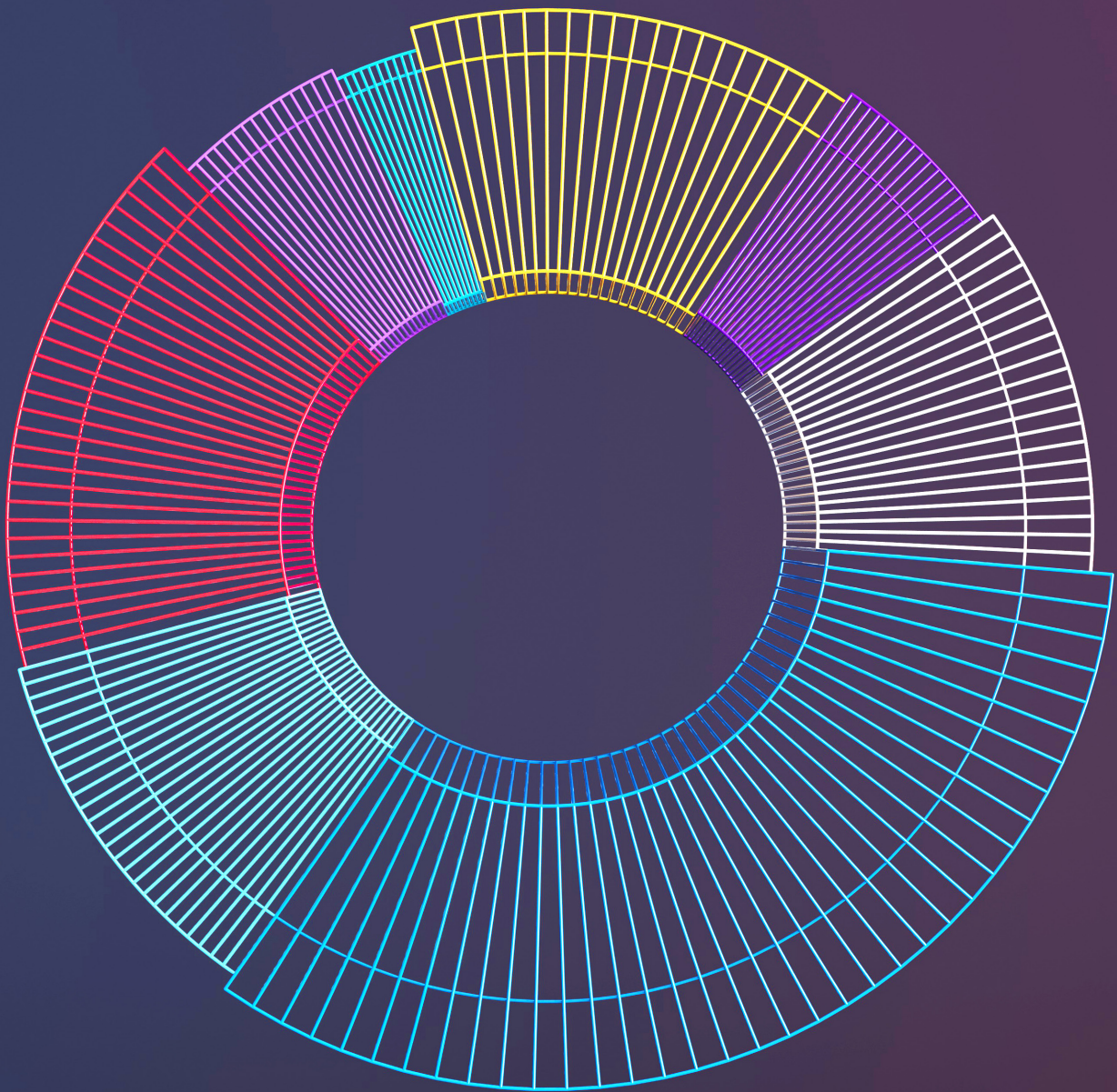


INSIGHTS

GLOBAL MACRO TRENDS

VOLUME 12.3 • MAY 2022

Regime Change: Enhancing the 'Traditional' Portfolio



Contents

Introduction: Understanding the Golden Age of the '60/40'	3
Portfolio Construction Shifts for the New Investing Regime	6
• Enhancing the '60%' Capital Appreciation Component	6
• Enhancing the '40%' Income and Hedge Component	9
• Beyond the Stock-Bond Correlation	10
Conclusions and Suggestions	10

AUTHORS FROM THE GLOBAL MACRO, BALANCE SHEET AND RISK TEAM



Henry H. McVey

CIO of the KKR Balance Sheet,
Head of Global Macro
& Asset Allocation,
Balance Sheet and Risk
henry.mcvey@kk.com



Racim Allouani

Leads Portfolio Construction,
Risk Management and
Quantitative Analysis across
KKR Private and Public Markets
racim.allouani@kk.com



Thibaud Monmirel

Associate,
KKR Global Macro,
Balance Sheet and Risk
thibaud.monmirel@kk.com

MAIN OFFICE

Kohlberg Kravis Roberts & Co. L.P.
30 Hudson Yards
New York, New York 10001
+ 1 212 750 8300

COMPANY LOCATIONS

New York, San Francisco, Menlo Park, Houston, London, Paris,
Dublin, Madrid, Luxembourg, Frankfurt, Hong Kong, Beijing,
Shanghai, Singapore, Dubai, Riyadh, Tokyo, Mumbai, Seoul, Sydney

Regime Change: Enhancing the 'Traditional Portfolio'

In a world faced with tremendous macro and geopolitical uncertainty amidst rapidly changing financial conditions, the temptation is to fall back on what has worked in the past.

Yet, as we discussed in some detail in our 2022 Outlook, we believe that we are entering a new environment for investing, an environment where structural forces — in particular the changing structural relationship between stocks and bonds — demand a new approach to portfolio construction. Key to our thinking is not only are forward returns likely to be lower for risk assets such as Public Equities, but also traditional Fixed Income may no longer serve as a shock absorber, or diversifier, when paired with other asset classes in a diversified portfolio. Against this more challenging backdrop, however, we still believe that there are compelling opportunities to build upon a traditional '60/40' portfolio to deliver attractive risk-adjusted-returns in the environment we envision. Specifically, we think that adding asset classes such as Private Real Estate and Private Infrastructure can enhance the Equity part of the '60' portfolio, while Private Credit can bolster the '40' segment of the Fixed Income portfolio. At the same time, we also think that the increasing democratization of alternative asset classes is creating a compelling opportunity for all investors to harness the illiquidity premium in a potentially more thoughtful way.

The present is the ever moving shadow that divides yesterday from tomorrow. In that lies hope.

—Frank Lloyd Wright, American architect,
designer, writer, and educator

In today's world of heightened uncertainty in the global capital markets, the natural inclination for an asset allocator might be to go back to what has worked or seemed 'safe' in the past. To many investors, the 'safe' impulse would definitely be to migrate existing portfolios to the traditional '60/40' mix of assets, which comprises 60% Equities and 40% Bonds. As *Exhibit 1* shows, the '60/40' has delivered not only solid absolute performance in the past, but has also done so with a much better return/risk ratio than either asset class in isolation. All told, through December 31, 2021, the 3- and 10-year annualized returns of the '60/40' portfolio have been 17.5%, and 11.1%, respectively. The risk-adjusted returns (or Sharpe ratios) of this simple allocation have reached impressive levels of 1.67x over the last three years and 1.41x over the last 10 years. This risk-adjusted performance has been materially ahead of the individual asset classes that compose the benchmark. It has also bested the performance of many CIOs who have tried to diversify away from the benchmark by seeking sources of alpha.

Exhibit 1

Is the Golden Age of the '60/40' Portfolio Over?

Performance of Stocks, Bonds and the 60% Stocks / 40% Bond Portfolio

	Last 10 Years			Last 3 Years		
	US Equities	US Bonds	60/40 portfolio	US Equities	US Bonds	60/40 portfolio
Annualized Return	16.5%	2.9%	11.1%	26.1%	4.8%	17.5%
Annualized Volatility	13.0%	3.0%	7.9%	17.2%	3.4%	10.5%
Return / Risk Ratio	1.27	0.98	1.41	1.52	1.43	1.67

Data as at May 3, 2022. Source: Bloomberg. Monthly returns from the S&P 500 for US Equities and from Bloomberg Barclays Aggregate for US Bonds. 60/40 Portfolio constructed assuming monthly rebalancing.

Why has this outperformance happened? In theory, the equities component of the benchmark aims at delivering capital appreciation in line with the growth of the overall economy, while the purpose of the bond component is to provide income and act as a stabilizer, or shock absorber,

Regime Change: Enhancing Traditional Portfolio Construction for Highly Inflationary Environments with a '40/30/30' Portfolio

Traditional Portfolio	KKR Enhanced Portfolio	Investor Benefits
'60%' Equity Component	40% Public Stocks plus 10% Private Infrastructure and 10% Private Real Estate	Infrastructure and Real Estate assets often have inflation indexation increases embedded in their cash flows; the replacement value of their assets increases in a rising nominal GDP environment; and they often have the ability to pass through costs more easily than many parts of the broader equity markets.
'40%' Income and Hedge Component	30% Traditional Fixed Income plus 10% Private Credit	Shifting a portion of the portfolio to floating rate assets helps boost the income-generating component of the fixed income allocation. It also shortens the duration, but still provides some valuable diversification to the overall portfolio.

Key Investing Conclusion

In today's world of heightened macro and geopolitical uncertainty, we suggest that allocators of capital revisit *whether the underlying characteristics of their existing portfolios may be changing*. From our perch at KKR, we believe that an enhanced portfolio, which includes a 10% weighting each to Private Real Estate and Private Infrastructure and Private Credit, can materially bolster the return per unit of risk across a variety of macroeconomic environments without unduly penalizing one's liquidity profile.

in times of market or economic stress. Also, it has performed better in recent years than other more diversified portfolios that both institutional and individual investors have embraced because stocks and bonds have been negatively correlated.

Whether or not one subscribes to the '60/40' portfolio theory, this benchmark has become a de facto measurement tool for most CIOs. Indeed, most of the CIOs with whom we speak across major pools of liquidity, including pensions, endowments, insurance companies, and increasingly individual investors, use the '60/40' (or a '70/30') as a form of benchmark to measure whether their asset allocation, manager selection, and/or security selection preferences are adding value to the overall process. Not surprisingly, this form of 'score keeping' has become an important part of how CIOs and their investment teams are compensated over time.

Exhibit 2

A Regime Change Is Occurring



Data as at March 9, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Importantly, however, as we look ahead, all our macro and portfolio construction work at KKR suggests that we are entering a new environment for investing. Specifically, we are now seeing rising interest rates, higher levels of inflation, and heightened geopolitical risks against a backdrop of slower real economic growth. As such, we have spent

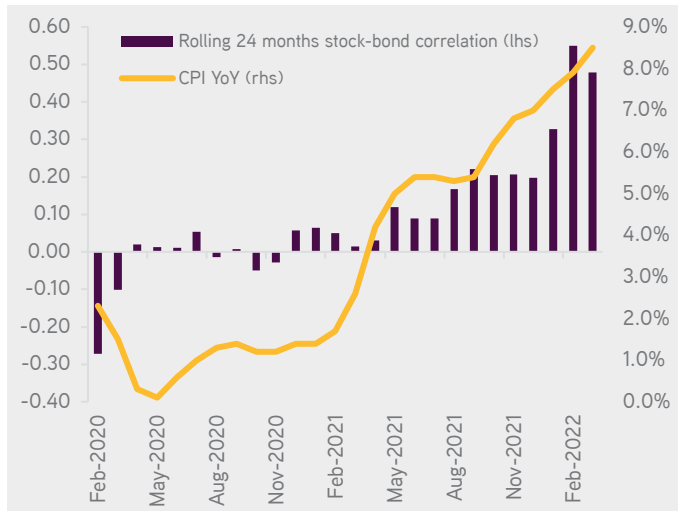
time analyzing whether past performance is a prologue for future performance. Our bottom line, similar to what we laid out in our 2022 Outlook (see *A Different Kind of Recovery*), is that this time is different. As such, we firmly believe that we have entered a regime change, where structural forces now warrant a different approach to portfolio construction, including a re-examination of the merits of the '60/40' allocation. **Key to our thinking, as we discuss below in more detail, is that the structural relationship between stocks and bonds, particularly during volatile markets, is changing.** In particular, we believe that not only are forward returns likely to be lower but also that Bonds can no longer serve as shock absorbers or diversifiers when paired with Equities (*Exhibit 3*).

Given this view, we think that investors may need to add different types of investments to their '60/40' mix to protect their purchasing power in this new environment we envision. At KKR, we traffic mainly in private investments. As such, we have created some alternative asset allocation strategies, described below in greater detail, that we believe can be value-added to '60/40' portfolios, especially if we are right about the correlation between stocks and bonds breaking down. If there is good news, our research shows that there are opportunities to add value on *both* the Equity and Bond sides of the '60/40' mix. Our bottom line: It is not business as usual in the investment management business and now is the time for all investors to revisit their asset allocation game plan on a prospective basis.

Key to our thinking is that the structural relationship between stocks and bonds, particularly during volatile markets, is changing. In particular, we believe that not only are forward returns likely to be lower but also that Bonds can no longer serve as shock absorbers or diversifiers when paired with Equities.

Exhibit 3

The Relationship Between Stocks and Bonds Is Changing in This Inflationary Environment



Data as at March 31, 2022. Rolling 24 months correlations calculated using monthly total returns of the S&P500 Index and Barclays US Aggregate Index.

Portfolio Construction Shifts for the New Investing Regime

So, as we described above, without question, the 2010s were a golden decade for the '60/40' investor. In particular, the stars were perfectly aligned for the '60/40' allocation to

perform strongly after the Great Financial Crisis of 2008. Stocks rose and rates fell; thus bond prices rose and the stock-bond correlation was muted.

However, we believe each of these premises will be at risk in the next decade and are now beginning to turn. Let's start with stocks.

1 Enhancing the '60%' Capital Appreciation Component

Stocks have had a good run to say the least. Just consider that the S&P 500 compounded at 26% over the 3-years ending 2021, was up 16.6% for the 10 years ending in 2021, and delivered positive returns in 17 of the last 19 years (including nine times in the last decade). Not surprisingly, public valuations now screen high compared to history. Importantly, however, as we look ahead, the macro environment could be less favorable. In particular, the performance of stocks in inflationary environments deserves careful attention. In the most salient historical precedent that we could find, the 1970s decade, stocks returned just 0.4% in real terms if one subtracts the average inflation rate (7.5%) from actual nominal returns (7.9%). Back then, value stocks provided most of the index uplift, but overall returns were barely positive.

Exhibit 4

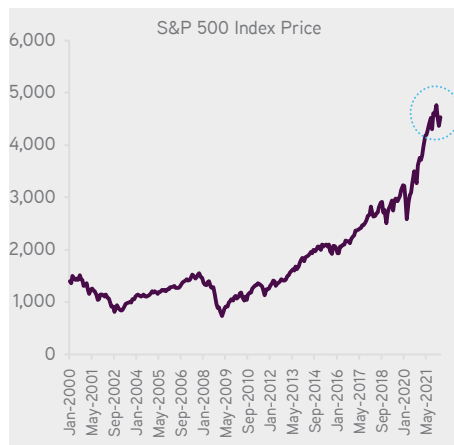
After Decades On a Declining Trend, Rates Are Starting to Rise



Data as at March 31, 2022. Source: Bloomberg. US Generic Government 10-Year Yield Index.

Exhibit 5

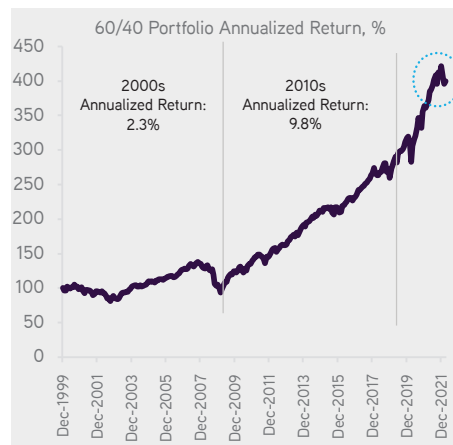
Stocks Seeing Signs of Turbulence After a Decade-Long Bull Market



Data as at March 31, 2022. Source: Bloomberg. S&P500 Total Return Index.

Exhibit 6

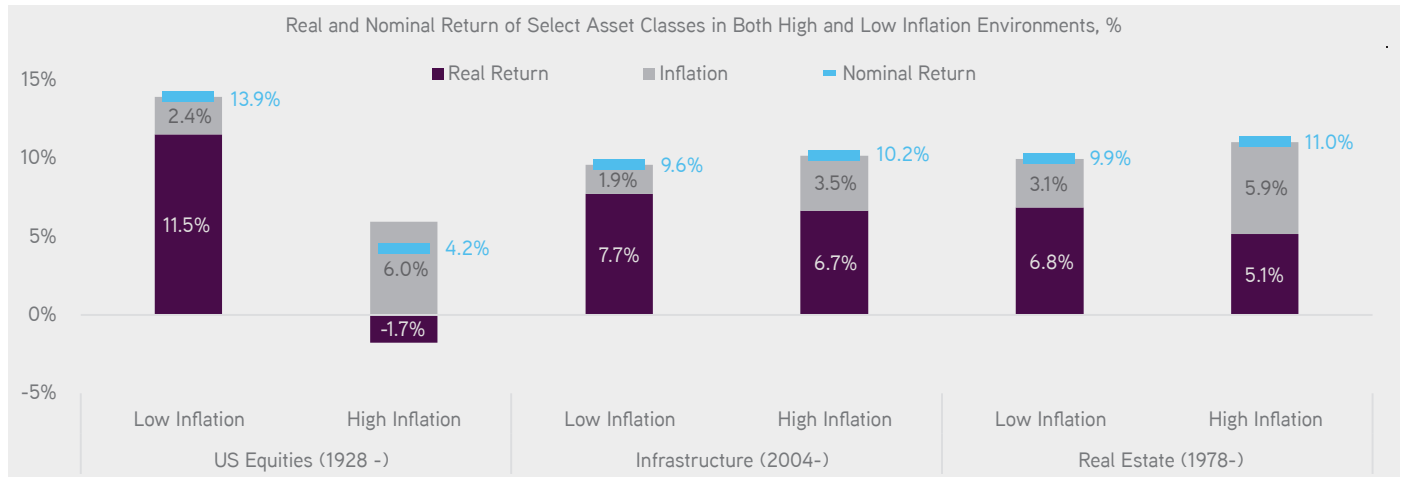
The 2010s, the Golden Decade of the '60/40'



Data as at March 31, 2022. Source: Bloomberg. 60-40 Portfolio modeled using S&P500 and Barclays US aggregate total returns, assuming monthly rebalancing.

Exhibit 7

Public Equities Yielded Negative Real Returns in Inflationary Environments, While Private Real Assets Have Shown Higher Resiliency (Albeit On a Shorter Timeframe)



Annual total returns from 1928 to 2021 for the S&P 500 from 1978 to 2021 for Real Estate and from 2004 to 2021 for Infrastructure. Real returns calculated as $[(1+\text{nominal return})/(1+Y/y \text{ Inflation}) - 1]$. Inflation component of the asset class return calculated as the difference between nominal and real return over the given period of time. US Public equities modeled with S&P500 Index. Private Infrastructure modeled using the Burgiss Infrastructure Index. Real Estate modeled using the NCREIF Property Levered Index.

Looking at the bigger picture, we note that across all inflationary periods since 1928 (defined as years where inflation was above the median level of 2.7% and increased over the year by more than one percent), U.S. Equities, as measured by the S&P 500, returned on average 4.2% in nominal terms (-1.7% in real terms), compared to 13.9% in nominal terms (11.5% in real terms) in non-inflationary periods.

In addition to today's tilt of the overall index towards growth stocks, we think that index-level forward returns could also be challenged by the high level of concentration in just a few names. All told, the top five names of the S&P 500 now account for 20.2% of the index. The closest comparison was in March 2000, when five of the names in the index accounted for 18.4% of the total. History shows that in such instances regulatory scrutiny, the law of large numbers, and other forces at work, usually lead to weaker performance by these large companies – and hence, of the overall index.

Looking ahead, we believe that thoughtful portfolio construction will now involve enhancing the equity component with asset classes that are more likely to appreciate in an inflationary environment. So, our suggestion

is to improve the 60% tranche of the typical '60/40' portfolio with more yield and inflation protection through the use of alternative investments. Asset classes that we at KKR believe are the best portfolio enhancers are Real Estate and Infrastructure. Specifically, we believe reducing the allocation to public stocks to 40% while adding 10% to Private Infrastructure and 10% to Private Real Estate will provide benefits to all allocators of capital trying to navigate the new investing regime we are forecasting.

Real Estate performance is comprised of two main components: property value appreciation and recurring cash flows. All else being equal, property values should appreciate with inflation. When inflation accelerates, construction costs should also rise and the development of new properties therefore becomes more uncertain. This limits new supply and puts upward pressure on property prices. On the recurring cash flow side, income should also appreciate, especially for properties with leases that reset frequently (e.g., multi-family residential favored over long lease offices). Finally, the debt structure of properties matters and those with fixed rate, long maturity debt would fare better. For these reasons, exposure to sectors with supply demand equilibrium and long term thematic demand

drivers historically have appreciated in value even in rising rate environments. While each property type, location, and property is unique and resists broad generalization, those aspects of the asset class coupled with careful investment selection by a dedicated manager give us more comfort than broad equities.

Infrastructure is akin to Real Estate in that the return on investment derives from asset value appreciation and its recurring cash flow components. While the type of infrastructure asset, location, and regulatory regime will be unique and dictate the sensitivity to inflation, there are common traits. Most infrastructure assets (values and cash flows) have an explicit link to inflation through regulation and concession agreements or contracts (e.g., regulated utilities and toll roads). Other types of assets are often in a position to pass through the impact of inflation to customers.

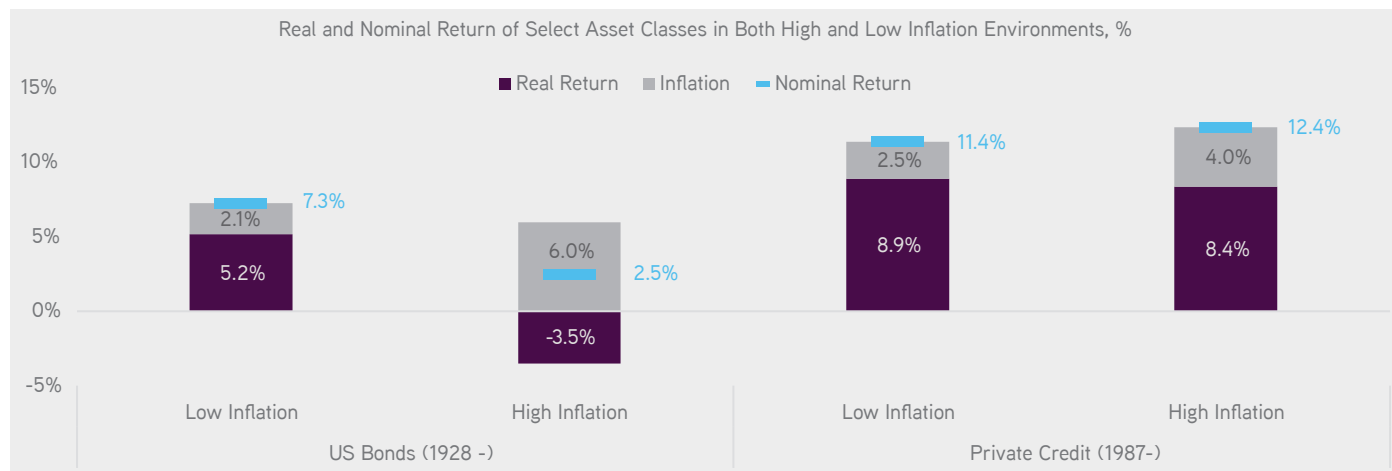
The benefits, in our opinion, of what we are suggesting to investors could be quite significant over time. Both infrastructure and real estate assets often have inflation indexation increases embedded in their cash flows; the replacement value of their assets increases in a rising

nominal GDP environment; and they often have the ability to pass through costs more easily than many parts of the broader equity markets. For those who have longer-term capital to deploy, the value of the illiquidity also becomes significant in a world where aggregate returns are falling. In our view, these attributes could materially boost the performance of one's equity portfolio over time, particularly if traditional public equity performance mean reverts.

To be sure, both Private Real Estate and Private Infrastructure have admittedly been less battle-tested through inflationary times. Nonetheless, going as far back as reliable data allows — 2004 for Infrastructure and 1978 for Real Estate — we find that, on average, those asset classes were more resilient to an inflationary backdrop than public stocks (albeit in milder inflation regimes). *Exhibit 7* shows Infrastructure and Real Estate returning similar nominal returns in both high inflation and low inflation environments, and real returns that are only one to two percent lower in high inflation than in low inflation periods. Beyond the lack of historic data going back to hyperinflationary periods, their structural and pricing mechanisms make us optimistic for the future resiliency of these asset classes to rising inflation.

Exhibit 8

U.S. Bonds Yielded Negative Real Returns in Inflationary Environments, While Private Credit Has Shown Higher Resiliency (On a Shorter Time Frame)



Using annual total returns from 1928 to 2021 for US Bonds and from 1987 to 2021 for Private Credit. Real returns calculated as $[(1 + \text{nominal return}) / (1 + Y/y \text{ Inflation}) - 1]$. Inflation component of the asset class return calculated as the difference between nominal and real return over the given time period. Private Credit modeled using the Burgiss Private Credit All Index. Bonds modeled using a mix of 50% US T.Bond and 50% Baa Corp Bond annual returns, computed historically by Professor Damodaran (NYU Stern).

2 Enhancing the '40%' Income and Hedge Component

The highest risk to the bond bucket is a rising rate environment coupled with a response to higher inflation that affects bond values, particularly those with longer duration. Looking at highly inflationary periods from 1928 for US Bonds, *Exhibit 8* shows us that US Bonds suffered drastically – returning 2.5% in nominal terms (-3.5% real) compared to 7.3% in nominal terms (+5.2% real) in non-inflationary times.

In order to preserve the income-generating nature of the 40% component while shortening the overall duration, we believe that shifting some of the fixed income allocation to floating rate assets such as loans would be appropriate. The floating rate nature of loans would link the income component to rates (and indirectly to inflation via central banks' monetary policy).

While leveraged loans embed more credit risk than treasuries or mortgages, we believe that – in the face of the current interest rates outlook – tilting the balance between rates risk and credit risk offers a safer posture. Here again, going the private route via Private Direct Lending would allow

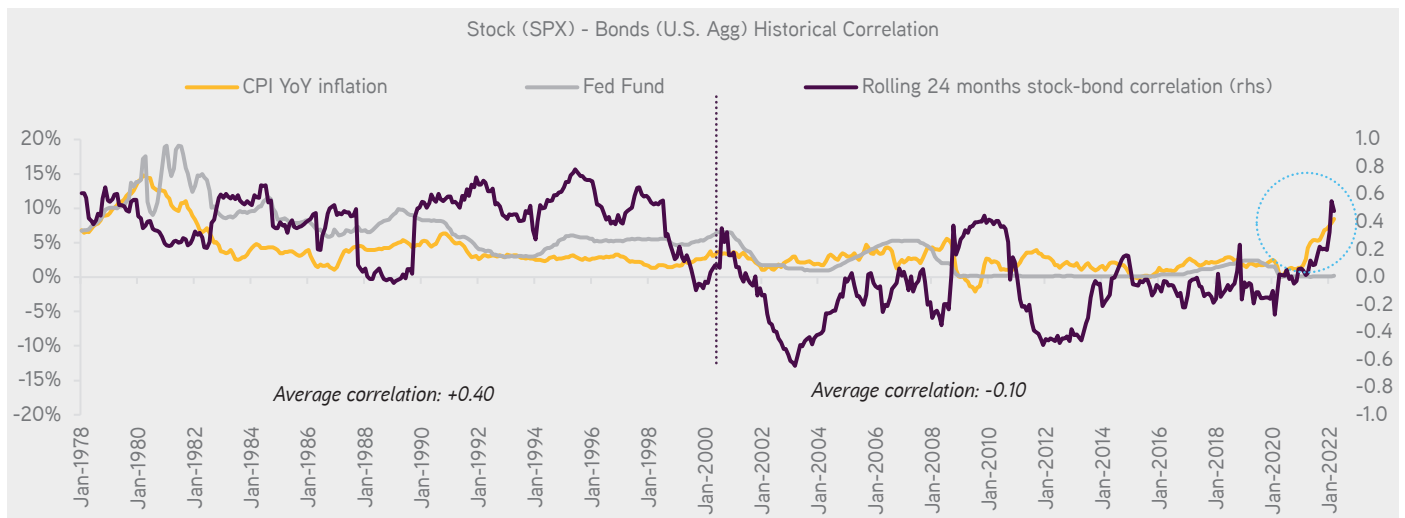
investors to lock in an illiquidity premium (two to three percent) that could absorb the eventuality of lower growth driven credit losses.

Similar to other private alternatives, Private Credit relies on a shorter history (starting in 1987) than public stocks and bonds. That said, private credit assets are floating rate and the income to the investor will mechanically increase with rising short-term rates in response to rising inflation. Our view is that underlying borrowers will need to be in a position to make interest payments, whether fixed or floating. Ensuring that borrowers have pricing power to pass through potentially rising input costs will be critical. Carefully monitoring profit and EBITDA margins in these early stages of potentially longer lasting inflation is paramount in order to identify companies and subsectors able to preserve margins should inflation reset at a higher level.

The portfolio enhancing benefits of adjusting the 40% bond component of the traditional '60/40' portfolio warrant investor attention in our view. We believe that reducing the traditional fixed income component to 30% while adding a 10% allocation to Private Credit will provide important flexibility and yield enhancing characteristics.

Exhibit 9

As Inflation Rises, the Stock-Bond Correlation Is Turning Positive, Weakening the Hedging Properties of Bonds Vs. Stocks



Rolling 24 months correlations calculated using monthly total returns from 1978 to 2021. Stocks modeled using the S&P500 Index and Bonds modeled using the Barclays US Aggregate Index. Source: Bloomberg.

3 Beyond the Stock-Bond Correlation

As noted earlier, one objective of the traditional ‘60/40’ portfolio has been for the bond component to act as a stabilizer to the growth component. This implies that the stock bond correlation should be negative when one needs it (if stocks fall, the bond component partially shores up portfolio value). The reality is that the stock-bond correlation has been highly unstable over time and very regime-dependent. While it has been slightly negative (-0.10) since the 2000s, it was significantly positive (+0.40) from 1980 to 2000, whereby the hedging properties of bonds evaporated. The stock-bond correlation is also higher when inflation rises, as we have witnessed in recent months (*Exhibit 9*).

Our bottom line: We think that increasing diversification to enhance portfolios so there are ‘more ways to win’ is important in the environment that we believe we are entering. In a stagflation scenario where inflation rises and growth falters, bond prices would mechanically fall and equities would follow suit. In such instances, asset classes like Private Real Estate and Private Infrastructure with lower dependence on growth and superior inflation properties could act as ‘risk-off’ beneficiaries. *Exhibit 10* shows that over the past four decades, Real Estate and Infrastructure correlations to Equities has been moderate (0.15-0.50).

Our bottom line: We think that increasing diversification to enhance portfolios so there are ‘more ways to win’ is important in the environment that we believe we are entering. Asset classes like Private Real Estate and Private Infrastructure with lower dependence on growth and superior inflation properties could act as ‘risk-off’ beneficiaries.

Exhibit 10

Traditional and Private Assets Classes Correlations

From 06/30/76 to 12/31/21	US Public Equities	US Bond Aggregate	Real Estate (NPI)	Infra-structure (Burgiss)	Private Debt (Burgiss)
US Public Equities	1.00	0.11	0.15	0.50	0.74
US Bond Aggregate	0.11	1.00	-0.11	-0.06	-0.23
Real Estate (NPI)	0.15	-0.11	1.00	0.48	0.26
Infrastructure (Burgiss)	0.50	-0.06	0.48	1.00	0.67
Private Debt (Burgiss)	0.74	-0.23	0.26	0.67	1.00

Pairwise historical correlations calculated using quarterly total returns, using overlapping dates only for time series with different starting points. US Public Equities modeled with S&P500 Index from June 76 to December 2021. Bonds modeled with Barclays US Aggregate from June 1976 to December 2021. Private Infrastructure modeled using the Burgiss Infrastructure Index from March 04 to December 21. Real Estate modeled using the NCREIF Property Levered Index from March 1996 to December 2021. Private Credit modeled using Burgiss Private Credit All Index from March 1996 to December 2021.

4 Conclusions and Suggestions

As we noted at the outset, we believe that the macroeconomic environment has shifted meaningfully. In fact, we are calling it a regime change, a conjecture that we do not make lightly. As part of this transition, we have a growing conviction that overall forward returns will likely come under pressure for traditional asset classes like Public Equities and Bonds. Hence, our strong belief is that now is the time for all investors to revisit their asset allocation, including portfolio construction.

Overall, our work shows that there is a significant opportunity to not only protect but also potentially enhance the equity sleeve of portfolio returns by adding Real Assets, including Private Real Estate and Private Infrastructure. Meanwhile, we believe that adding Private Credit can also help enhance returns on the fixed income side of the ledger.

Importantly, we think that the merits of a ‘40/30/30’ portfolio relative to the traditional ‘60/40’ are valid in most environments, though they shine in a higher inflationary environment. Given this view, we think that this piece should

serve as a call to arms for portfolio managers and CIOs to revisit their current asset allocations.

Why do we think this? To illustrate (*Exhibit 11*), we ran a traditional '60/40' portfolio against our suggested '40/30/30' portfolio in three differing scenarios: low inflation, high inflation, and all periods (regardless of inflation). We substituted 20% of the Public Equities sleeve with a combination of 10% Private Real Estate and 10% Private Infrastructure, and replaced 10% of the traditional Bond allocation with 10% of Private Credit. Noting again that the observation period for private asset classes is shorter than for public stocks and bonds, the private alternatives enhanced '40/30/30' portfolio significantly reduced portfolio volatility while maintaining or improving returns in all environments. In low inflation environments, volatility is reduced by 2.5% and returns reduced by a mere 50 basis points, significantly increasing the expected Sharpe ratio. More importantly, in high inflation environments, volatility in the '40/30/30' portfolio was reduced by 3.7% while returns were enhanced by 2.8%, improving the Sharpe ratio by almost 0.4x.

Exhibit 11

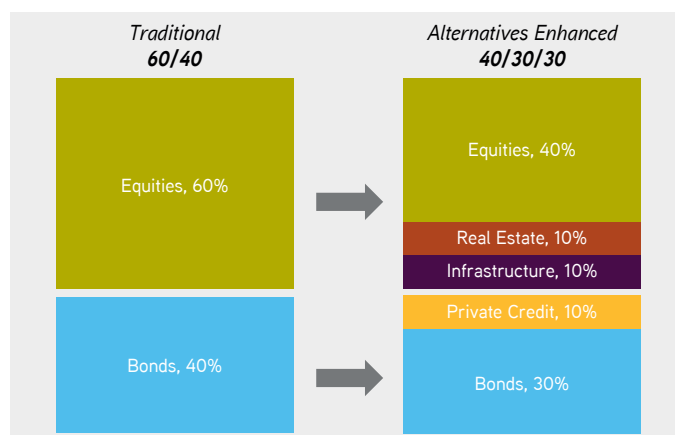
The '60/40' With Private Markets Outperforms the Traditional '60/40' On a Risk-Adjusted Nominal Return Basis in All Environments

	All Periods		High Inflation		Low Inflation	
	60/40	40/30/30	60/40	40/30/30	60/40	40/30/30
Return	9.3%	9.6%	1.5%	4.3%	11.0%	10.5%
Volatility	12.7%	9.6%	12.5%	8.8%	11.5%	9.1%
Sharpe Ratio	0.73	1.00	0.12	0.49	0.96	1.16

Portfolio returns and volatility modeled using annual total returns from 1928 to 2021 for the S&P500, from 1978 to 2021 for Real Estate, from 2004 to 2021 for Infrastructure, from 1928 to 2021 for Bonds, and from 1987 to 2021 for Private Credit. Assumes continuous rebalancing of the portfolios. US equities modeled using the S&P500 Index. Bonds modeled using a mix of 50% US T.Bond and 50% Baa Corp Bond annual returns, computed historically by Professor Damodaran (NYU Stern). Real Estate modeled using the NCREIF Property Levered Index. Private Infrastructure modeled using the Burgiss Infrastructure Index. Private Credit modeled using the Burgiss Private Credit All Index.

Exhibit 12

How We Suggest Enhancing the Traditional '60/40' Portfolio



Data as at May 3, 2022. Source: KKR Portfolio Construction and Data Analytics.

So, in today's world of heightened macro and geopolitical uncertainty, we suggest that allocators of capital revisit whether the underlying characteristics of their existing portfolios may be changing. From our perch at KKR, we firmly believe that what has worked in the past, particularly in the last decade of returns being enhanced by the negative correlation of stocks and bonds, will not be as effective in the new macroeconomic environment we envision. As such, there is the potential to enhance the traditional '60/40' mix of assets by using Real Assets and Private Credit to bolster both the performance and the durability of one's overall portfolio, including maximizing the potential for an increase in its reward per unit of risk. Moreover, given the increasing democratization of alternative asset classes, we see an increasing opportunity for all investors to capture the value of the illiquidity premium in a potentially more thoughtful way than in the past.

So, in today's world of heightened macro and geopolitical uncertainty, we suggest that allocators of capital revisit whether the underlying characteristics of their existing portfolios may be changing.

Important Information

References to “we”, “us,” and “our” refer to Mr. McVey and/or KKR’s Global Macro and Asset Allocation team, as context requires, and not of KKR. The views expressed reflect the current views of Mr. McVey as of the date hereof and neither Mr. McVey nor KKR undertakes to advise you of any changes in the views expressed herein. Opinions or statements regarding financial market trends are based on current market conditions and are subject to change without notice. References to a target portfolio and allocations of such a portfolio refer to a hypothetical allocation of assets and not an actual portfolio. The views expressed herein and discussion of any target portfolio or allocations may not be reflected in the strategies and products that KKR offers or invests, including strategies and products to which Mr. McVey provides investment advice to or on behalf of KKR. It should not be assumed that Mr. McVey has made or will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client or proprietary accounts. Further, Mr. McVey may make investment recommendations and KKR and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this document.

The views expressed in this publication are the personal views of Henry H. McVey of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, “KKR”) and do not necessarily reflect the views of KKR itself or any investment professional at KKR. This document is not research and should not be treated as research. This document does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of KKR. This document is not intended to,

and does not, relate specifically to any investment strategy or product that KKR offers. It is being provided merely to provide a framework to assist in the implementation of an investor’s own analysis and an investor’s own views on the topic discussed herein.

This publication has been prepared solely for informational purposes. The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this document has been developed internally and/or obtained from sources believed to be reliable; however, neither KKR nor Mr. McVey guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision.

There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Target allocations contained herein are subject to change. There is no assurance that the target allocations will be achieved, and actual allocations may be significantly different than that shown here. This publication should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy.

The information in this publication may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There

is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Performance of all cited indices is calculated on a total return basis with dividends reinvested. The indices do not include any expenses, fees or charges and are unmanaged and should not be considered investments.

The investment strategy and themes discussed herein may be unsuitable for investors depending on their specific investment objectives and financial situation. Please note that changes in the rate of exchange of a currency may affect the value, price or income of an investment adversely.

Neither KKR nor Mr. McVey assumes any duty to, nor undertakes to update forward looking statements. No representation or warranty, express or implied, is made or given by or on behalf of KKR, Mr. McVey or any other person as to the accuracy and completeness or fairness of the information contained in this publication and no responsibility or liability is accepted for any such information. By accepting this document, the recipient acknowledges its understanding and acceptance of the foregoing statement.

The MSCI sourced information in this document is the exclusive property of MSCI Inc. (MSCI). MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

KKR

Kohlberg Kravis Robert & Co. L.P.

30 Hudson Yards

New York, New York 10001

+ 1 (212) 750 8300

www.kkr.com