailored, all-weather investment solutions.

Much like the evolution of traditional asset-management equity teams, we have intentionally designed our business to balance sector and asset-type specific expertise with generalist approaches to maximize our ability to identify, originate, and manage opportunities. This evolution has been deliberate, positioning KKR’s investment acumen, human capital, and origination capabilities to capture compelling opportunities across our platform. Whether through KKR Credit & Capital Markets, our insurance franchise with Global Atlantic, or leaning into newer strategies in capital solutions and Asia credit, we try to focus on staying ahead of the curve, optimizing for risk-adjusted returns, and preparing for future complexity and evolution.

The punchline? Challenges will persist and it will be hard, from increased dispersion and tightening spreads to a slowing economy. But that is exactly why having a broad set of tools and a trusted and dedicated team with aligned incentives is critical to performing in this environment.

The global markets are more interconnected than ever, and both our platform and the structure of the firm reflect that reality. This is how we at KKR have positioned ourselves for the future, a mindset we have held since KKR's founding in 1976. Simply said, this is how we prepare to run the endless marathon relay race that is investing.

Thank you to our investors, partners and readers 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

Resilience: The Original Power Move

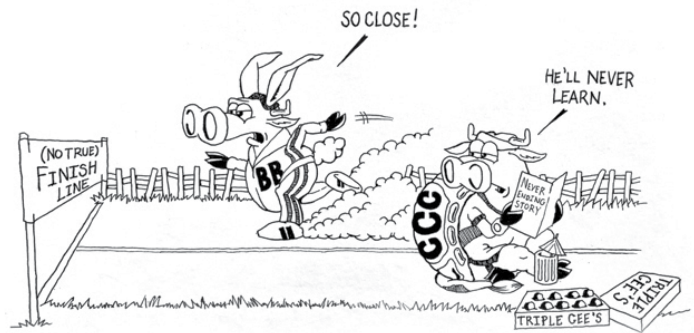


Illustration by: Jerry Capria, KKR Credit.

Footnotes

1. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
2. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
3. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
4. S&P LSTA and KKR Credit Analysis as of September 30, 2024
5. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
6. JPMorgan Research, Pitchbook | LCD and KKR Credit Analysis as of October 4, 2024
7. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
8. JPMorgan Research, Pitchbook | LCD and KKR Credit Analysis as of October 4, 2024
9. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
10. ICE BofAML and KKR Credit Analysis as of September 30, 2024
11. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
12. BofA Global Research, Bloomberg and KKR Credit Analysis as of September 30, 2024
13. BofA Global Research, Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
14. BofA Global Research, Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
15. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024
16. Pitchbook | LCD and KKR Credit Analysis as of September 30, 2024

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KKR

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

www.kkr.com