Important disclosures are provided in the appendix of this report.

Fund Research

KKR Global Credit Opportunities Fund (AUD)

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Overview

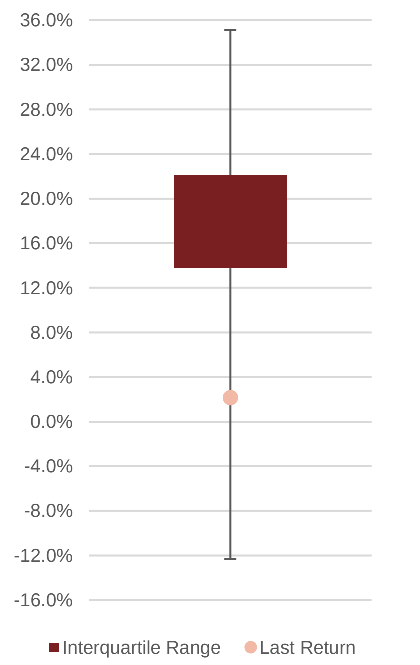
The KKR Global Credit Opportunities Fund (AUD) (the ‘Fund’, or ‘GCOF AUD’) is an open-ended fund domiciled in Australia. The Fund offers investors exposure to global alternative credit opportunities sourced across the KKR credit platform. This largely comprises opportunities in the United States (US), but the Fund retains flexibility to also invest in Western Europe to execute the Manager’s highest conviction investments across a vast opportunity set.

KKR Credit was launched in 2004 and has grown into a global platform providing investment and capital structure solutions with US$247 billion of assets under management (AUM) across a team of 240 investment professionals (as at 31 December 2024).

KKR inaugurated the Opportunistic Credit Strategy in 2007. GCOF AUD is invested in accordance with this strategy through replicating the investment strategy of the pre-existing USD-denominated GCOF (the ‘Underlying Fund’, or ‘GCOF’). The Underlying Fund is closing in on a 16-year track record with total AUM of US$4.3bn.

The Fund’s objective is to achieve an average pre-tax return of 5-7% per annum over the medium term (net of fees and expenses) and aims to outperform traditional fixed income investments through a market cycle. It invests primarily in debt instruments such as bank loans, high yield bonds, structured credit (collateralised loan obligations) and opportunistic credit. The Fund may also incorporate exposure to opportunistic assets when deemed appropriate (albeit a very small proportion of the portfolio currently), including structured equity and other equity-like investments, such as hybrid securities and convertibles. The opportunistic bucket also allows the Fund to purchase units of the listed KKR Credit Income Fund (ASX: KKC) when trading at a discount to NAV.

Figure 1. Monthly Returns* Box Plot



Source: BondAdviser, KKR. Annualised net monthly returns based on NTA. Since inception.

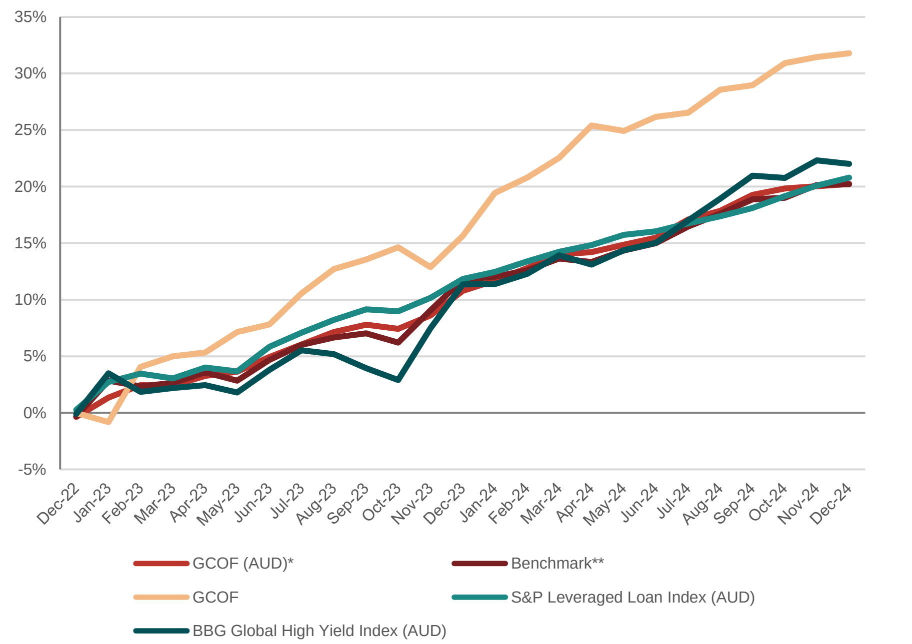
Figure 2. Monthly Net Returns* (%)

GCOF (AUD)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.81	0.99	1.07	0.19	0.56	0.54	1.39	0.67	1.19	0.47	0.17	0.18	**8.53**
2023	1.72	1.07	-0.04	0.85	0.35	1.27	1.06	1.03	0.61	-0.34	1.10	2.00	**11.19**
2022												-0.36	**-0.36**

GCOF	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	1.14	1.44	2.34	-0.39	1.02	0.28	1.61	0.32	1.51	0.42	0.26	-0.04	**10.29**
2023	4.91	0.92	0.31	1.74	0.64	2.53	1.94	0.76	0.96	-1.55	2.47	3.28	**20.43**
2022	-0.64	-0.66	-0.48	-2.61	-2.12	-4.17	2.64	1.26	-3.45	-0.02	1.85	-0.82	**-9.03**
2021	0.99	0.98	0.90	1.00	0.74	0.95	-0.08	0.32	0.63	0.25	-0.43	1.25	**7.71**
2020	0.86	-1.29	-16.2	4.11	5.93	2.92	2.93	1.74	0.89	0.98	4.13	2.16	**7.42**
2019	2.17	1.61	0.31	1.60	-0.84	0.53	0.32	-0.59	0.37	-0.47	0.47	2.72	**8.41**
2018	1.41	0.12	0.19	0.28	0.13	0.61	1.05	0.64	0.54	-0.61	-0.97	-2.17	**1.16**
2017	1.20	0.86	0.20	1.01	0.67	0.37	0.86	0.18	0.96	0.43	0.32	0.67	**8.02**
2016	-1.54	0.19	4.67	2.74	1.49	0.37	2.82	2.24	1.42	0.87	0.32	1.33	**18.15**
2015	-0.09	2.32	-0.04	1.29	0.69	-0.63	0.39	-0.29	-1.98	1.28	-1.14	-2.98	**-1.30**

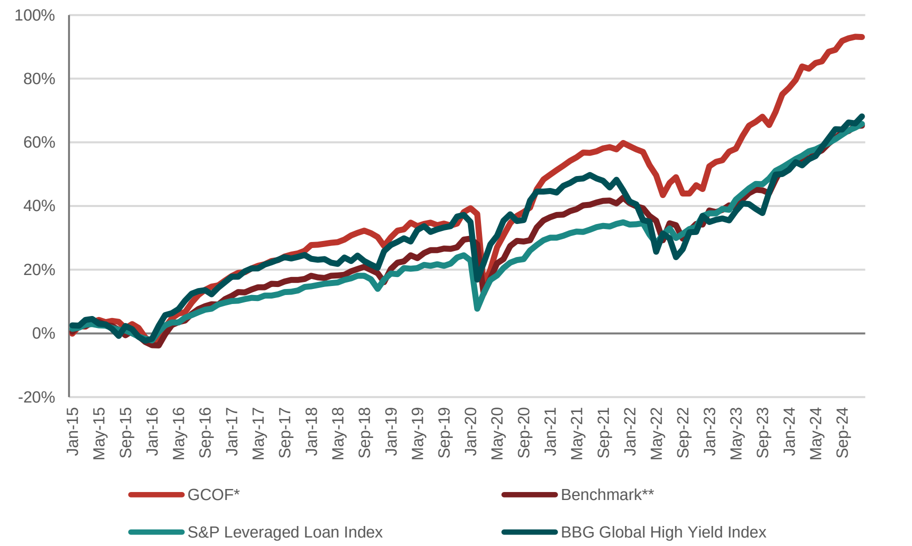
Source: BondAdviser, KKR. As at 31 December 2024.
** Returns are monthly net total return based on NTA plus dividends. GCOF (AUD)’s returns are from inception on 14 December 2022 (not a complete month). YTD returns are compounded.*

Figure 3. GCOF (AUD) Relative Cumulative Performance



** Calculated from cumulative net monthly returns of the Fund.*
*** Benchmark consists of blend comprising 50% Morningstar LSTA US Leveraged Loan Index / 50% ICE BofA US High Yield Index, both hedged into AUD.*
Source: BondAdviser, KKR, Bloomberg. As at 31 December 2024.

Figure 4. GCOF Relative Cumulative Performance



** Calculated from cumulative net monthly returns of the Fund.*
*** Benchmark consists of blend comprising 50% Morningstar LSTA US Leveraged Loan Index / 50% ICE BofA US High Yield Index.*
Source: BondAdviser, KKR, Bloomberg. As at 31 December 2024.

Product Assessment

Highly Recommended

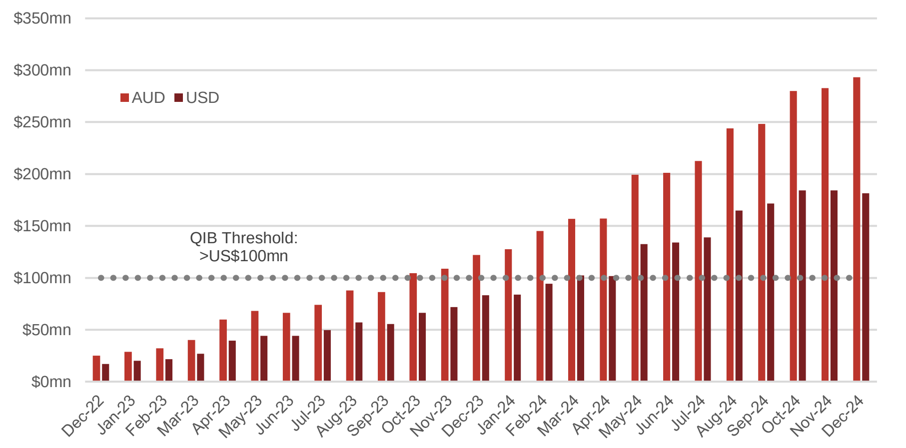
As a result of increased scale, GCOF (AUD) achieved QIB status in early 2024. QIB status has allowed the Fund to more effectively mirror the parent GCOF strategy through the purchase of 144a bonds.

The KKR Global Credit Opportunities Fund (AUD) allows investor to access some of the highest conviction trade ideas across the KKR credit platform. This is achieved by replicating the characteristics of the USD-denominated GCOF, a US$4.3 billion flagship vehicle of the KKR Opportunistic Credit Strategy which achieved over a 16-year track record and returned 9.5% per annum since inception.

Since inception in December 2022, GCOF (AUD) has focused on scaling towards the parameters of its underlying USD counterpart. However, the underlying strategy is predominantly invested across US high yield bonds and bank loans – some of which are classified as 144a securities. To be eligible to invest in 144a securities as a Qualified Institutional Buyer (QIB), the Fund's AUM must exceed US$100 million. Alongside general hedging costs, this has historically resulted in a deviation between the returns the AUD and USD-denominated GCOF vehicles.

As of 31 December 2024, GCOF (AUD) has approximately US$180 million in AUM and has been an eligible QIB since March 2024. As a result, the Fund and Underlying Fund are now more closely aligned, reflective of 2024 performance. Specifically, GCOF (AUD) delivered 2.87% in 1Q24, underperforming the Underlying Fund's 4.91%, but has since achieved a return of 5.35% for the remainder of the year, modestly outperforming the Underlying Fund's 4.97%. While we expect small ongoing discrepancies in returns to continue (due to hedging, opportunistic purchases of KKC and minor scale constraints), the return profile should be broadly aligned going forward.

Figure 5. GCOF (AUD) Historical Fund Size



Source: BondAdviser, KKR. As at 31 December 2024.

While the wider investment universe has increased the credit risk profile of the portfolio, this has been balanced against increased diversification, with the number of issuers almost tripling.

This has also shifted the composition of the GCOF (AUD) portfolio since our 2023 update with a notable increase in credit risk. As of September 2023, the portfolio had been 64% weighted to the B credit rating band but this has since declined 50% as of December 2024. Over the same period, exposure to CCC-rated instruments has risen from 20% to 33% while unrated exposures have increased from 2% to 7%. However, we argue this is balanced by the enhanced diversification of the portfolio supported by the recent remit to purchase high-yield bonds. As of September 2023, the GCOF (AUD) portfolio consisted of 67 assets across 62 issuers. As of December 2024, this has risen substantially to 211 assets across 172 issuers. We reiterate that the GCOF strategy is expected to sit towards the higher end of the risk spectrum, allowing the Manager to identify and capitalised on mispriced opportunities.

The closer alignment between GCOF (AUD) and the Underlying Fund has resulted in stronger performance which we expect to continue.

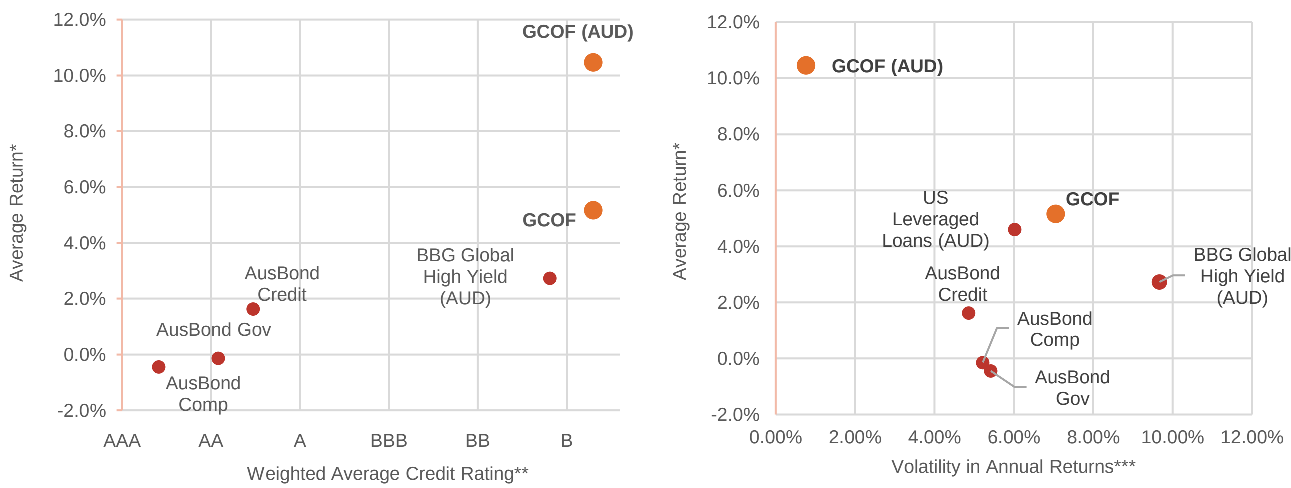
While there is still risk concentrations in the portfolio, including almost a quarter of the portfolio consisting of the top 10 issuer exposures, this reflects the high conviction nature of the strategy that has allowed the KKR Opportunistic Credit Strategy to consistently outperform relevant benchmarks. Importantly, this is underpinned by a sharp focus on capital preservation with the Manager's extensive workout and restructuring capabilities resulting in low default rates. The Underlying Fund has exhibited a 10-year average default rate of 1.3% for the Underlying Fund with an average recovery of ~70%, implying an annual loss rate of 0.4%. We view this as impressive when contextualising this against the average loss given default rate of 1.4% for the JP Morgan High Yield Bond Index and 0.8% for the JP Morgan Leveraged Loan First Lien Index.

The USD-denominated GCOF (incepted in January 2015) has produced net annualised returns of 10.3%, 6.5%, and 6.9% over the 1-year, 3-year, and 5-year periods (to 31 December 2024). This marks strong outperformance of between 150-200bps over all periods against the Manager's internal benchmark comprising an equal blend between the Morningstar LSTA US Leveraged Loan Index / ICE BofA US High Yield Index.

In comparison, GCOF (AUD) has achieved a net return of 9.9% per annum over a 2-year period, comfortably exceeding the Fund's 5-7% pretax net return target. However, outperformance versus the internal benchmark (the blend described above hedged into AUD) has been limited to 10bps. We argue this has been driven by the inability of GCOF (AUD) to closely follow its USD counterpart due to a lack of scale. This has since improved (including the ability to invest in the entire GCOF universe) and has been reflected in performance with benchmark outperformance widening to 100bps in 2024.

Alignment with the USD-denominated strategy puts upward pressure on our Product Assessment of GCOF (AUD), given our confidence in the longer-tenured strategy. This is reflective of our **Improving** outlook which was assigned in December 2023 on the expectation of the Fund closely mirroring the return profile of the Underlying Fund. This has begun and has supported growing outperformance against the Manager's internal benchmark, including outperformance on both a 1-yr and 2-yr time-period. With the Fund meeting all other criteria under the *BondAdviser Alternative Investment Fund Research Methodology,* we believe our Product Assessment is now consistent with an upgrade to **Highly Recommended**.

Figure 6. Estimated Risk-Adjusted Comparison (Underlying Portfolio for Weighted Average Credit Rating)



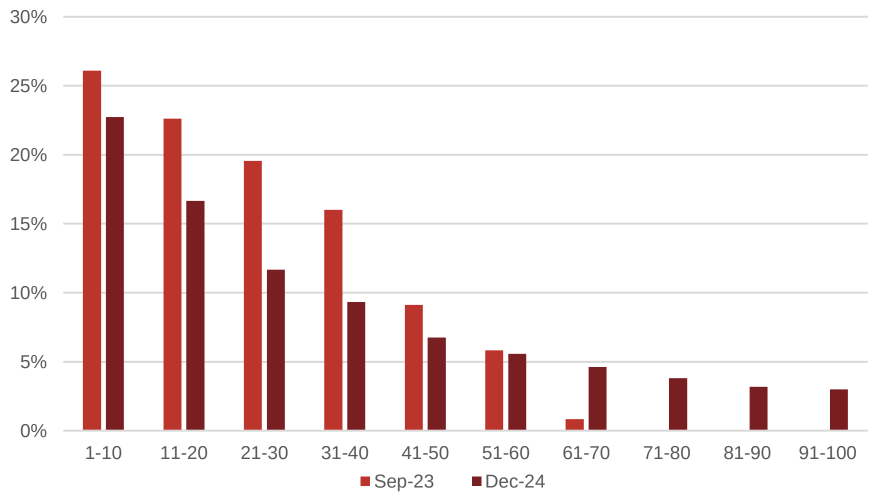
** Average returns for indices and GCOF calculated using annualised returns for the past five years. Average return for GCOF (AUD) calculated using annualised monthly returns since January 2023, the first full month post inception in December 2022. ** Credit Ratings based on public ratings, KKR internal ratings and BondAdviser estimates. *** Calculated based on annualised monthly returns data for the past five yea. Source: BondAdviser, KKR, Bloomberg. As at 31 December 2024.*

Portfolio Risk Management

Concentration risk has been a historical feature of the Fund. However, through growth and the recent qualification to access 144a securities, the underlying portfolio has become more diverse. Specifically, since September 2023, the Fund's top 10 issuer exposure has fallen from 26% to 23% of the total portfolio and the average individual weighting (excluding cash) has reduced from 1.5% to 0.5%. The largest individual exposure is 2.6% and of the Fund's 211 assets, 30 positions constitute 1.0% or more of deployed capital. This compares favourably to the previous period, where 44 securities (or roughly 65% of the total portfolio) constituted 1.0% or more of deployed capital.

As shown in Figure 7, the diversification benefits have been mainly experienced at the tail of the portfolio while it has retained concentrated exposure to its largest issuer positions, reflecting the Fund's high conviction strategy. We view this as positive from a liquidity perspective, given the increased tail of positions gives the ability to rotate capital from smaller positions to respond to market opportunities and/or facilitate investor redemptions if required.

Figure 7. GCOF (AUD) Issuer Summary – Top 100 Largest Counterparties*



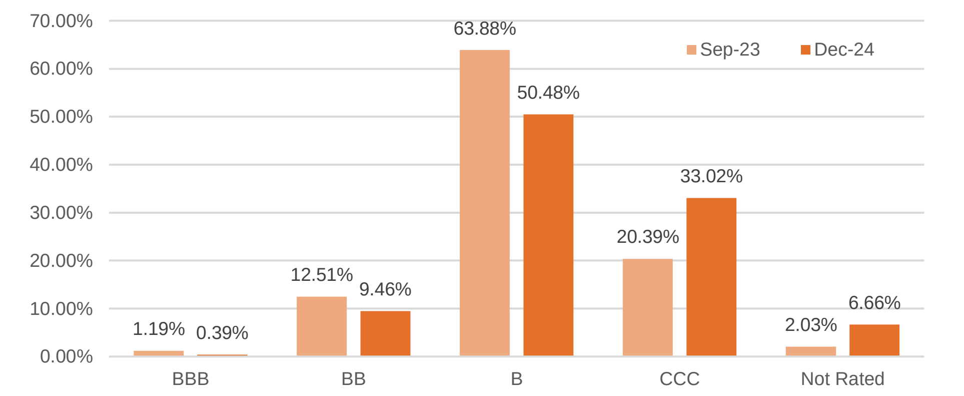
*Source: BondAdviser, KKR. As at 31 December 2024. * Excluding cash.*

Figure 8. Individual Investment Exposure*

*Source: BondAdviser, KKR. As at 31 December 2024. * Excluding cash.*

The Fund remains almost entirely comprised of sub-investment grade securities with the portfolio's average credit ratings being B3/B- (Moody's/S&P). This reflects the reduction in senior secured exposure over the period, from ~90% to ~64% currently. The tilt towards riskier credits is in line with our expectations as well as the Fund's broader strategy to align GCOF (AUD) with its US-denominated counterpart. Additionally, because the Fund seeks investments with a perceived credit rating lag, its current average exposure may not accurately reflect the true quality of the portfolio. In any case, the skew towards higher risk is supported by greater diversification, while its expanded investment universe provides flexibility to allocate capital to more prospective opportunities.

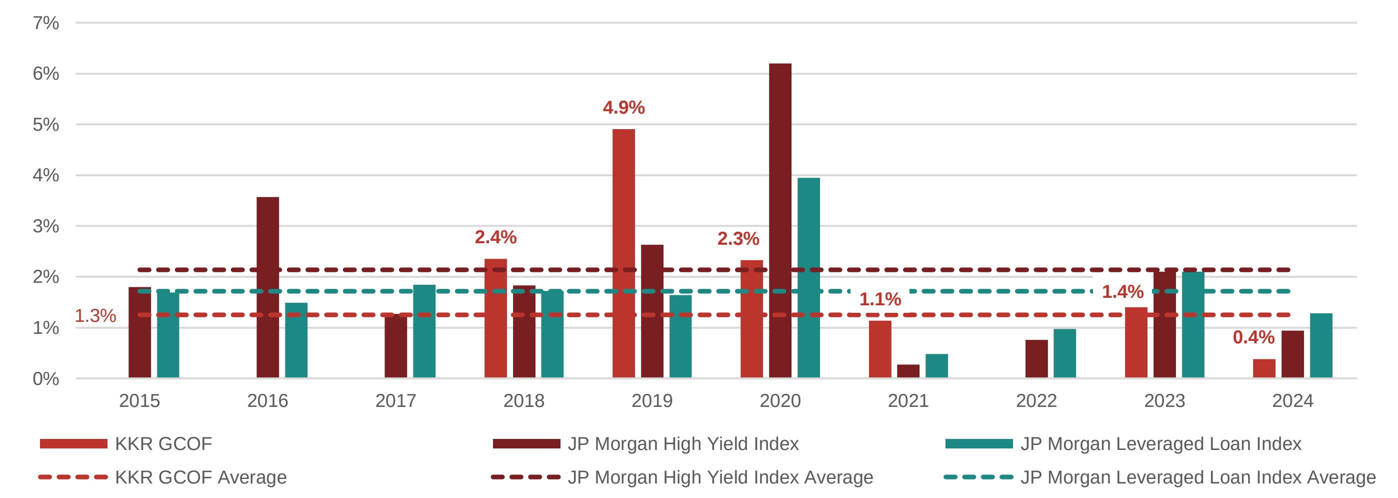
Figure 9. GCOF (AUD) Portfolio Credit Rating Mix*



*Source: BondAdviser, KKR. As at 31 December 2024. * Excluding cash. Uses lowest credit rating of S&P, Moody's, and Fitch.*

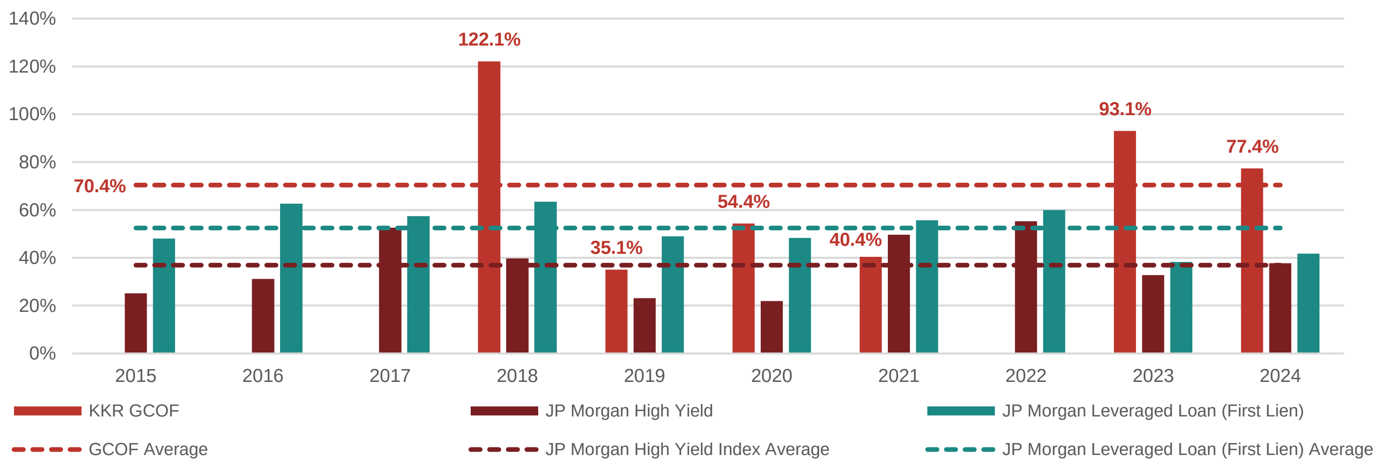
Our comfort in the manager's risk appetite is further supported by the KKR platform's robust restructuring and workout capabilities. Since the inception of the GCOF USD strategy, the underlying fund has demonstrated a default rate less than that of high yield and leveraged loan markets, along with stronger recovery rates. Specifically, the Fund has an average default rate of 1.3% and an average recovery rate of 70.4%, resulting in an approximate average loss given default rate (LGD) of 0.4%. This is in contrasted with an average LGD of 1.4% for the JP Morgan High Yield Bond Index and 0.8% for the JP Morgan Leveraged Loan First Lien Index.

Figure 10. GCOF Historical Default Rates



Source: BondAdviser, KKR. As at 31 December 2024.

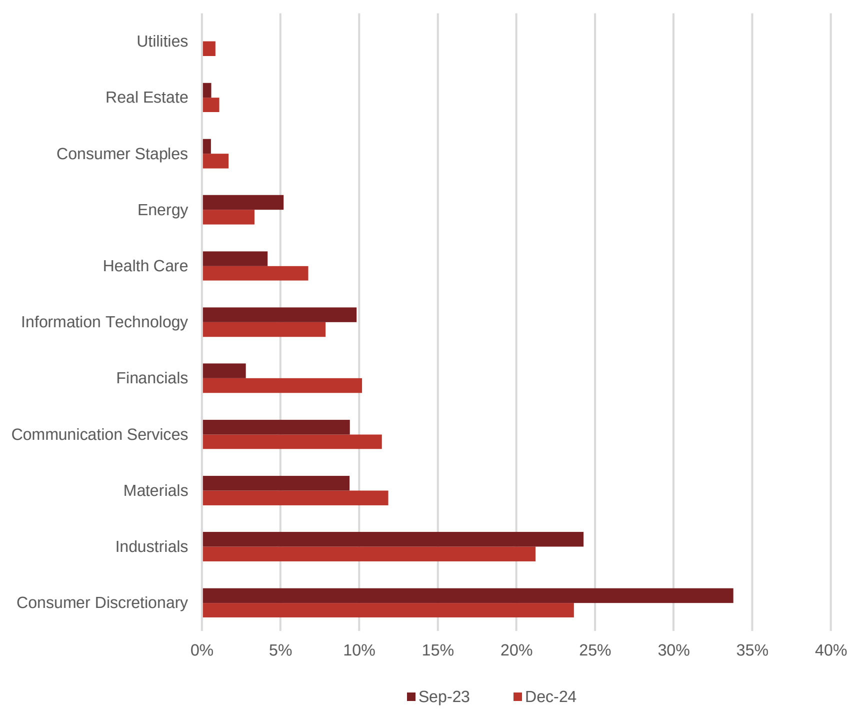
Figure 11. GCOF Historical Recovery Rates



Source: BondAdviser, KKR. As at 31 December 2024.

While Consumer Discretionary remains its largest exposure (24%), this now represents a quarter of the 197-security portfolio (compared to 34% of a 67-security portfolio in the prior period). Although Consumer Discretionary often underperforms in a weak macro environment – a present risk across global economies – the Manager's sector-agnostic approach ensures capital is allocated to the most prospective opportunities. Additionally, broad sector headwinds expand the opportunity set for GCOF as they seek to capitalize on oversold credits. Flow-induced inefficiencies in the high-yield market further enhance this advantage, allowing KKR to act as a liquidity provider during selloffs and acquire credits trading below intrinsic value.

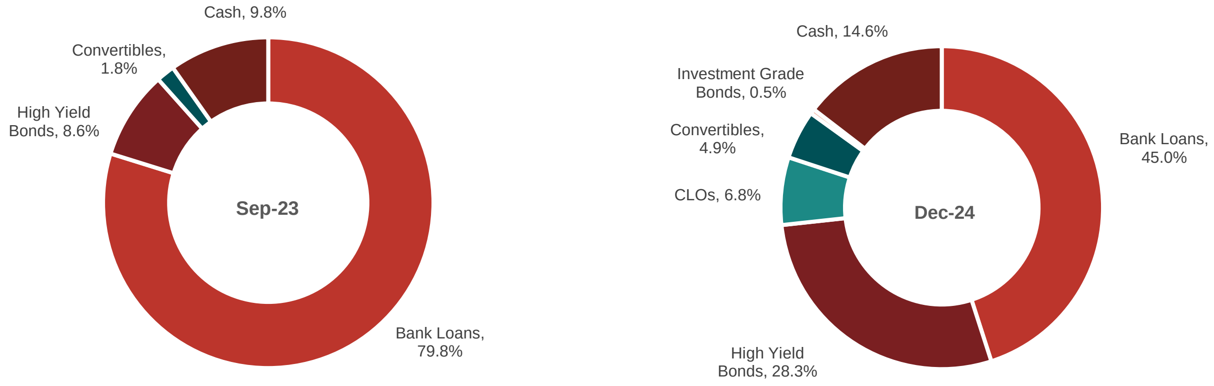
Figure 12. GCOF (AUD) Portfolio Sector Allocation*



*Source: BondAdviser, KKR. As at 31 December 2024. * Excluding cash.*

The Fund remains unconstrained in terms of asset mix (except for the 20% bucket in opportunistic assets), typically investing in either high yield bonds or bank loans. As a result, we expect the portfolio's security type composition to change as the Manager allocates to the best value on a sub-asset class basis. Again, noting that these allocations are expected to align with GCOF, given the recent qualification as an Institutional Buyer (QIB). This is illustrated in Figure 15 where the Fund has significantly increased its exposure to HY bonds over the past year.

Figure 13. GCOF (AUD) Portfolio Asset Type Mix

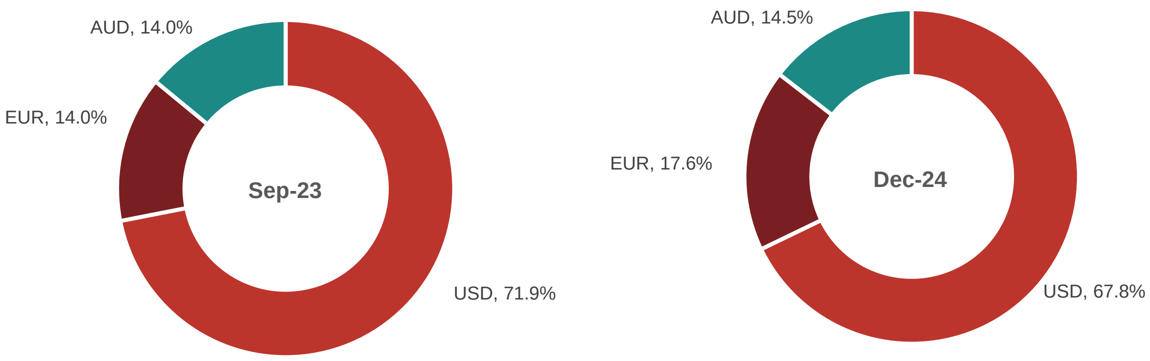


Source: BondAdviser, KKR. As at 31 December 2024.

The Fund prudently manages interest rate risk through a mix of floating and fixed-rate investments. Since September 2023, it has significantly increased its duration exposure given the nature of US high-yield bonds. While this enhances potential gains from falling interest rates, particularly in the US, this also raises sensitivity to adverse rate movements, which could impact portfolio value. To mitigate this, the Fund maintains a majority weighting in floating-rate securities. While these are less sensitive to rate changes, they introduce secondary credit risk – higher interest costs for borrowers may increase default likelihood. We believe this balance of risks will be managed prudently given the long-tenured track record of the GCOF strategy.

Geographically, while the Fund has a global mandate, its investments are concentrated in the US (>75%), with smaller exposures to Germany and the UK. As a result, most assets are denominated in USD. However, hedging back to AUD limits foreign currency risk, supported by a generally higher cash balance in comparison to the Underlying Fund.

Figure 14. GCOF (AUD) Portfolio Asset Type Mix*



*Source: BondAdviser, KKR. As at 31 December 2024. * Excluding cash.*

Fund Governance

There have been **no material changes** to fund governance since our last report.

The structure of the Trust has not changed and is outlined in our initiation report (see page 18 of GCOF (AUD) Initiation Report – 8 September 2022).

Quantitative Analysis

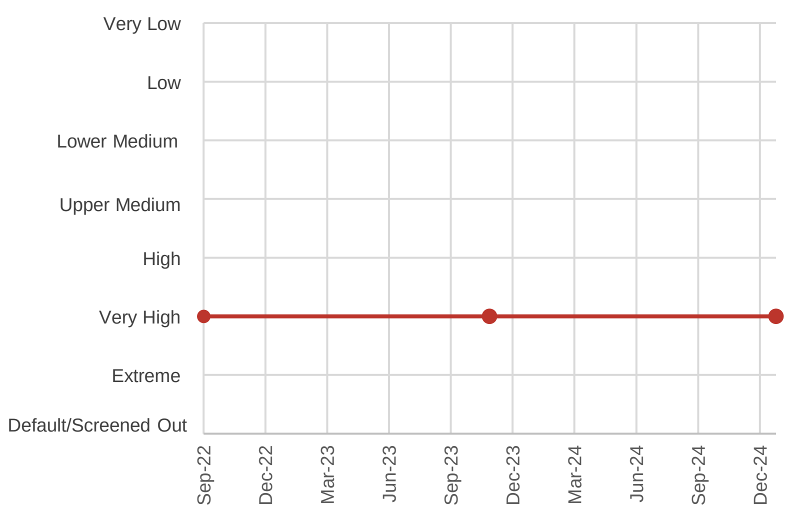
Our Quantitative Analysis simulates the portfolio under two scenarios: (1) a benign economic environment to understand how the portfolio would perform under standard conditions, and (2) a distressed scenario where downward credit migrations are more prevalent and recoveries are lower, as seen during the GFC.

Under the benign scenario, the portfolio performs well, with no negative returns modelled in the simulation, and a median modelled return of 9.33%, reflecting higher income from a higher yielding portfolio of sub-investment grade credits. In terms of downside protection under a benign scenario, the 99% and 95% VaR is 5.37% and 6.71% respectively, exhibiting strong downside protection in well-functioning markets. Having over 170 individual issuers provides greater diversification benefits, limiting negative skew in the return distribution profile.

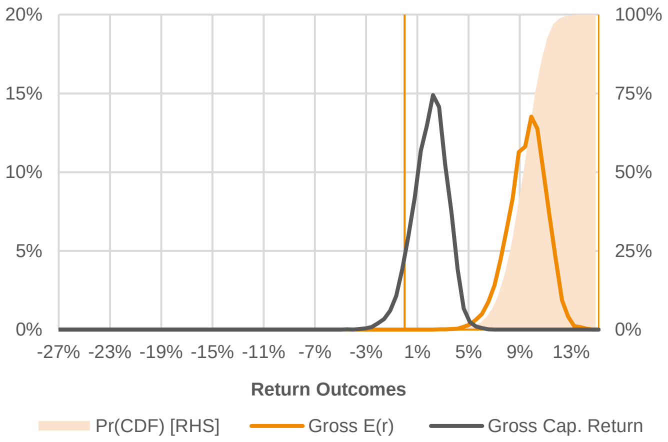
Our distressed modelling shows some downside protection with a 99% and 95% VaR of -15.15% and -12.07% respectively, but overall, our modelling suggests poor return outcomes in a GFC-like scenario. This has deteriorated since our last review as a function of a fall in senior secured assets, falling from ~92% to ~64%. We note that this reflects extremely punitive conditions but does give insight into how the portfolio may perform when exposed to materially distressed economic conditions. We also note that these modelled outcomes do not consider manager experience in credit selection and workout capabilities, which can help to avoid defaults and drive better loss given default outcomes.

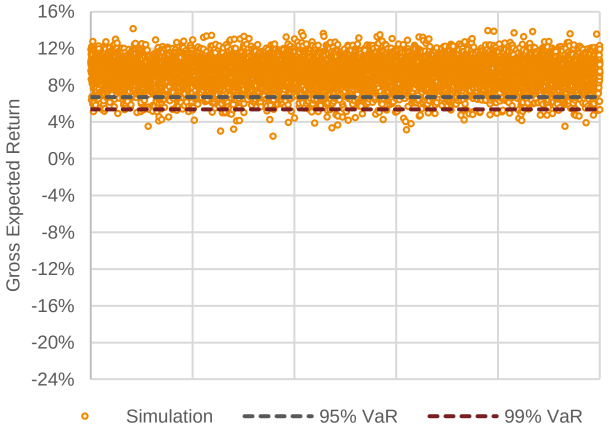
In terms of the risk score, the portfolio benefits from diversification by asset, but the majority of assets are B or CCC-rated, which is the riskiest of the high yield spectrum. Our risk score remains at **'Very High'**.

Figure 15. Risk Score



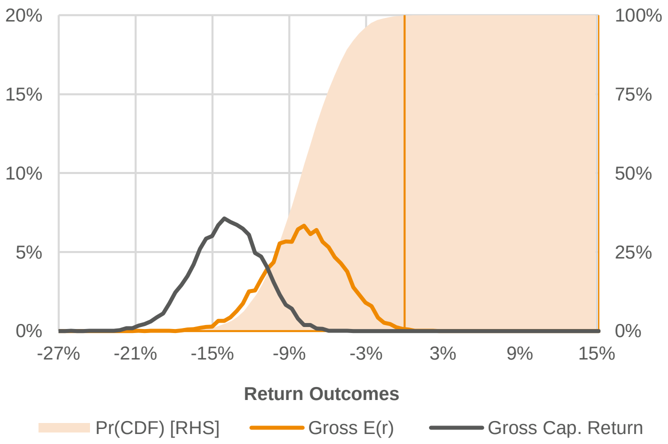
Scenario 1. Baseline Asset Assessment

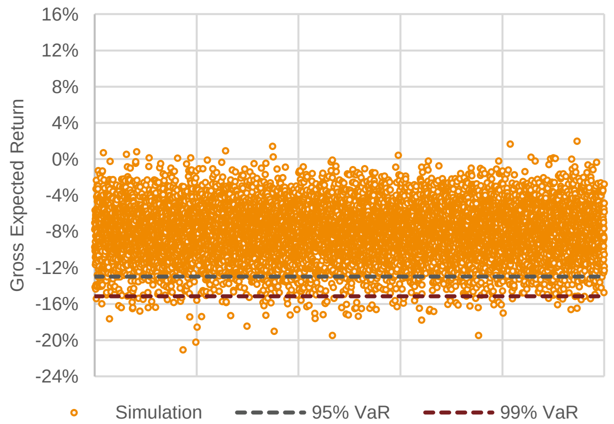




Source: BondAdviser Estimates. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. Impact of traded price is not simulated.
For a more detailed explanation of the methodology, please contact BondAdviser.

Scenario 2. Stressed Asset Assessment





Source: BondAdviser Estimates. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. Impact of traded price is not simulated.

Reporting History

GCOF (AUD) Update Report – 15 December 2023

GCOF (AUD) Initial Report – 8 September 2022

Alternative Investment Fund Research Methodology

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Report created on 19 March 2025.