KKR

KKR Global Credit Opportunities Fund (AUD)

For wholesale investors only

GCOF Investment Update

13 August 2025

Dear GCOF Investor,

In a recent Livewire interview, Jeremiah Lane, Co-Head of Global Leveraged Credit at KKR, explains why the devil is in the detail when spotting opportunities in today’s credit market.

Across global credit markets with headline spreads appearing tight, security selection is key. Whether it is significant dispersion across particular credits, structural inefficiencies in market participants or the noted pickup in catalyst-driven activities, the opportunity set remains attractive for a fund like GCOF that has high conviction and can take concentrated positions. KKR recommend some caution in buying the market, retaining some ‘dry powder’ in more defensive, resilient businesses to allow them to rotate additional capital opportunistically as and when markets become less fully valued in periods of volatility.

Using this consistent investment approach focused on deep due diligence to build a high-conviction portfolio of credits, KKR Credit has delivered strong outcomes across 17 years and through diverse market cycles - from the GFC through energy recessions, COVID, rate normalisation, and tariff shocks.

You can read our summary below or view the full interview **here**.

Why KKR's Jeremiah Lane is cautious despite a hot credit market

How are tariffs and global trade tensions impacting the high yield and leveraged loan market?

Initial trade-tension sell-offs gave way to a rapid recovery. Double-B credits reset almost immediately, single-Bs regained acceptance, and triple-Cs lagged. The rebound resembles a compressed version of the post-COVID rally: what took 18–24 months then has played out in three months, with another three months potentially needed for full market rebalancing.

In light of persistent inflation and tariff stress, which sectors are you watching most closely from a credit-risk perspective?

KKR's view is that tariff impacts are name-specific rather than sector-wide. Each company's ability to raise prices and reposition supply chains dictates performance. Lane notes building-product companies are facing squeezed volumes and pricing, hurting profitability, while parts of the healthcare ecosystem are under pressure from Medicaid rollbacks and reimbursement changes.

Where are you currently finding the most compelling opportunities in global credit markets, and how do the US and Europe compare?

At an asset-allocation level, US loans and US high yield trade at fair value relative to each other; loans offer about 100 basis points more spread but include lower-quality, sponsor-backed credits with more liability management activity. European high yield stands out for a higher-quality rating composition (15% more double-Bs than the US), offering consistent or slightly above-US spreads with lower volatility. Senior-secured tranches have rallied and appear fully valued.

How are you approaching income generation in this rallying environment and what role do multi-asset credit strategies play in building a diversified portfolio?
Healthy demand and constrained supply post-Liberation Day have led to tight spreads even for lower-quality issuers. KKR focuses on investing in the highest-quality credits with durable cash flow for downside protection when the tide goes out. Multi-asset credit strategies enable tactical rotation across loans, bonds, and other tranches to capture transient relative-value inefficiencies, as demonstrated by KKR's successful CLO tranche positioning in early 2023.

How are you approaching the trade-off between fixed- and floating-rate securities in today's environment?
With loans and high yield trading at near fair value, the decision hinges on issuer credit quality rather than structure. KKR's multi-asset mandates typically benchmark 50/50 between loans and bonds. The focus remains on rigorous credit due diligence rather than high-velocity trading or big duration swings.

What's your outlook on short-dated loans and short-duration high yield, particularly in periods of volatility?
Short-duration high yield offers compelling opportunities. Securities issued from late 2020 to early 2022 with low coupons and imminent maturities trade around 150 basis points but deliver returns above headline yields through early refinancing and pull-to-par mechanics. KKR concentrates on double-B and single-B names with minimal default history and rapid cash-turnover.

Are you seeing early signs of rising defaults or stress, and how are you navigating credit risk as spreads remain tight?
Defaults have been modestly elevated in sponsor-backed loan markets, driven by deals sized for growth and cheap refinancing that didn't materialise. The 2020–2022 vintage is expected to exhibit above-average default rates over the next year or two as capital structures reset at more conservative leverage levels before returning to normal default rates.

Loan markets have seen unique dynamics lately around liability-management exercises - how is that shaping distressed investing and overall market health?
There's a spectrum of approaches: adversarial exercises that pit 51% of lenders against 49% versus collaborative restructurings with sponsor cash injections and lender extensions. The market has become cautious of aggressive sponsors while valuing those who proactively stabilise underperformers or manage seamless transitions to lender ownership.

What makes you most optimistic about markets today, and what potential

catalysts like M&A are you watching?

KKR's multi-asset and high-conviction strategies have delivered strong outcomes across 17 years of diverse market cycles - from the GFC through energy recessions, COVID, rate normalisation, and tariff shocks. While spreads appear fully valued, the focus remains on resilient businesses positioned for when markets become less fully valued.

About KKR

49	US$664	US$284	~710	US$32
years of experience	billion total assets under management	billion credit assets under management	KKR Investment Professionals	billion invested alongside our clients[1]

Note: Figures as of 31 March 2025.

(1) Includes investments/commitments made by KKR’s balance sheet, KKR employees and other KKR associates, KKR Capstone and other affiliates. Investments made by current and former KKR employees and KKR Capstone are retained by those individuals personally. Includes unfunded commitments made by individuals.

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