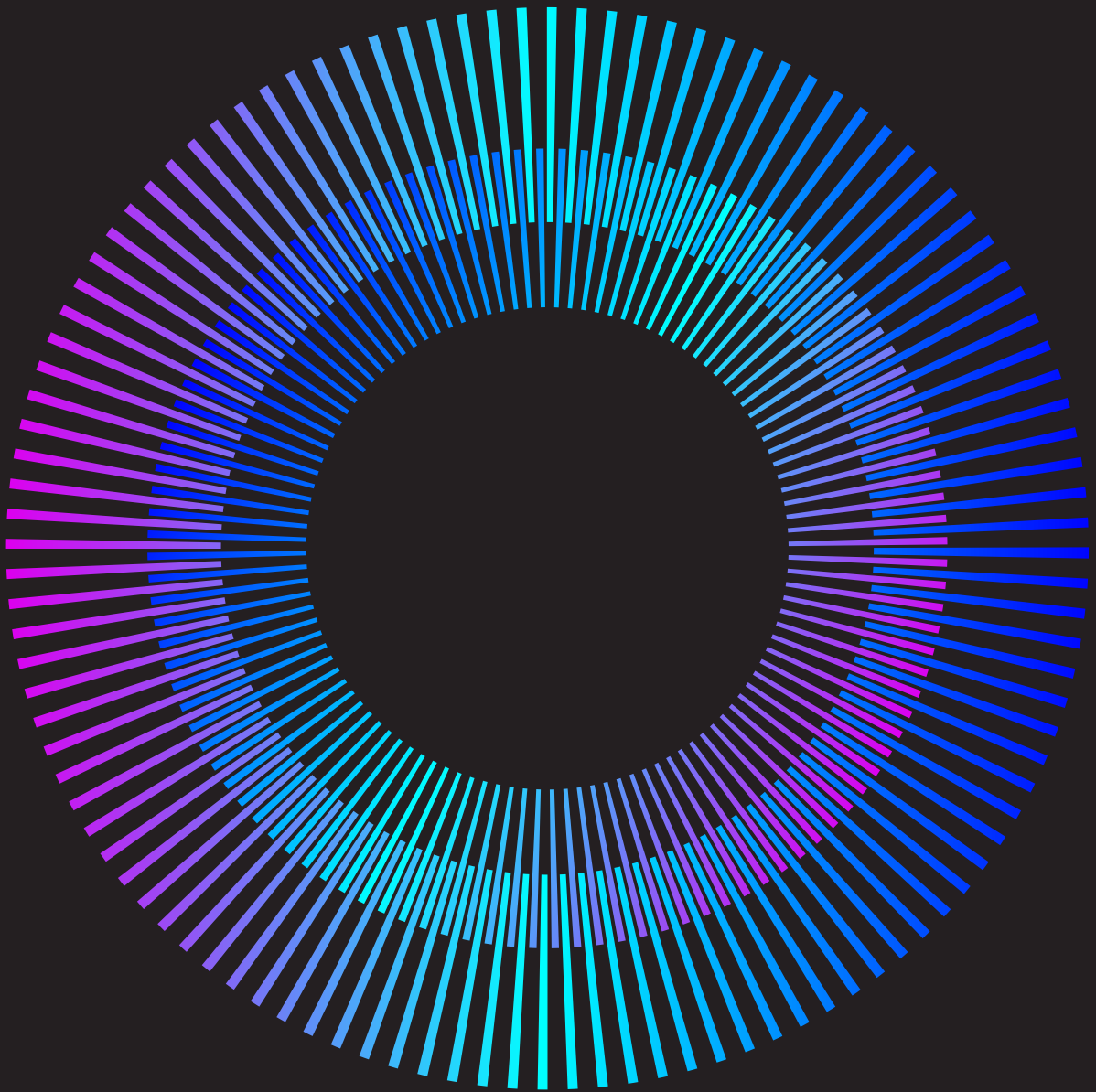


INSIGHTS

GLOBAL MACRO TRENDS

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Regime Change: The Benefits of Private Credit in the 'Traditional' Portfolio



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Regime Change: The Benefits of Private Credit in the ‘Traditional’ Portfolio

We continue to believe that, in the new macroeconomic regime we have entered, the positive correlation between stocks and bonds will likely be problematic over the long-term for the traditional 60/40 portfolio. As such, we think that the 40/30/30 framework can improve overall risk-adjusted returns as well as portfolio diversification better than the traditional 60/40, especially as it relates to the fixed income side of the equation. In particular, we continue to advocate for some form of a more diversified portfolio, including our 40/30/30 Stocks-Bonds-Alternatives framework. Within the 30% ‘alternatives sleeve’ of that portfolio, we now have even higher conviction that allocators of capital can reap benefits by shifting to 10% Private Credit. So, in this latest note in our series on portfolio construction, we go a bit deeper into our thinking around this approach and also respond to some of the excellent questions we have been fielding since we laid out our original thesis about the merits of the 40/30/30 portfolio in May 2022. Our bottom line remains that now is the time to rethink approaches to asset allocation, including expanding more into Private Credit given the pullback by traditional lending institutions, to add meaningful return and diversification in a world where there is potential for a higher ‘resting heart rate’ for inflation.

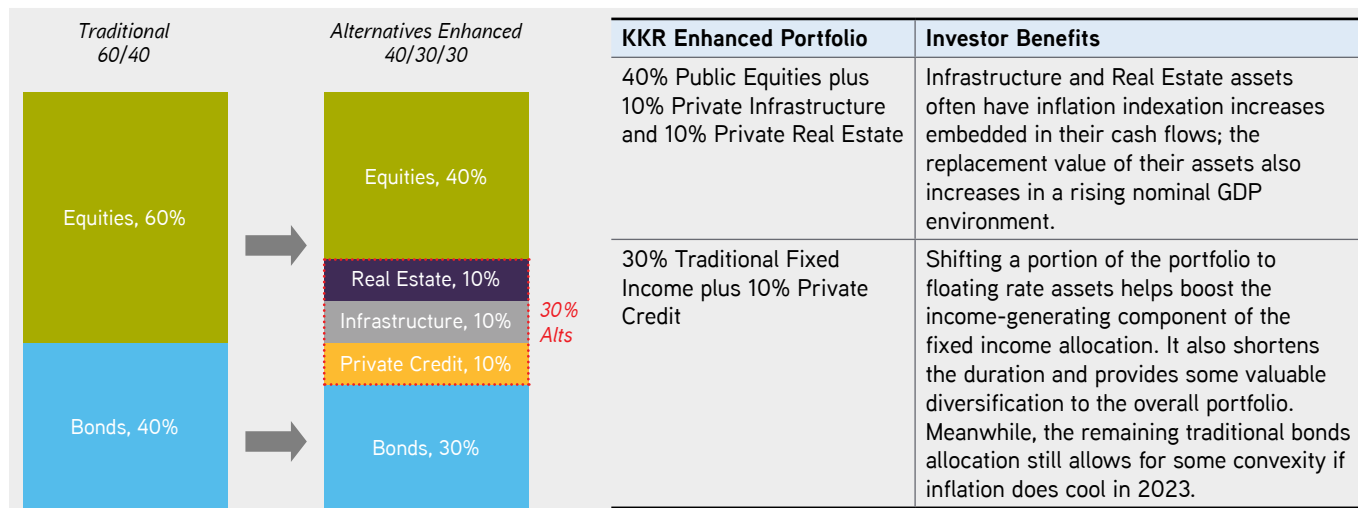
No problem can withstand the assault of sustained thinking.

—Voltaire, French Enlightenment writer, historian, and philosopher

For some years, we have argued that from an asset allocation and portfolio diversification perspective, quantitative easing likely overstated the importance of bonds as both income producers as well as 'shock absorbers' in modern day portfolios. In May 2022, we began to pound the table harder on this call as quantitative tightening accelerated, changing the underlying characteristics of existing portfolios. At that time, we published an *Insights* note [Regime Change: Enhancing the 'Traditional' Portfolio](#), that made the case that the traditional 60/40 allocation wasn't providing the same benefits to a balanced portfolio as in the past. As an alternative, we suggested considering an increase in allocations to more inflation resilient assets such as Private Credit, Infrastructure and Real Estate in a '40/30/30' Equities/Bonds/Alternatives construct.

Exhibit 1

How We Suggest Enhancing the Traditional 60/40 Portfolio



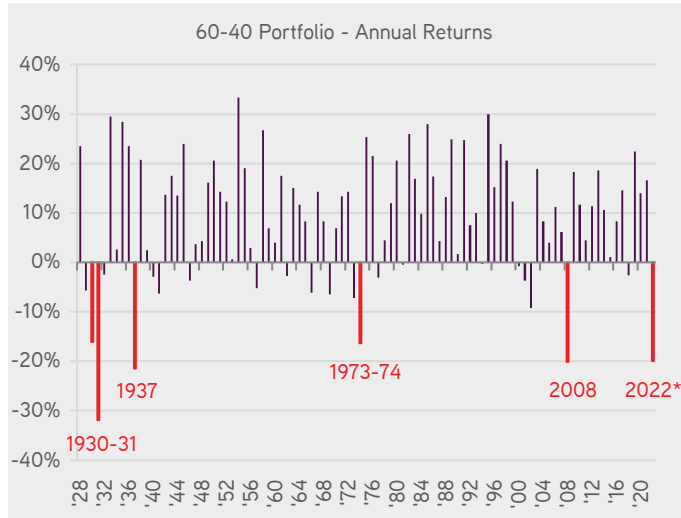
Data as at November 30, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Today, however, we want to acknowledge that we are not as adamant that the performance of the 60/40 is at risk, given that this benchmark portfolio has just experienced its worst performance in 100+ years. Said differently, a tactical rally may be in store, especially if we are right that cyclical inflation peaks in 2023. That said, our long-term viewpoint is unchanged. Specifically, we continue to believe that in the new macroeconomic regime we have entered, there are

better ways to improve portfolio diversification and overall risk-adjusted returns beyond what the traditional 60/40 can provide, especially as it relates to the fixed income side of the equation.

Exhibit 2

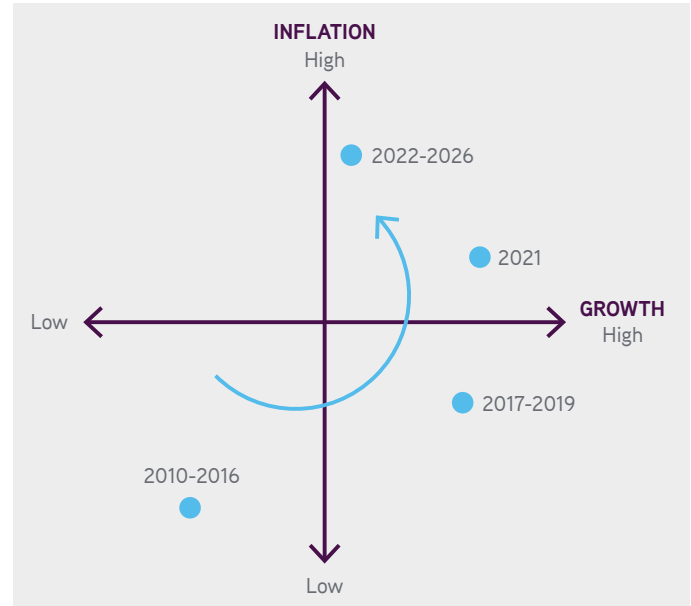
We Are Now Less Bearish On Duration in 2023, But We Still Think the 60/40 Remains Structurally Challenged



Before 1977: Using S&P500, and 50% US T.Bond and 50% Baa Corp Bond (NYU Stern) for bonds. After 1977: Using S&P500, and Barclays U.S. Aggregate for bonds. Assuming yearly rebalancing. *2022 return corresponds to annualized YTD return. Data as at October 31, 2022.

Exhibit 3

While Year-Over-Year Inflation Will Cool in 2023, We Believe a Regime Change Has Occurred



Data as at November 30, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Our Key Investing Conclusions

1

While the traditional 60/40 portfolio could snap back in the short-term, a longer-term breakdown in the correlation between Equities and Bonds puts investors in a different regime for asset allocation.

2

We reiterate our view that a 40/30/30 Equities-Bonds-Alternatives allocation offers more robustness around diversification and inflation protection for the macroeconomic environment ahead.

3

We think that the case for a 10% allocation to Private Credit is actually more compelling today than when we wrote our original piece in May 2022. This asset class is benefitting from traditional lenders being sidelined, as capital charges mount against rising provisions into a slowing economy. We also see improved lending terms, higher absolute yields, and more attractive counterparties.

4

Because building a 10% position in Private Credit could take multiple quarters, we believe that investors should consider the current value offered in Liquid Credit. We see some compelling relative value in CLO liabilities, for example, which could be used as a transitional bridge as one ramps towards a 10% allocation in Private Credit.

5

Institutional and individual investors may look for different ways to implement our view. Draw-down funds remain compelling options for institutions and high net worth individuals, but we also see some interesting tactical opportunities across BDCs, Interval Funds, and even some high quality loans and CLO Liabilities ETFs.

Looking at the bigger picture, our strong belief that this cycle is a 'different one' remains unchanged, as we still see a structurally higher resting heart rate for inflation going forward. Key to our thinking is that wage inflation, the energy transition, continued rental income growth due to structural housing supply and demand issues, and geopolitical concerns impacting supply chains are now *all* more structurally inflationary than in the past. If we are right about these macroeconomic factors and QE transitions to QT, then reevaluating one's fixed income portfolio is really important.

So, against this backdrop, we are continuing to reinforce our views on portfolio construction, particularly as it relates to creating proper diversification in the current macroeconomic environment. As the second chapter in our portfolio construction series, we use this paper to focus on the 10% allocation to Private Credit as a component of our original 30% Alternatives sleeve. Beyond revisiting our thesis, we also answer a number of thoughtful questions we have received in recent months from investors that have catalyzed our own thinking. See below for our responses and high level thoughts.

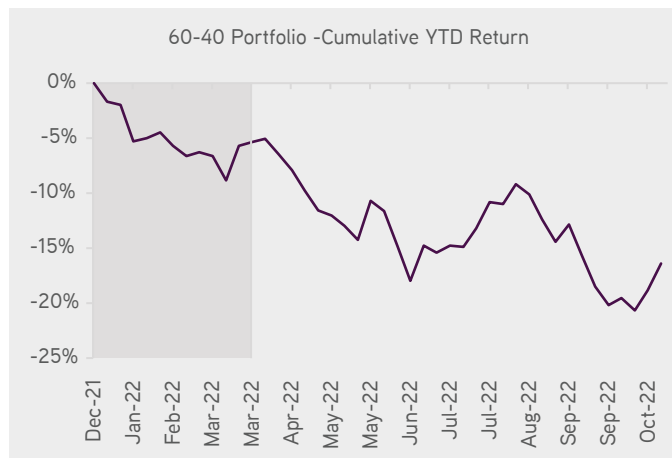
Question #1: Have your views on the 60/40 waivered in light of market movements? Do you still advocate the 40/30/30 portfolio construction model?

As many of our readers know, it has been a tough performance period across most asset classes. All told, year-to-date through October 31, 2022, stocks as measured by S&P 500 are down 17.7%, while bonds as measured by the Barclays U.S. Aggregate, have fallen 15.7%. Against this backdrop, the 60/40 has – in aggregate – dropped 16.6%, making it one of the worst performance years on record. One can see this in Exhibits 4 and 5.

We continue to believe that in the new macroeconomic regime we have entered, there are better ways to improve portfolio diversification and overall risk-adjusted returns than the traditional 60/40 can provide.

Exhibit 4

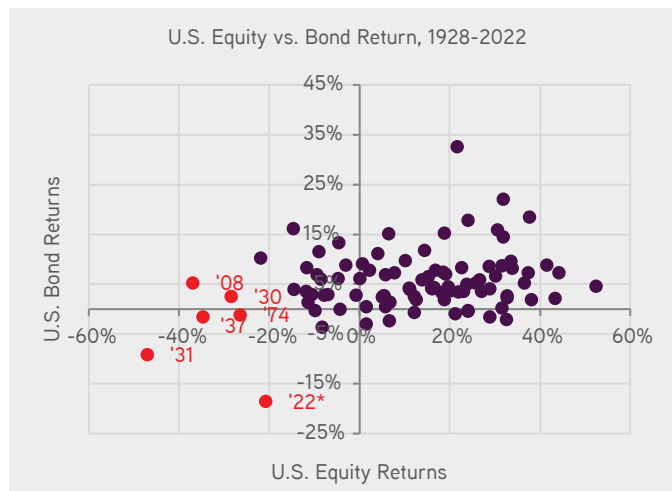
Since the Beginning of the Year, the 60/40 Portfolio Is Down by 16.6% and Fully 11.0% Since We Made the 40/30/30 Case in May



Data as at October 31, 2022. Source: Bloomberg. 60-40 Portfolio modeled using S&P500 and Barclays U.S. aggregate total returns.

Exhibit 5

2022 Was the First Time That Stocks and Bonds Went Down by the Same Magnitude in Recent History



Data as at October 31, 2022. Before 1977: Using S&P500, and 50% US T.Bond and 50% Baa Corp Bond (NYU Stern) for bonds. After 1977: Using S&P500, and Barclays U.S. Aggregate for bonds. Assuming yearly rebalancing *2022 return corresponds to annualized YTD return.

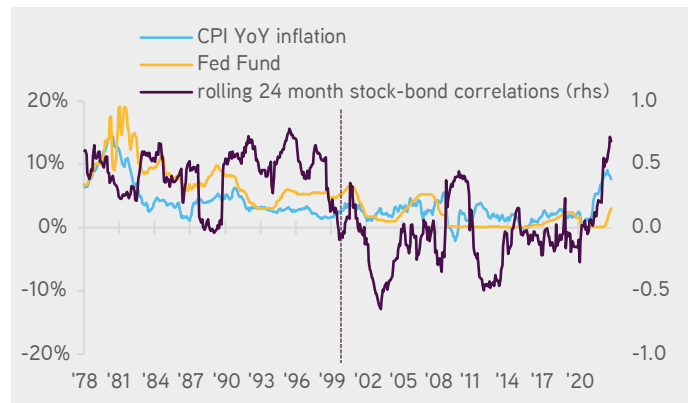
Unfortunately, coming into a period when global central banks aggressively raised rates, many investors were overweight Equities. At the same time, many organizations were using bonds as their safe haven vehicle after over a decade of Quantitative Easing. These allocations made sense based on history: this strategy had worked incredibly well for more than a decade as global economies enjoyed the deflationary forces of globalization, technological innovation, and the resulting heightened central bank intervention.

As we look ahead, however, we think that long-term investors should not rush back into the 60/40 simply based on recent performance — or under-performance for that matter. Rather, we continue to advocate for some form of a more diversified portfolio, including our 40/30/30 portfolio framework. There are several considerations that we think are worth highlighting to investors. Most importantly, though, is that we maintain high conviction that the traditional stock-bond correlation will remain challenged over the next 5-7 years. Key to our thinking is that we will have a higher resting heart rate for inflation and believe that larger fiscal deficits will persist in developed economies. Finally, we see Quantitative Tightening as a headwind to the role bonds played in portfolios during the last decade or so.

These insights are quite significant, we believe, as the bedrock of the 60/40 allocation is the negative correlation between stocks and bonds, allowing Bonds to cushion Equity losses when they occur. As numerous studies have shown, and as we have witnessed first-hand this year, higher levels of, and uncertainty around, inflation play a major role in pushing the stock-bond correlation higher. Even as we anticipate inflation to moderate in 2023, we believe that the stock-bond correlation won't return to the levels of the past two decades. In fact, this correlation is actually highly unstable, having flipped 38 times in the last 40 years. Simply relying on bonds to hedge equity holdings in the new macro regime we are seeing is a suboptimal stance, in our view. Instead, we believe that investors will need to use more of the tools at their disposal to increase the robustness of their portfolio diversification in the challenging macroeconomic environment ahead (*Exhibit 6*).

Exhibit 6

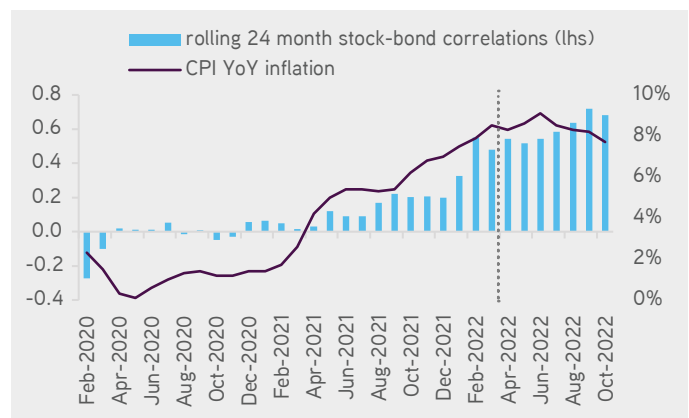
While Our Near-Term View Is That Inflation Is Peaking, We Think It Will Have a Higher Resting Heart Rate. The Stock/Bond Correlation Could Stay Positive, Which Represents a Major Change From Prior Periods



Stocks modeled using the S&P500 Index and Bonds modeled using the Barclays U.S. Aggregate Index. Rolling 24 month correlations calculated using monthly total returns from 1978 to October 31, 2022. Source: Bloomberg.

Exhibit 7

The Correlation Between Stocks and Bonds Has Continued to Stay Elevated Since Our Last Writing, With an October 31 Reading of 0.68



60-40 Portfolio modeled using S&P500 and Barclays U.S. Aggregate total returns, assuming weekly rebalancing. Data as at October 31, 2022. Source: Bloomberg.

Simply relying on bonds to hedge equity holdings in the new macro regime we are seeing is a suboptimal stance, in our view.

Exhibit 8

Over the Last 24 Month Period Through June 2022, the 40-30-30 Portfolio Has Outperformed the 60-40 Portfolio by Around 3%, Resulting in a Sharpe Ratio Improvement of +0.4x

	From December 1927 to December 2021					
	All Periods		High Inflation		Low Inflation	
	60/40	40/30/30	60/40	40/30/30	60/40	40/30/30
Annualized Return	9.3%	9.6%	1.5%	4.3%	11.0%	10.5%
Annualized 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

	From June 2020 to June 2022		
	60/40	40/30/30	Outperformance
Annualized Return	5.1%	7.7%	+2.6%
Annualized Volatility	12.5%	9.1%	-3.5%
Sharpe Ratio	0.41	0.85	+0.44

Source: U.S. Equities modeled using the S&P 500 Index; Bonds modeled using Barclays U.S. Aggregate Index; 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. Returns, volatility and risk-adjusted returns derived from historical total returns. Data as at June 30, 2022.

Looking ahead, although we fully acknowledge that the entry point to the 60/40 is much better today than six months ago with Equities' multiples adjusting downwards and rates closer to the Fed terminal rate, we continue to believe that an allocation solely comprised of stocks and bonds is suboptimal in this new macro regime. As such, our stance to look elsewhere for portfolio diversification, inflation protection and higher risk-adjusted returns remains firmly in place.

With the caveat that it is still early to fully assess the real benefits of an allocation to private assets given private valuations tend to lag public ones, *Exhibit 8* shows that the risk-adjusted performance pick-up in the 24 month period through June 2022 was even higher than during all 'high inflation' periods between 1927 and 2021.

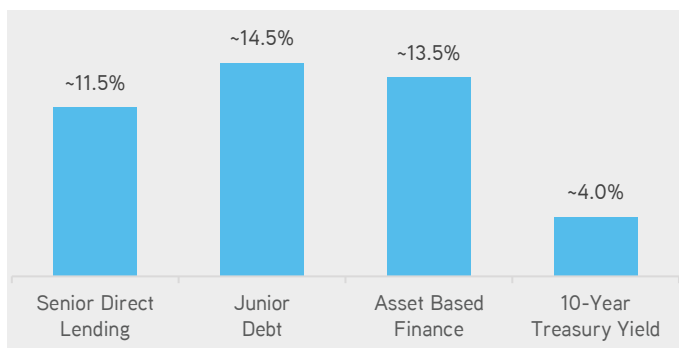
Question #2: Would you maintain the 10% allocation to Private Credit today?

We certainly acknowledge that bonds are now offering a much more compelling value proposition than earlier in the year, with the U.S. 10-year yield around 3.5%-4% and a level of coupon that could better absorb potential price fluctuations from rates movements. So, we certainly agree that traditional liquid fixed income has its place in a balanced portfolio. That said, we still make the call to modify the 60/40 portfolio and include a 10% allocation to higher yielding, high quality Private Credit. Within Private Credit, we think optimal portfolio construction depends upon investor type, risk profile, and duration needs. Bottom line, there are many investment strategies in Private Credit that could enhance the 40/30/30 portfolio. We highlight the following:

Private Credit Sub-Asset Classes	Advantages
Direct Lending	<p>Floating rate nature: In a world where rates continue to rise or at the very least stay higher for longer this cycle, we believe that some exposure to floating rate debt is still the prudent approach. Direct lending offers a link to short-term rates, protecting income if rates rise.</p> <p>Illiquidity premium: We often hear that the illiquidity premium between private loans and traded loans has collapsed. In actuality, it remains attractive at around 200 basis points. This of course is lower than in the past, but it remains a solid buffer to absorb potential growth or default concerns that the public markets are less adept at navigating in our view.</p> <p>Improving lending terms: Through our proprietary database of screened deals, we notice an improvement in offered spreads, original issue discount (OID) and leverage levels (<i>Exhibits 10 and 11</i>). As such, current underwriting terms offer more protection and risk premium than 12 months ago, but for higher quality assets.</p> <p>Moderate expected default and loss rates: Since the inception of the asset class, loss rates have been modest. For the period of June 2004 through June 2022 covering both the Global Financial Crisis and the COVID pandemic, loss rates averaged around -1.0% per year. In addition, Private Equity sponsors of middle market borrowers have significant dry powder (\$935 billion as of December 2022) to inject equity to protect their funds' returns if the environment turns more sinister, we believe. Although we think credit selection remains paramount, we witnessed PE sponsors behaving just in this fashion during COVID.</p>
Mezzanine/Junior Debt	<p>Fixed/floating exposure: Traditional fixed rate, Junior Debt is currently accessible both via fixed rate or floating rate products, offering investors the ability to control their rates (and inflation) sensitivity.</p> <p>Longer duration: Junior Debt today offers attractive call protection and make-whole provisions. These features mean that the current high yield on offer in those deals could be 'locked-in' for a longer period of time (versus Direct Lending, which could be refinanced earlier if the economy gets better and spreads compress, albeit triggering penalties for the borrowers). This allows investors to accrue more 'dollar PNL' or so-called 'multiple of money'. We think that some Junior Debt could be added to a predominantly Direct Lending exposure as a way to extend the current attractive yields. We would defer to the investor's risk appetite and overall portfolio considerations in determining the right balance.</p> <p>Embedded in larger cap structure: Although this exposure is typically more junior and offers less subordination, these assets sit in larger capital structures of well-established and more resilient businesses.</p>
Asset Based Finance (ABF)	<p>Diversification: The benefits of ABF are really around its intrinsic diversification of risk and economic drivers. The ABF strategy provides access to various types of exposures such as consumer, real estate, transportation, and insurance risks in addition to the traditional corporate risk accessible via Direct Lending and Junior Debt. We believe that, in the spirit of our quest to 'reinforce diversification' in this new regime, ABF has a role to play.</p> <p>Inflation protection: Most of the ABF exposure is backed by hard collateral (real estate, hard assets such as aircraft and railcars) whose value generally rises with inflation. The inflation protection of this asset class is a desirable feature in today's portfolios.</p>
Bottom Line:	<p>Given that traditional capital markets are now challenged, Credit is a key differentiator for potentially generating a better risk-adjusted return. These financing solutions can take a range of 'shapes and sizes', inclusive of all the above sub-asset classes. We believe having the flexibility to provide capital across all illiquid credit, senior to subordinated and corporate to asset-backed is a key differentiator to outsized risk return. In all, our loss-adjusted expected returns for Private Credit range from 11 to 15%, depending on the strategies favored (<i>Exhibit 9</i>). As such, we think these returns offer a fair compensation for the risk (<i>Exhibits 12 and 13</i>) and reiterate our suggestion to include Private Credit in a balanced portfolio.</p>

Exhibit 9

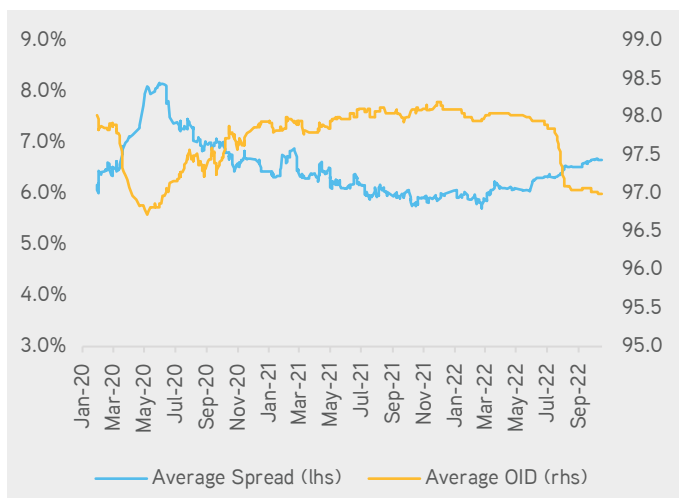
Today Many Parts of Private Credit Offer a Compelling Yield and Diversification Proposition That Traditional Fixed Income Often Can't Match, We Believe



Note: KKR Private Credit Expected Annualized returns over the next 3 years for newly originated investments. Data as at November 30, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 10

U.S. Direct Lending Terms Have Improved Materially in the Past 6 Months...

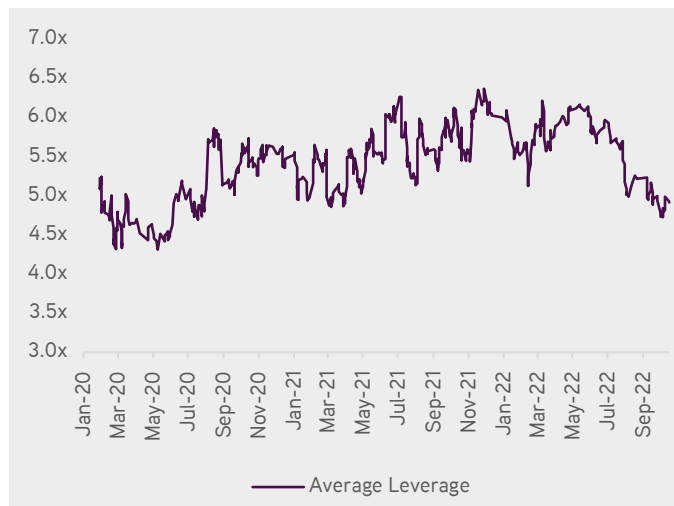


Note: Last 20 deals rolling averages. Data as at October 31, 2022. Source: KKR proprietary database of screened deals.

We believe a tactical allocation to Liquid Credit, including CLO liabilities, also makes sense today to bridge the 10% Private Credit deployment.

Exhibit 11

...Enabling Private Credit Investors to Underwrite Higher Quality Assets (e.g., Lower Leverage) at Attractive Yields



Note: Last 20 deals rolling averages. Data as at October 31, 2022. Source: KKR proprietary database of screened deals.

Question #3: Given the correction in Public Credit markets, does it alter your view on Private Credit and the trade-off of investing in illiquid assets?

When we meet with CIOs these days, the discussions tend to revolve around the potential attractiveness of public vs. private markets. Our conclusion remains that **Private Credit is a highly attractive long-term allocation**, particularly when one compares a number of the sub asset classes within Private and Public Credit. **We believe a tactical allocation to Liquid Credit, including CLO liabilities, also makes sense today to bridge the 10% Private Credit deployment.**

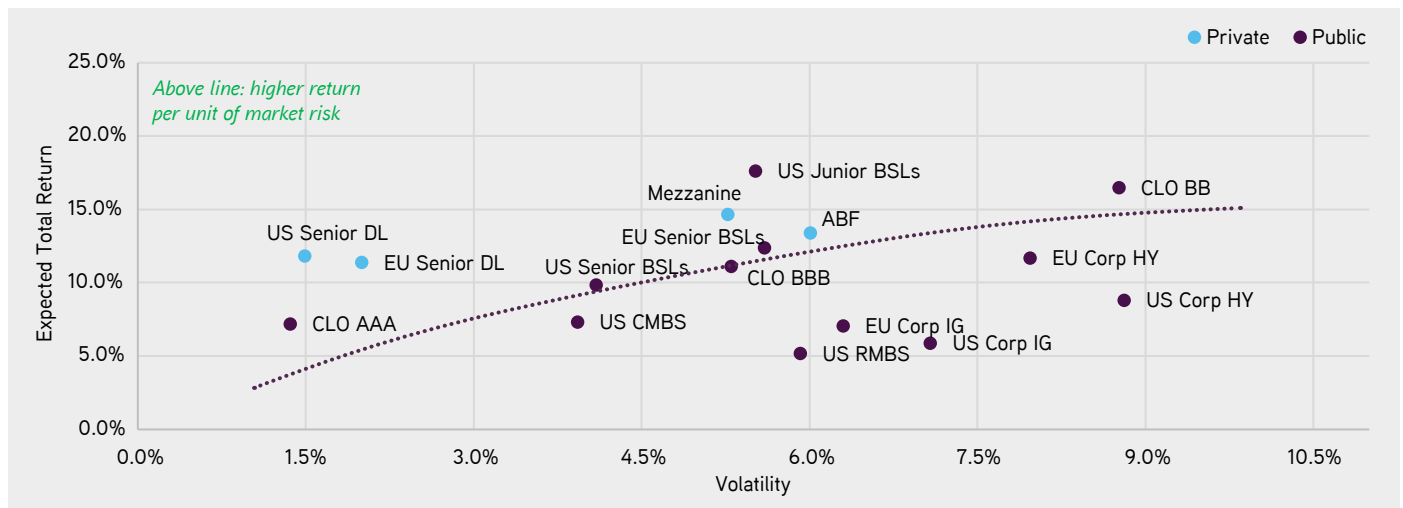
To this end, we spent some time as a team examining both public and private sub-asset classes through the lens of expected risk-adjusted returns. Using *market risk* as the first measure of risk, we compared the loss-adjusted expected return vs. the volatility of the various sub asset classes (*Exhibit 12*). Second, using *fundamental risk* as another measure of risk, we compared the same asset classes in terms of their loss-adjusted expected return vs. corporate leverage (*Exhibit 13*).

Exhibit 12 shows that, from a volatility-adjusted return perspective, Private Credit strategies (Direct Lending, Mezzanine, and ABF) all still appear highly attractive. We note, for example, that U.S. and EU Direct Lending screen attractive, with 2.1% of return per turn of leverage vs. 1.7% for U.S. traded loans, for example. We must stress the usual

caveat, however, that most instruments in Private Credit are typically valued quarterly, and as such, the asset class often exhibits a much lower volatility than Public Debt. Thus, allocators of capital should decide how much this measure of observed short-term volatility is relevant to their decision-making versus the long-term goals of their investment plans.

Exhibit 12

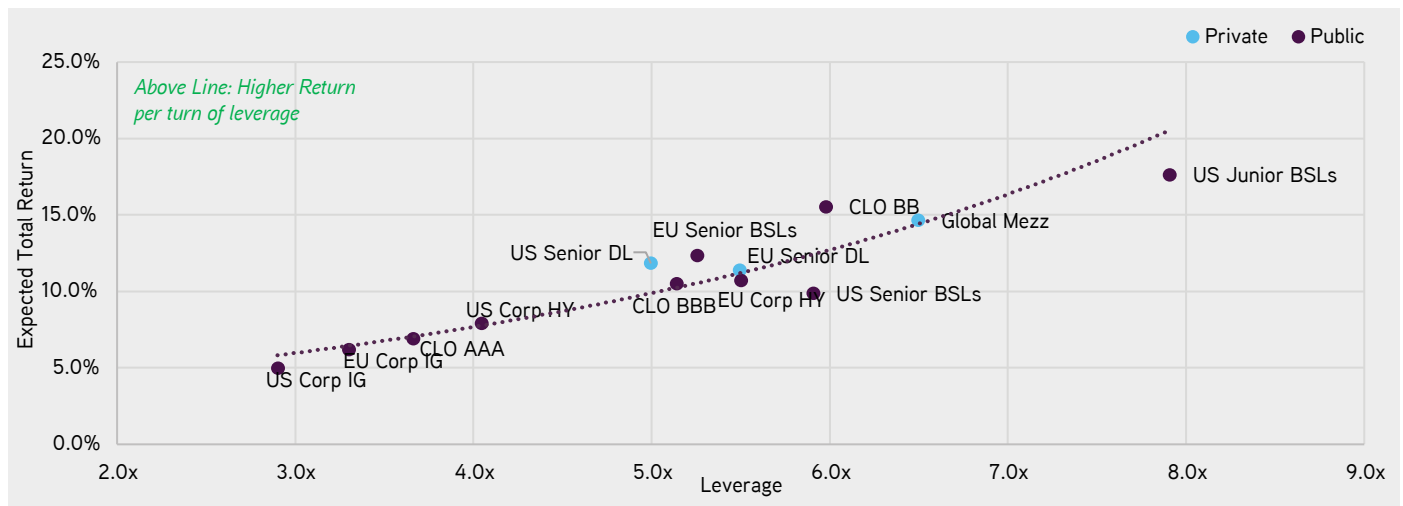
Expected Return per Unit of Market Risk



Note: Returns are gross, unlevered. Data as at October 31, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 13

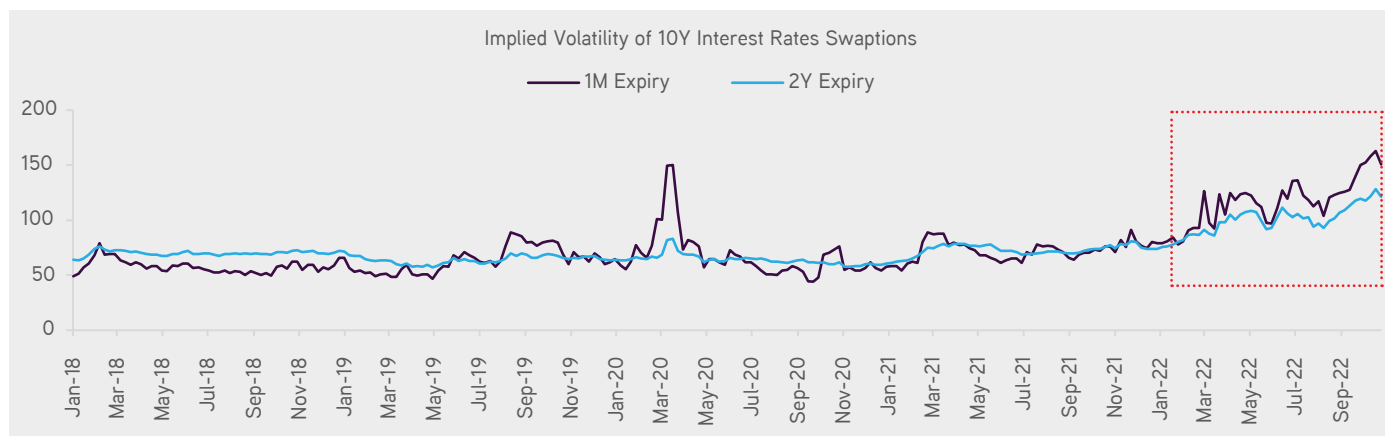
Expected Return per Turn of Corporate Leverage



Note: Returns are gross, unlevered. Data as at October 31, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 14

With Interest Risk Still a Potential Headwind, We Continue to Favor Floating Rate Over Fixed Rate Credit



Data as at October 31, 2022. Source: Bloomberg.

Exhibit 15

Public Credit Currently Offers Attractive Yields and Spreads Compared to History in Many Instances

		US Senior BSLs	US Junior BSLs	EU Senior BSLs	US Corp HY	EU Corp HY	US Corp IG	EU Corp IG	CLO AAA	CLO BBB	CLO BB	US CMBS	US RMBS
Yield		9.0%	17.5%	8.9%	8.4%	7.0%	5.2%	3.6%	6.6%	10.2%	15.2%	5.8%	4.2%
Yield Percentile	2 Years	0.0%	0.0%	0.0%	8.7%	8.7%	4.4%	4.4%	0.0%	0.0%	0.0%	0.0%	4.4%
	5 Years	1.7%	3.4%	0.0%	5.1%	3.4%	1.7%	1.7%	0.0%	0.0%	3.4%	0.0%	1.7%
	10 years	0.9%	1.7%	0.0%	5.1%	1.7%	0.9%	0.9%	0.0%	0.0%	1.7%	0.0%	0.9%
Spread to Maturity - 1 / OAS		5.9%	14.4%	8.2%	4.7%	5.1%	1.4%	1.7%	2.6%	6.4%	11.9%	1.9%	0.4%
Spread Percentile	2 Years	8.7%	0.0%	0.0%	17.4%	17.4%	26.1%	17.4%	4.4%	0.0%	0.0%	0.0%	13.1%
	5 Years	10.2%	5.1%	1.7%	23.8%	13.6%	23.8%	10.2%	5.1%	3.4%	6.8%	5.1%	47.5%
	10 years	8.5%	5.9%	0.9%	35.3%	11.0%	37.0%	5.1%	2.6%	4.3%	5.1%	2.6%	32.8%

Data as at October 31, 2022. Source: KKR Global Macro & Asset Allocation analysis.

Many public asset classes in Credit also screen above average these days, including floating rate CLO liabilities. The BB tranche is expected to deliver a 16.5% return for 9% volatility, with 6.9x look-through leverage. Meanwhile, at the other end of the risk spectrum (and one of our favorite ideas), the AAA tranche nets a 7.2% return for 1.4% volatility, zero realized losses in history, and 3.7x look-through leverage. Importantly, we think that the current attractiveness of CLO liabilities could be short-lived, as some of the regular buyers who

have stepped away, including substantial sell-down by UK pensions, could return in 2023, we believe.

As far as fixed rate Credit (Investment-Grade and High-Yield) goes, we believe that rates risk remains a potential concern (*Exhibit 14*), especially if labor costs remain sticky well into 2023. However, as implied rates volatility subsides (our view is that long-term rates peak in 2023), leaning into High Yield bonds, which today boast historically low dollar

price, higher quality, and more reasonable leverage levels than Bank Loans, would make sense in our view. For a more thorough view of the trade-offs and latest dynamics within Liquid Credit we refer the reader to our colleague Chris Sheldon's 3Q22 Market Review: *Law of the Jungle*.

Our bottom line: Even with recent movements in interest rates and markets, we still believe an allocation to Private Credit is an important part of a diversified portfolio. However, the significant downdraft in the public markets of late has created an opportunity for a tactical allocation to Liquid Credit, CLO liabilities in particular. Allocating to Liquid Credit while building up the 10% Private Credit allocation (which as noted earlier, generally takes a couple of years) could be an attractive blend of both the public and private opportunity sets available today.

Question #4: How might portfolio construction differ between the institutional and individual investor?

After our May 2022 publication, a question we often received regarded how best to implement our suggested allocation to Private Credit. Our favored approach is to break it down by broad investor type.

For the institutional investor, a standard approach could be an allocation to Private Credit funds or single/multi strategy separately managed accounts. Depending upon the existing Private Credit allocation and the pace of deployment desired to reach a 10% allocation (or a variation thereof), the institutional investor could invest (a portion of) the uncalled capital with active liquid credit managers with the ability to tactically navigate public asset classes. Alternatively, finding a solutions provider to perform both the Private Credit allocation and the public investments in a holistic fashion could be an option.

For the individual investor, there are a handful of options to access Private Credit opportunities including traded BDCs, non-traded BDCs, and Interval Funds. Traded BDCs do incorporate higher market volatility but may also potentially

have a favorable 'discount to NAV', currently around 6-7%. For the CLO liabilities or traded loans exposure, the individual investor could look for specialized ETFs as well as the more vanilla traded ETFs. Combined Private Credit and Public Credit exposure could be achieved via Interval Funds that combine both Public and Private Credit.

Within the Private Credit universe, Direct Lending across the U.S., Europe and Asia, Junior Debt and Asset-Based Finance all appear to offer attractive expected risk-adjusted returns with a high level of yield and/or stronger creditor documents and/or intrinsic diversification. Tactically increasing or starting an exposure to Liquid Credit using the uncalled capital reserved for Private Credit may also be a compelling strategy, we believe. In particular, the expected spread compression in CLO liabilities, could add meaningful return to the performance of the overall credit allocation.

Conclusion

The positive correlation between stocks and bonds remains a potential significant challenge if we are right that we have entered a new macroeconomic regime. Consistent with this view, we believe that a portfolio solely comprised of stocks and bonds represents a sub optimal approach, given the structurally higher resting heart rate for inflation going forward. Key to our thinking is that wage inflation, the energy transition, continued rental income growth due to structural housing supply and demand issues, and geopolitical concerns impacting supply chains are now *all* more structurally inflationary than in the past.

So, despite the recent price action in public markets (including the potential for a cyclical snapback in the 60/40 portfolio), we retain our high conviction on the long-term benefits of our 40/30/30 Stocks-Bonds-Alternatives approach. In particular, we really like the merits of our 10% shift to Private Credit in a world where traditional financial intermediaries are not lending as much. Within the Private Credit universe, Direct Lending across the U.S., Europe and Asia, Junior Debt and Asset-Based Finance all appear to offer attractive expected risk-adjusted returns with a high level of yield and/or stronger creditor documents and/or intrinsic diversification. Tactically increasing or starting an exposure to Liquid Credit using the uncalled capital reserved for Private Credit may also be a compelling strategy, we believe. In particular, the expected spread compression in CLO liabilities, could add meaningful return to the performance of the overall credit allocation.

Every investor will start with a different portfolio and a different set of objectives, constraints and liabilities. As such, selectivity matters and our views should we hope help to determine the general direction of travel.

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