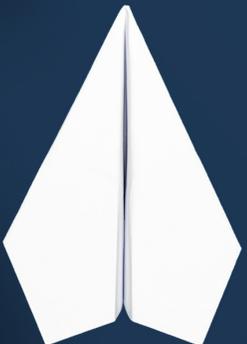
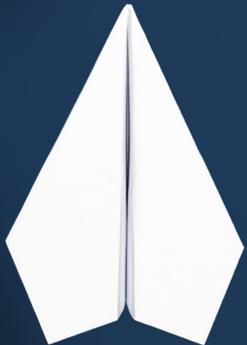


# KKR Credit & Markets



And One More  
Thing...in Credit



4

A Streamlined  
Shift

9

There's an  
App for That

12

Reinventing  
Corporate Capital

16

When is the  
Next Upgrade?

---

 Written by:


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



**Tal Reback**  
Director, Credit & Markets

---

“Innovation distinguishes between a leader and a follower”

— Steve Jobs

---

## Executive Summary

On January 9, 2007, Steve Jobs took the stage at Macworld and unveiled the iPhone, forever altering the trajectory of technology. This moment is often regarded as one of the most pivotal product launches in tech history. The launch of the iPhone wasn't just the debut of a new product; it was the dawn of a new paradigm. By seamlessly integrating music, communication, and web access into a single device, Apple did not just enhance a device, they redefined it. As Jobs said, “Innovation distinguishes between a leader and a follower.” This principle of synthesizing ideas and creating meaningful connections to address complex challenges is as relevant today as it was then. At KKR, we call it connecting the dots.

Today, the global credit markets are undergoing their own transformation. As we have previously noted, the old paradigm of siloed, fragmented products is giving way to a new era of diversified income solutions across multi-asset credit platforms. We believe these solutions represent the “iPhone moment” for credit—unifying diverse capital strategies, fostering agility, and empowering investors and companies alike to navigate complexity with more clarity and confidence. While the scale of innovation does not rival the groundbreaking transformation of the technology sector, the shift in credit markets is significant, fundamentally redefining how capital is accessed and deployed. As highlighted in our [Q3 Market Review](#), we believe constructing a multi-asset credit portfolio with an eye toward a materially larger diversification strategy, is a proactive approach to “future-proofing” a portfolio.

Just as the App Store revolutionized access to tools and experiences through a centralized platform, we believe the integration of diverse asset classes to enhance income diversification has become a cornerstone of modern portfolio strategy. And while we have seen significant asset performance across the credit and equity markets in 2024, we are mindful of notable market tea leaves: heightened geopolitical tensions, ballooning government deficits, tariffs, sustained inflationary pressures, and most recently rising bond yields. We are focused on understanding how job growth and productivity trends might face challenges, as these factors play a critical role in shaping broader economic stability. This aligns with what Henry McVey describes as the “regime change,” requiring a shift from traditional investment approaches to strategies that prioritize income, resilience, and adaptability. As dispersion remains elevated and the total addressable market for global credit continues to expand - we believe exposure to diversified credit as an asset class has gone from a “nice to have” to a “must have” on a risk-adjusted basis.

Asset performance in 2024 highlighted the critical role income can play in driving returns, reaffirming the enduring value of consistent, compounding income in a higher-for-longer rate environment. This underscores the importance of income-focused strategies that capitalize on stable cash flows, even amidst economic uncertainty. At the same time, credit markets continue to evolve, fueled by the continued growth of private credit in direct lending and asset-based finance (ABF) markets, alongside the re-emergence of private placements, the expansion of insurance mandates, and alternative private capital solutions. These trends are reshaping the traditional financing ecosystem, providing issuers and investors with more innovative tools to navigate today's complex financial landscape. We will discuss this trend in more detail in this note.

While credit markets have been evolving for decades, we see 2025 as a pivotal moment. Just as the mobile phone advanced, we believe the forward landscape will continue to feature more multi-asset portfolios designed to provide global and diversified income within a single, scaled operating environment. Steve Jobs envisioned the iPhone as a singular device designed to simplify and enhance outcomes. Integrated platforms that provide credit solutions spanning public and private markets provide a similar reinvention: a unified, aligned approach to address business needs, setting a new standard for efficiency, flexibility, and strategic value. Much like the iPhone streamlined how people interact with

technology, customized investment solutions are transforming how businesses access and optimize capital. This is our "iPhone moment," and we are ready to lead the charge, connecting the dots for our investors and delivering the strategies needed to thrive in this dynamic era.

**With this framework in mind, we reflect on the themes that shaped our perspective this quarter:**

**A Streamlined Shift**

Year-end reflections on markets, macro developments, and their implications.

**There's an App for That**

The rise of income diversification and the convergence of global public and private markets across debt and equity solutions.

**Reinventing Corporate Capital**

The critical role of capital solutions in constructing resilient portfolios.

**When is the Next Upgrade?**

The future of multi-asset solutions, inclusive of insurance, across Asia-Pacific, supporting tailwinds and portfolio benefits.

**EXHIBIT 1**

**Q4 and Year-to-Date and Returns Across Global Credit Markets**



Source: S&P LSTA LL Index, Ice BofAML, JPMorgan CLLIE, Bloomberg and KKR Credit Analysis as of December 31, 2024.

## A Streamlined Shift

When the iPhone debuted, it didn't just consolidate features; it reimagined the way people interacted with technology. In 2024, the credit markets also continued their transformation toward a more streamlined and integrated ecosystem. The year highlighted the rewards of a multi-asset, "risk-on" approach, as rolling recessions across sectors amplified market dispersion. This dynamic brought nimble asset allocation and credit selection into focus, with different segments of the market—the "haves" and the "have-nots"—experiencing their moments at varying points in the macroeconomic cycle. Asset returns reflected this nuanced environment, with both credit and equity markets delivering strong performances.

The year rounded out with a final 25 basis-point (bps) rate cut, bringing the federal funds target range to 4.25% - 4.5%. The U.S. Federal Open Market Committee (FOMC) acknowledged at its December 18 meeting that economic activity had continued to expand at a solid pace, while labor market conditions had eased slightly. Notably, the Federal Reserve raised its inflation forecast, lowered its unemployment forecast, and reduced the anticipated number of rate cuts in 2025.<sup>1</sup> Chairman Powell acknowledged that while inflation remained a significant concern, the Fed was also focused on the labor market's health and could afford to be more patient. Powell reiterated the importance of maintaining a careful stance on interest rates to ensure that inflation gradually returns to the target level without stifling job growth, a pivot in approach that sent the market sliding lower on the day. Trading losses spanned the rating spectrum as Powell indicated that the Fed would slow down the pace of easing. As a result, yields spiked as the 5- and 10-year Treasury notched new 5- and 6-month highs, respectively. December CPI increased by +0.4% month over month (+2.9% year over year), while core CPI rose +0.3% month over month (+3.2% year-over-year),<sup>2</sup> slightly below expectations due to cooling services inflation. More recently, on January 29, 2025, Powell said officials are not in a rush to lower interest rates, citing a strong economy and a need to see further progress on inflation. The FOMC voted unanimously to keep the federal funds rate unchanged, and Powell suggested that the Fed could remain "on hold" for some time.

As noted by our colleague, Henry McVey, Head of Global Macro & Asset Allocation and CIO of KKR's Balance Sheet, the Fed's patient approach on inflation highlights that "this time is different." An environment in which growth is strong and inflation is variable favors assets that rely on nominal GDP growth. This translates to an over-weight allocation to yield-oriented assets with steady cashflows and controllable outcomes – i.e. contractual returns, capital-light business models, operational and/or strategic consolidations that enhance profitability, and markets like Japan that benefit from exposure to local demand. This is why we are focused on productivity-driven metrics as a key response to rising input costs, including wages.

### ASSET ALLOCATION NOW HAS A GREATER IMPACT ON PORTFOLIO PERFORMANCE:

The risk/reward profile for credit is cementing its place in portfolios as forward-looking return expectations narrow

2025 Outlook: Glass Still Half Full

#### EXHIBIT 2

### Forward-Looking Expected Range of Outcomes Will be Narrower, We Believe

Expected Return Range of Outcomes, %



Data as at November 30, 2024. Source: KKR Global Macro & Asset Allocation analysis.

Asset allocation, rather than single-asset volatility, now has a greater impact on portfolio performance. This approach also reflects the structural shifts in the global economy and the breakdown of traditional asset correlations while maintaining abundant flexibility.

Like the iPhone's sleek user interface, which seamlessly assimilates a user's tools and experiences into a single cohesive platform, the 2024 investment landscape pointed to a similar shift in asset management toward a "single point of origin" style. Employing flexible, multi-asset approaches proved essential for navigating the ever-changing complexities of markets. Throughout 2024, we emphasized the importance of positioning portfolios to optimize relative value as markets evolved, a strategy that rewarded those who leaned in with conviction.

Against a backdrop of fundamentally sound conditions, historic levels of demand, and a more accommodating Federal Reserve, the markets surged in 2024. Global leveraged loan activity touched historic highs with nearly ~\$1.9 trillion<sup>3</sup> in overall gross new issuance across leveraged loans and CLOs. The high-yield market gained momentum heading into year-end, catalyzed by the resolution of the U.S. election

uncertainty. Persistent supply shortages on both sides of the Atlantic prompted borrowers to refinance, reprice, and extend facilities, effectively pushing out the market's maturity profile and driving dealmaking activity. It is worth noting that not all issuance is created equal. During periods of market exuberance and excessive demand, we often see lower quality issuance come to market, as evidenced by the wave of SPACs that flooded the market at the height of the rebound in 2021. While we are not currently seeing signs of this trend, it remains on our minds - particularly if issuance and M&A do not pick up meaningfully, as a steeper supply/demand imbalance could heighten this risk.

However, sponsors and borrowers alike took full advantage of more accommodating credit conditions by repricing and refinancing at a rapid pace. By year-end, the repricing wave had reached a record-setting ~\$800 billion,<sup>4</sup> while extending maturities and trimming borrower interest expense by nearly \$4.1 billion<sup>5</sup> annually. As of December 31, 2024, U.S. leveraged loans returned +8.55%,<sup>6</sup> CLO BBB and BB +11.79% and 19.16%,<sup>7</sup> respectively, and E.U. leveraged loans +9.12%.<sup>8</sup> The predominant contribution to return was due to carry - a validation of our "carry over convexity" thesis.

**EXHIBIT 3**  
**Compounding: The 8<sup>th</sup> Wonder of the World and Its Power on MOIC**

U.S. Leveraged Loan Contribution to Return (%)



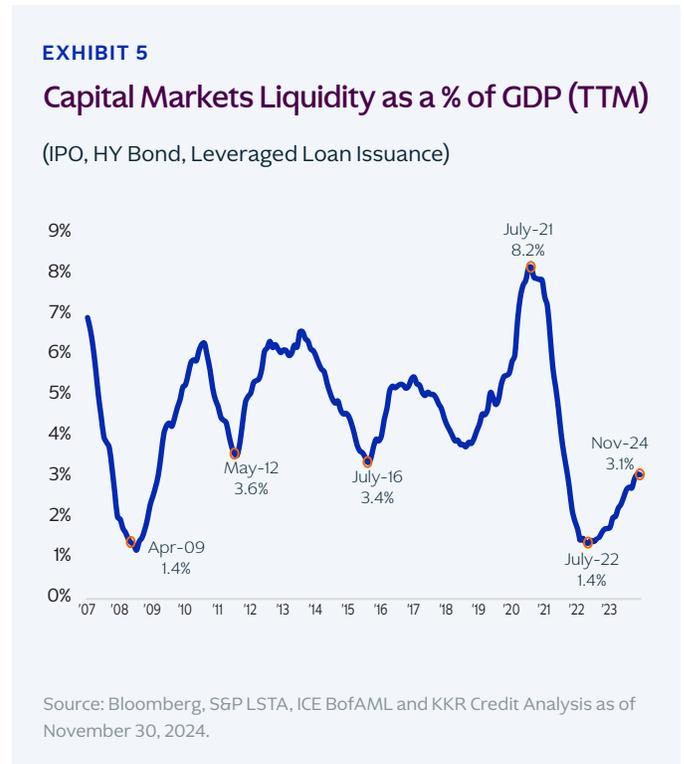
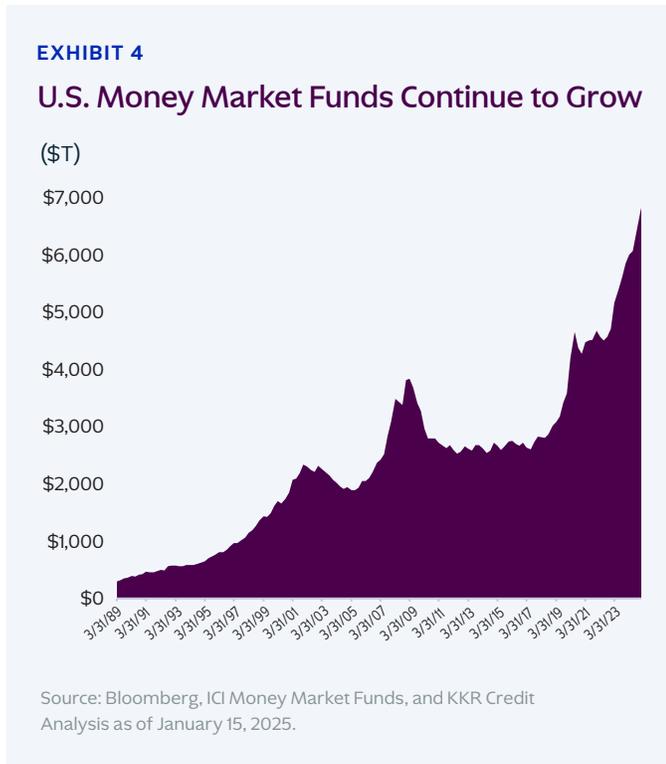
Source: Pitchbook | LCD; Morningstar LSTA LL Index, KKR Credit Analysis as of December 31, 2024.

The fourth quarter marked the year's final crescendo, with \$400 billion<sup>9</sup> in new leveraged loan issuance as post-U.S. election jitters subsided and renewed confidence in M&A filled the air. Despite this momentum, 2024 concluded with the largest supply shortage on record at some ~\$192 billion,<sup>10</sup> further exacerbating the supply/demand imbalance that defined the year. In fact, LBOs only accounted for 12% of loan volume for the year, reiterating the market's need for more M&A. The lack of paper compressed spreads further, only to catalyze additional repricings and refinancings. However, when stripping out repricings and amend-and-extends, which do not contribute to new net supply, new loan volume touched \$501 billion - more than double 2022 and 2023 levels,<sup>11</sup> but still not enough to satiate demand.

The CLO market mirrored these dynamics, achieving new record highs for both net new issuance and reset activity. As discussed earlier this year, the return of the CLO machine catapulted leveraged loan demand, especially as new vintages ramped their portfolios. With supply already thin, this trend continued to contribute to the heightened levels of asset dispersion across the market, evident by elevated

levels of sector dispersion in the loan market. The record CLO output in the fourth quarter was aided by a boost in LBO/M&A loan activity to support CLO creation, as well as Fed rate cuts that debuted in September. On a global basis, CLO refi/resets reached ~\$344 billion,<sup>12</sup> with additional demand stemming from insurers who have raised \$1 trillion in industry-wide annuities.<sup>13</sup> As of December 31, 2024, the AAA average spread was 135bps,<sup>14</sup> which is the narrowest level in the SOFR era, coming close to the 2021 tights. As January ends, CLO AAAs have briefly touched 115bps, likely spurring more resets and refinancings.

**Tight supply compressed spreads in 2024, fueling repricings and refi's. With cash piling up, the market needs more M&A than ever before.**



Last quarter, we highlighted how the broadly syndicated and private credit markets continue to move in tandem, navigating the ebb and flow of activity on the path toward equilibrium. As the volume of syndicated deals recalibrated over the course of the year, direct deals were refinanced through the public markets, reflecting the complementary dynamics between the two ecosystems. While the broadly syndicated market reopened in 2024, attracting issuers with tighter spreads, broad institutional interest in direct lending ensued. BDCs and non-traded BDCs remained a cornerstone of private credit, providing stability and supporting transactions through their scaled capital base. The BDC structure has become a critical funding source for the asset class, leveraging their scale to offer tailored and flexible financing solutions. Inflows into the direct lending market have steadily grown and, now range between \$2.5 billion and \$3.4 billion<sup>15</sup> per month on a trailing 12-month basis. Evergreen structures in direct lending continue to gain traction, driven by their establishment as a permanent fixture in asset allocation. Their ability to reinvest income, rather than distribute it, allows capital to be continuously redeployed at gross coupons ranging from low single digits to high double digits, compounding value over time.

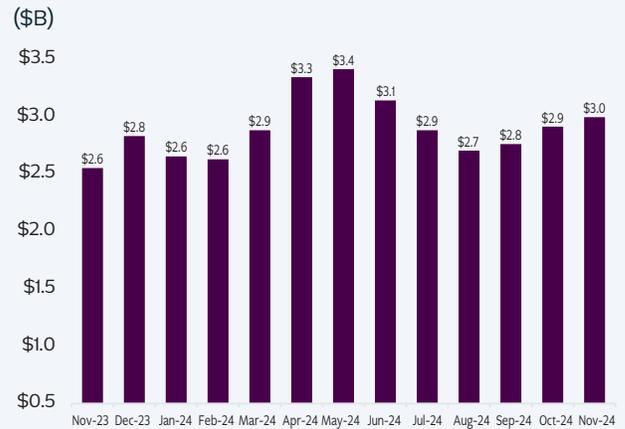
## The global credit markets continue to structurally evolve

The notional volume of buyouts financed by the syndicated loan market surpassed private credit in Q3 2024 for only the second time since the 2022 rate-hiking cycle began. Despite this, direct lenders have demonstrated resilience. With continued institutional and retail interest, perpetual evergreen vehicles are well-positioned to play an increasingly pivotal role in reshaping global credit markets.

EXHIBIT 6

### Trailing-Twelve Month BDC Sales

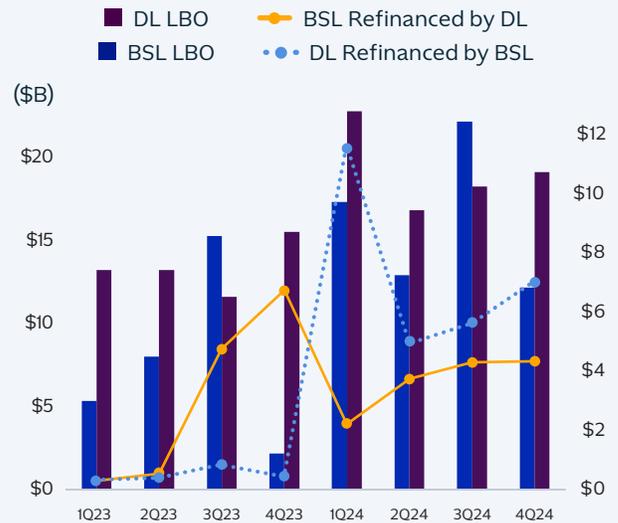
Non-traded BDCs have captured an incremental ~40% of BDC market share over the past five years



Source: Stanger Market Pulse November 2024, Goldman Sachs Research and KKR Credit Analysis as of December 31, 2024.

EXHIBIT 7

### New-Issue BSL vs DL Financing LBOs



Source: Pitchbook | LCD, JPMorgan Research, and KKR Credit Analysis as of December 31, 2024.

On the fixed rate side, high yield had the wind at its back during the fourth quarter. Investors absorbed the newest high yield supply in 2024, with volume reaching \$288 billion<sup>16</sup> globally, which is the highest since the post-COVID 2021 record of \$613 billion.<sup>17</sup> Like the loan market, the cumulative total bond issuance for the year exceeded that of 2022 and 2023 activity combined. Amidst this renewed energy, the market saw an uptick in bond-to-loan takeouts – totaling \$67 billion<sup>18</sup> – and of course, more refinancings. We also witnessed senior secured issuance make a comeback in 2024. On the heels of the volatility in 2022-23, senior issuance hit historic lows, with less than \$70 billion<sup>19</sup> issued annually – a level not seen since 2009. In the last 12 months senior issuance rebounded sharply to \$156 billion,<sup>20</sup> over 55% of the total. While this marks a recovery, it remains well below record levels in 2020 and 2021, when unsecured deals dominated, and represents another data point on

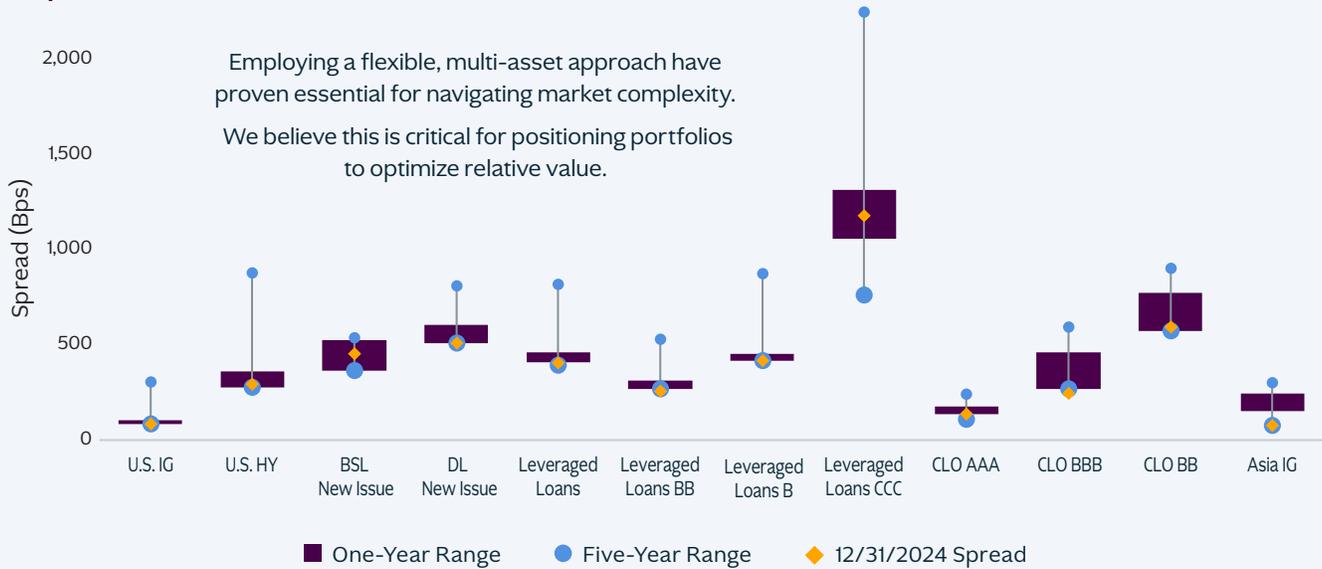
how structural shifts across the market are changing the way issuers access capital. Overall, U.S. high yield returned +8.20%, E.U. high yield +8.61%, and Asia high yield +16.38% as of December 31, 2024,<sup>21</sup> a strong performance for 2024.

As we start the new year, ~5% bond yields can create both challenges and opportunities for credit assets in the current environment. On one hand, higher yields increase the cost of capital for issuers, potentially leading to tighter underwriting standards and a more selective investment landscape, which likely means less M&A. On the other hand, these elevated yields enhance the appeal of credit assets for income-focused investors, providing an attractive risk-adjusted return profile compared to historically low-yielding periods. Additionally, higher yields may encourage a shift toward private credit and capital solutions, where customized financings can offer enhanced returns while mitigating duration risk.

**EXHIBIT 8**

**Dispersion Remains Elevated**

Employing a flexible, multi-asset approach have proven essential for navigating market complexity. We believe this is critical for positioning portfolios to optimize relative value.



Source: S&P LSTA LL Index, Ice BofAML, JPMorgan CLLIE, Bloomberg and KKR Credit Analysis as of December 31, 2024.

## There's an App for That

The growing demand for diversified income, coupled with the increasingly blurred lines between public and private markets, is reshaping the global financial landscape. As companies stay private longer and market liquidity remains tight, many are turning to the private markets for innovative and flexible financing solutions. At the same time, investors are expanding their exposure to diversified income solutions, drawn by their strong risk-adjusted return profiles, consistent income generation, and portfolio diversification, especially during periods of heightened volatility. This convergence is driving the rise of cross-asset financing strategies, with private firms increasingly tapping public markets and institutional investors seeking commingled solutions that blend that blend public and private exposure, rather than allocating to them in distinct buckets or through separate teams. This evolution underscores the growing synergy between historically separate domains (i.e. HY and IG), marking a pivotal shift in how capital is accessed and deployed.

## The growing demand for diversified income, coupled with the increasingly blurred lines between public and private markets, is reshaping the global financial landscape.

This reminds us of a moment in Steve Jobs' 2007 iPhone presentation when he noted that traditional smartphones all had the same fixed buttons and functions. They were static, lacking the ability to adapt to evolving needs. Jobs made the case for a dynamic, adaptable interface that evolves with the user, and with that, the touchscreen became mainstream. Capital markets are undergoing their own transformation, evolving into a more flexible, dynamic ecosystem to meet the evolving needs of both companies and investors alike. We first highlighted this phenomenon in July 2023 by calling out that the relationship between public and private credit is symbiotic – not zero sum. This has been a powerful theme that has been on the main stage over the

last three years as the direct lending market has grown to surpass the size of the leveraged loan market, serving as an important reminder that financing channels enrich both one another, and the broader economy as they diversify.

ABF has followed in the footsteps of direct lending, reinforcing the value of diversified private credit financing channels, including non-corporate exposure, in meeting the evolving needs of companies and investors. With the growing demand for cross-asset solutions, we anticipate this phenomenon will expand globally, solidifying the complementary nature of these markets and their ability to augment portfolio construction. We suspect that Asia-Pacific (APAC) may leapfrog ahead of the United States. Using the benefit of hindsight and lessons learned from the evolution of markets in the West to embrace multi-asset portfolios from the outset. Rather than following the linear evolution from traditional equity and bond allocations to alternatives, we believe the region appears poised to integrated diversified multi-asset solutions more quickly, capitalizing on opportunities to achieve relative value without taking on incremental risk.

This transformation is being driven, in part, by capital constraints, which are catalyzing a shift from capital-heavy to capital-light business models. Many public companies are shedding capital-intensive assets through securitizations and divestitures, reducing exposure to cyclical or lower return segments in favor of more sustainable, higher margin opportunities. This, in turn, is driving the emergence of high-quality assets in the market, which were historically unavailable to private capital. In credit, this has created opportunities for ABF and real estate investors to lean into assets with compelling risk-adjusted return profiles. Notably, this is akin to the sale-leaseback technology we have seen in the market for decades, as evidenced by our recent capital partnership with PayPal and the growing use of private investment grade solutions. By facilitating the transfer of these assets off balance sheets, credit providers can capture meaningful economics while helping companies optimize their operations and improve earnings visibility. The demand for such structures has been exacerbated by insurance capital and the growth of annuities, which demand high-quality assets with stable returns and consistent cash flows.

Further supporting our thesis about the transition to capital-light businesses through off-balance sheet solutions, capital-intensive companies are increasingly trading at a discount. This trend is not only reshaping corporate strategies but also creating new opportunities for credit providers to facilitate the transitions as a strategic thought partner. We anticipate this movement toward capital-light models to intensify, with businesses leveraging more innovative structures and cross-asset financing to improve earnings, execute growth strategies, and/or enhance operating efficiency. This shift complements the rise of private capital solutions, which serve as a flexible and scalable interface for meeting the evolving demands of modern issuers and sponsors. We believe capital solutions will emerge as a new interface for issuers and sponsors, enabling them to secure strategic, flexible capital to drive growth and meet capitalization needs while alleviating the over-reliance on traditional financing avenues, such as IPOs or traditional debt.

**EXHIBIT 9**

**World Capital vs. Non-Capital Intensive**

USD Price Return Indexed to 100



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research.

Capital solutions may emerge as a new interface for issuers and sponsors enabling them to secure strategic, flexible capital to drive growth and meet capitalization needs



These shifts reflect a fundamental rethinking of how capital markets operate. Cross-asset solutions that combine features of traditional debt and equity instruments are becoming mainstream, offering more flexibility and adaptability in any environment. In this “new regime”, where government bonds exhibit a positive correlation with stocks, we believe the traditional playbook for fixed income no longer applies. We encourage CIOs to fundamentally

rethink what fixed income means within a portfolio, shifting from its historical role as a diversification tool to one that emphasizes income generation, stability, and tactical asset allocation. This evolution aligns with Henry McVey’s [2025 Outlook: Glass Still Half Full](#), as it highlights the opportunity to replace outdated assumptions with strategies that capitalize on compounding income, private credit growth, and capital-light financing innovations.

## Several structural and market trends are catalyzing this transformation:

**Extended Private Market Cycles:** Companies are staying private longer, with the median hold period for private equity-backed firms reaching an all-time high of 7.1 years in 2023. This reflects both a scarcity of IPOs and a persistent valuation gap that is cultivating a strategic shift toward cross-asset financing that bridges the gap between debt and equity.



**Re-emergence of Structured Equity:** Products like convertible debt/equity and preferred equity are gaining traction with issuers, offering unique value to businesses and investors. Converts are a good example of an asset that can offer income stability alongside capital appreciation potential.



**Growing TAM:** We anticipate capital solutions could achieve comparable scale to ABF, driven by the transition of public corporate issuers to private markets, the rising demand from sponsor-backed companies seeking liquidity, and owners prioritizing capital solutions for optimal value creation.

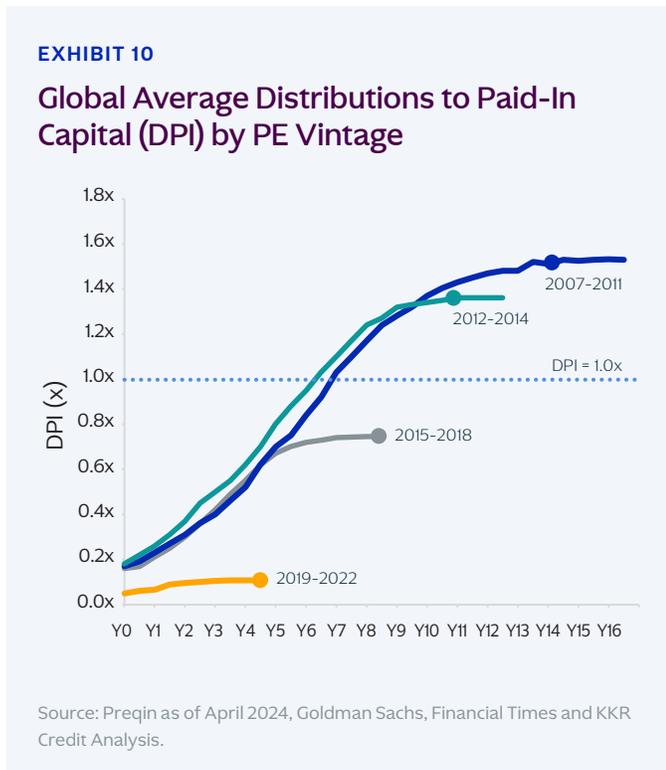


## Reinventing Corporate Capital

Capital solutions represent an emerging category of financing designed to bridge the gap between traditional debt and equity markets, addressing the evolving demands of modern businesses. By offering flexibility with tailored solutions designed to help owners achieve specific objectives (typically in the form of a minority investment), capital solutions enable issuers to unlock value, drive growth, and navigate complex market environments.

The muted IPO market and limited sponsor-backed exits, coupled with rising equity check contributions to LBOs during 2024, stresses the need for alternative financing structures. Private equity firms, grappling with extended holding periods and historically low distributions to paid-in capital (DPI) ratios, have turned to liquidity tools such as net asset value (NAV) loans and continuation funds. These tools have enabled sponsors to return capital and/or monetize portfolios without forcing premature exits, ensuring they meet investor expectations while preserving long-term value.

Simultaneously, the shift from capital-heavy to capital-light models has accelerated the adoption of new structured solutions; while these are not traditional capital solutions, they are expanding the aperture and willingness to explore more innovative, outside-the-box approaches. Many public companies are leaning into private solutions such as the sale-leaseback model or bespoke capital solutions to optimize their balance sheet. These approaches enable businesses to free up capital and focus on growth initiatives while pursuing more equity-friendly financing strategies that align with shareholder interests. Over a company's life cycle, several scenarios can prompt the need for a capital solution. These might include financing more volatile (i.e. less equity-friendly) assets off-balance sheet, conducting share buybacks, or divesting non-core business lines. Structured capital solutions are particularly valuable in instances where market conditions make it challenging to go public or sell outright. By addressing these transitional needs, capital solutions not only facilitate value creation but also help enhance return profiles, improve earnings visibility, and provide businesses with greater flexibility to operate more efficiently. As we like to say, **origination begets origination.**



More broadly, demand for these solutions is also being driven by the global expansion of private markets, as companies seek alternatives to public financing. Private capital under management is projected to rise from \$13.1 trillion to \$20 trillion by 2028.<sup>22</sup> This growth has fostered a more competitive landscape for private transactions, particularly as investors compare the advantages of public versus private markets.

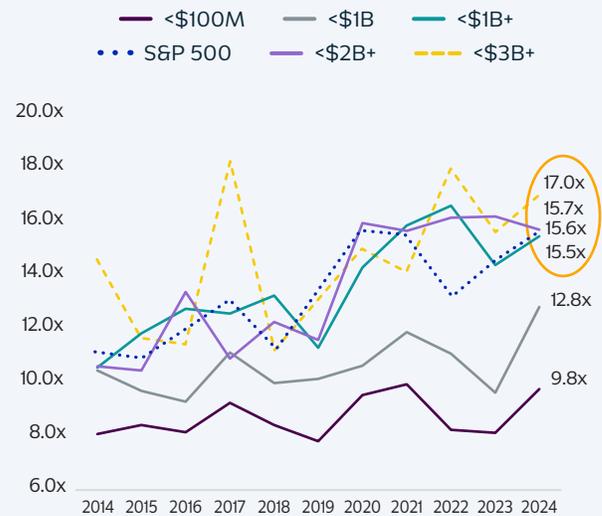
The S&P 500 has consistently traded at a premium to private buyouts, reflecting the liquidity and scale benefits of publicly traded companies. However, as buyouts surpass \$1 billion in enterprise value, they begin to command higher multiples, with the most significant increases occurring at \$3 billion and above. This trend signals growing investor confidence in the scalability and return potential offered by private markets. For companies with enterprise values below \$1 billion, historical data confirms significantly lower multiples and more dilutive outcomes. These dynamics reinforce the importance of creative financing solutions that enable companies to strategically position themselves for growth, maximizing value when market conditions are optimal. We believe this need will drive significant deal flow in the years ahead.

Furthermore, as companies continue their transition from capital-heavy to capital-light models, capital solutions are becoming essential tools for optimizing balance sheets and unlocking value. In 2024 alone, private equity firms contributed an average equity check of 49% for LBOs,<sup>23</sup> a trend that highlights the growing reliance on cross-asset class structures to navigate today's complex financial landscape.

**Capital solutions offer a unique value proposition by combining the downside protection of credit with equity-like upside potential.**

**EXHIBIT 12**

**Median EV/EBITDA Multiples in North America and European Buyouts vs S&P 500<sup>24</sup>**



Source: FactSet, Pitchbook, Bloomberg and KKR Credit Analysis as of December 31, 2024

**So, what is the value proposition?** Capital solutions offer a unique value proposition by combining the downside protection of credit with equity-like upside potential. This integrated approach allows businesses to access tailored financing that avoids excessive leverage or dilutive equity issuance, bridging valuation gaps and providing much-needed flexibility. By leveraging a partner’s resources and proprietary intellectual property, businesses gain access to strategic insights and operational expertise that can accelerate growth, enhance scalability, and unlock long-term value. For investors, the appeal and value lie in deriving a significant portion of returns from contractual income elements, while still participating in the equity upside alongside owners and management teams, backed by significant governance rights.

We can see the parallels with the high-yield bond market of the 1980s and the feeling of discomfort many of us felt when switching from buttons to a touchscreen. Just as high-yield bonds revolutionized corporate finance by enabling companies to access capital beyond traditional bank loans, capital solutions are poised to redefine the financial ecosystem through an integrated debt/equity solution. We believe they also offer a flexible, scalable framework that meets the demands of modern businesses and aligns with investors’ need for diversification and risk-adjusted returns.

The current market environment presents a confluence of factors that make capital solutions a compelling opportunity, in our view. Capital solutions are filling this void, offering businesses a strategic alternative to conventional debt and equity while providing investors with a scalable, high-growth opportunity.

This transformation is not confined to Western markets. Although still small on a relative basis, Asia-Pacific is emerging as a critical growth hub for multi-asset solutions, fueled by the region’s rapid economic development, infrastructure demands, and expanding private capital ecosystem. The unique dynamics of these markets make them fertile ground for innovative financing structures, positioning private credit as an indispensable part of the region’s financial future. With diverse economies undergoing significant structural shifts, governments and corporations alike are seeking innovative financing mechanisms to meet their evolving needs.

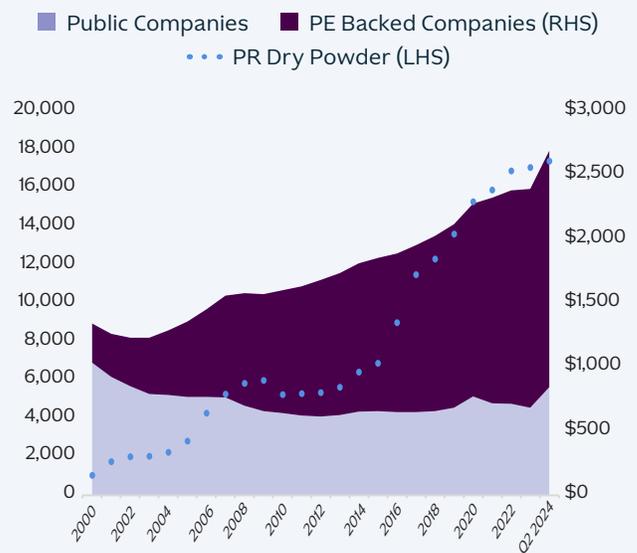
[www.kkr.com](http://www.kkr.com)

**EQUITY CONTRIBUTIONS AT RECORD HIGHS:**

In 2024, average equity contributions in LBOs hovered around ~49% - 50%. These elevated levels reflect strategic responses to rising debt costs and investor caution, but they also highlight the growing importance of cross-asset financing from capital solutions and junior debt in maintaining deal viability.

**EXHIBIT 13**

**Global Growth of PE Backed Companies and Dry Powder**



Source: S&P Global Market Intelligence, Pitchbook, and KKR Credit Analysis as of October 31, 2024.

As we embark on 2025, the momentum behind holistic investment solutions globally continues to build. In fact, we have already seen significant interest, with multiple opportunities emerging across various industries and regions. By offering tailored, creative financing options, capital solutions are not just a response to current market dynamics—they are shaping the future, and we believe, will be the next meaningful allocation wave.

## Evolution of Scaled Credit Allocations

How did we get here?

- 1  **High Yield & RMBS**  
1980s - Mid 1990s: proliferation of LevFin market through “junk bonds” and securitizations
- 2  **Leveraged Loans & Leveraged Finance**  
Mid 1990s - Early 2000s: CLOs fueled shift from bank loans to broadly syndicated loans
- 3  **Multi-Asset / Opportunistic**  
2004 - 2015: product innovation driven by daily-liquidity vehicles (MF, ETFs) volatility
- 4  **Private Credit**  
2008 - 2022: Growth of private credit, in particular direct lending and real estate credit
- 5  **Asset-Based Finance**  
2010 - 2024: Basel III impact and bank consolidation / regulations

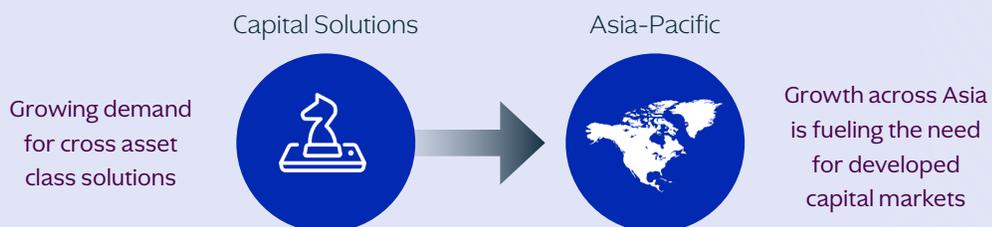
### Diversified Income

High Yield + Leveraged Loans + MAC / Opportunistic + Private Credit + ABF + Insurance

Public / Private Continuum each have a role to play in portfolio construction

It is not an either/or...it is an and

### Diversification and Yield / Return Benefits



Source: For illustrative purposes may be subject to change. The above reflects the opinion of KKR Credit and should not be relied upon as investment advice.

## When is the Next Upgrade?

Remember when the iPhone first came out, and people swore they would never give up their flip phones or Black-Berrys—only to end up wondering how they ever lived without it? We do. Many people struggle with adapting to change but, change and evolution in financial markets create opportunities. That is how we feel about the opportunity set across the APAC region. It is coming, it is growing quickly, and it is exciting. Contrary to the perception that investing in Asia-Pacific is inherently risky or predominantly an emerging market opportunity, the region offers a vast array of investment opportunities across many developed and developing economies, often at a premium spread. This is why we place significant emphasis on understanding the diverse jurisdictions and legal frameworks across the region, enabling us to navigate local complexities effectively and pursue deep diligence with precision.

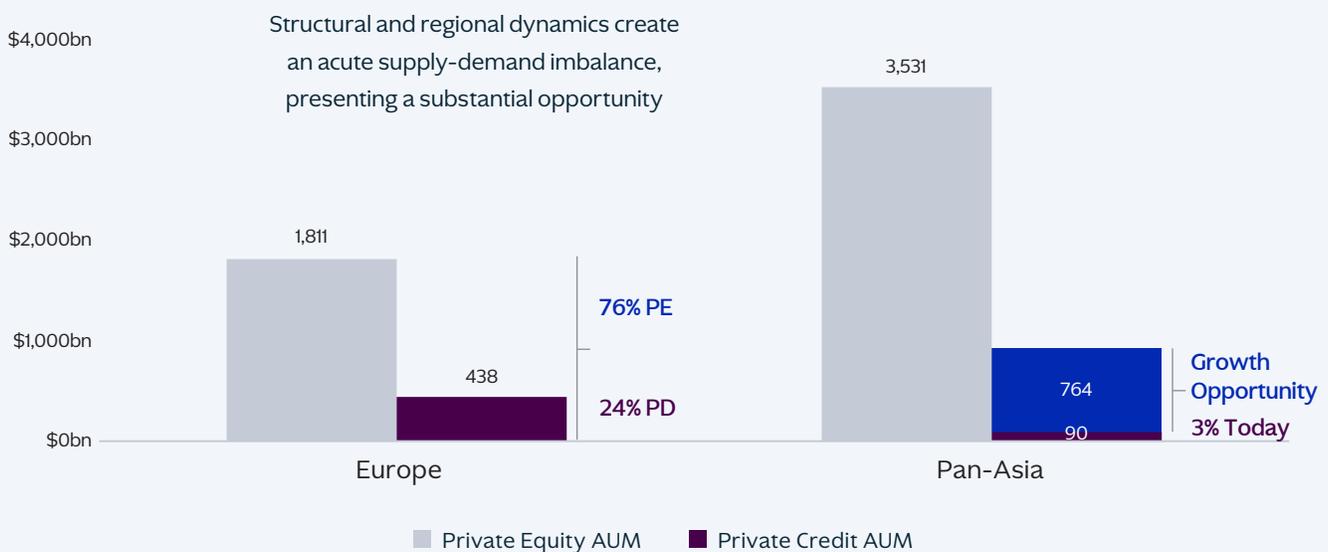
Let’s take a step back and look at the data: Domestic consumption accounts for over 50% of GDP<sup>25</sup> growth in key markets, while the region also leads in global technological

advancements, with 40%<sup>26</sup> of technology capital expenditure originating locally. In our view, this unique blend of structural resilience and forward-looking innovation positions Asia-Pacific as a critical contributor to global economic stability and growth. The Asia-Pacific region, home to nearly 4.4 billion<sup>27</sup> people, is experiencing rapid urbanization and a growing middle class. These trends are driving strong demand for value-added goods and services, such as retirement planning solutions, technology, healthcare, and infrastructure, as rising incomes and economic development reshape consumer and business needs across the region.

For nearly two decades, KKR has been investing in the region, building a localized, on-the-ground presence with over 500 executives across 9 regional offices. This deep integration allows us to tailor our global credit expertise to the distinct dynamics of Asia-Pacific, originating proprietary and bespoke solutions that address the region’s specifications with a U.S. backbone. By leveraging our longstanding relationships and local insights, we can meet the demands of businesses navigating complex and rapidly evolving financial ecosystems.

EXHIBIT 14

### There is ~9x growth opportunity for Private Credit in Pan-Asia



Sources: (1) worlddeconomics.com, as of May 30, 2024. Asia Pacific includes Asia and Australasia. (2) Prequin as of June 30, 2024.

The demand for flexible non-bank financing solutions in the region has grown. Today, approximately ~85% of financing remains concentrated within traditional banks, compared to ~55% in Europe and ~30% in the United States.<sup>28</sup> This has created a significant opportunity for investors like us, who can provide financing to companies seeking alternatives to either equity dilution or more rigid, constrained financing. At the same time, the global recovery is asynchronous characterized by rolling recoveries and rolling recessions within and across economies. These dynamics create an acute supply-demand imbalance, presenting substantial opportunities for non-bank credit.

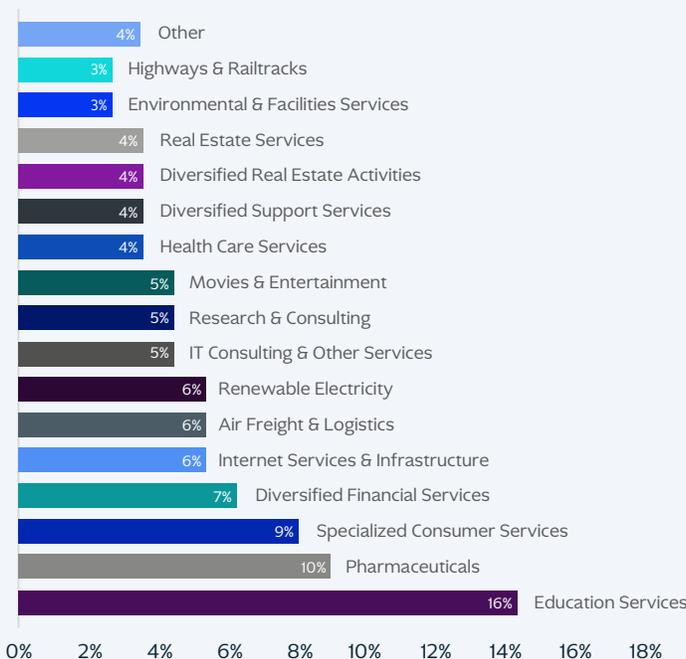
Direct lending is a particularly interesting opportunity in APAC, offering investors not only attractive risk-adjusted returns but also diversification from direct lending in the U.S. and Europe. The region's reliance on traditional banking and the lack of depth in public debt markets create an

environment where private lenders can command favorable terms and negotiate structural protections. This dynamic opens the door to a wide range of opportunities, from collateral-backed lending in Australia to growth-focused financing in India. These privately originated investments provide access to a unique risk-return profile, balancing developed and emerging markets while capturing the region's economic dynamism. The breadth of opportunities is evident in the sectoral and geographic diversity we have achieved through our portfolio construction.

Much of our activity to date has been in more developed markets or creditor-friendly jurisdictions such as Australia, New Zealand, Hong Kong, Singapore, Japan and South Korea. Structuring offshore collateral, holding collateral in escrow accounts or negotiating for a different jurisdiction for enforcement are additional ways lenders can bake in downside protection in a portfolio.

**EXHIBIT 15**

**Illustrative Sector Diversification in a Portfolio**



Notes: KKR Credit Analysis as of December 31, 2024. The above is for illustrative and discussion purposes only and may be subject to change. Analysis based on cost and includes unfunded commitments. "Other" consists of 9 sub-industries with 3% or less concentration.

**Ways Asia Credit Provides Compelling Diversified Income**

- Asia-Pacific credit** often exhibits lower correlations with U.S. and European credit markets due to differing economic cycles, diversity of jurisdictions, fiscal policies, and industry dynamics i.e. population of 4.4 billion, domestic consumption accounts for 50% GDP and 40% of tech Cap-Ex locally driven.
- Asia-Pacific credit** often offers higher yields and risk-adjusted returns relative to comparable credits in developed markets, reflecting local market dynamics rather than heightened risk.
- Default rates in APAC** have been historically lower than those in other emerging markets, supported by strong corporate balance sheets and local demand. During 1993-2023, there were 133 corporate defaults in Asia, a small fraction of the 3,410 recorded globally from 1981-2023.
- Regional markets** like Singapore and Japan benefit from strong regulatory frameworks, enhancing transparency and investor protections.

All this, coupled with the growth and mainstream adoption of private credit in the region, leads us to believe incorporating exposure to APAC in a multi-asset portfolio can provide accretive benefits to portfolio construction and maximize yield potential without taking on incremental risk. In fact, we have already seen this begin to play out in more mature markets such as APAC private equity and public credit. The credit quality of APAC investment grade issuers aligns closely with U.S. IG with ratings standardized to S&P and Moody's benchmarks, and, the size of issuers is also comparable, underscoring the depth and credibility of the market. What may not be immediately apparent is the opportunity to construct a portfolio that can achieve an additional ~50-100bps of yield, driven by inherent diversification benefits and relative value. As more issuers migrate to dollar markets in search of yield, the ability to secure superior returns with high-quality credits becomes even more pronounced.

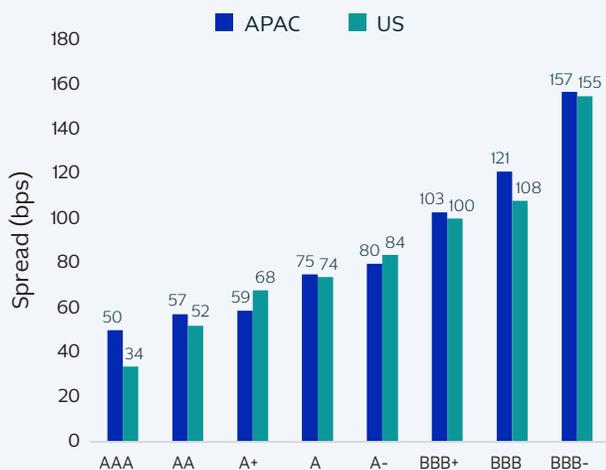
Japan is a prime example of both the macroeconomic tailwinds and the breadth of opportunities, from insurance to corporate carveouts. As the world's fourth-largest economy and second-largest savings market,<sup>29</sup> Japan is undergoing a paradigm shift fueled by corporate governance reforms, demographic shifts, and accommodative monetary policy. Companies are shedding non-core assets, prioritizing shareholder returns, and turning to private

equity and credit to navigate transitions and unlock value. High-growth sectors like technology, insurance, consumer receivables, and housing are prime targets for carveouts. These transactions align with a broader shift to asset-light models, offering investors significant upside through operational improvements and scalability. For KKR, Japan represents a market where our localized expertise and global resources can converge to deliver tailored solutions that meet the unique needs of domestic demand and the dynamic evolving backdrop.

We believe Asia-Pacific offers unparalleled opportunities for investors, not only as a high-growth market but also as a critical source of portfolio diversification. Direct lending, capital solutions, and asset-backed finance in APAC provide a distinct complement to U.S. and European markets, offering higher return potential alongside downside protection through structural safeguards. This strategic diversification is especially valuable in today's dynamic global environment, where expertise, flexibility and resilience are paramount. The region's pronounced supply-demand imbalance presents a unique advantage for first movers, creating opportunities to capture outsized value. For KKR, Asia-Pacific represents far more than an investment destination—it is a cornerstone of our long-term vision and a key driver of future growth.

EXHIBIT 16

Asia-Pacific IG vs US IG: Spread by Rating

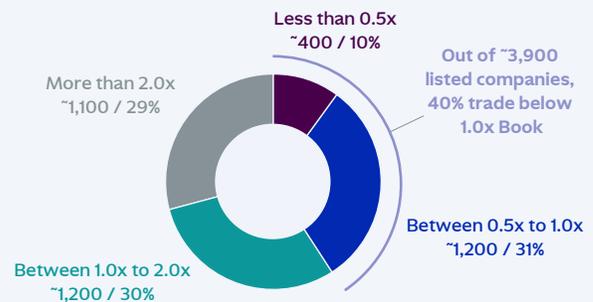


Source: Bloomberg and ICE BofAML as of October 30, 2024.

EXHIBIT 17

We See Opportunities to Unlock Value by Creating Simplicity out of Complexity

Price to Book Multiple of Tokyo Stock Exchange-Listed Companies



IMF estimates for United States, Euro Area and Asia and Pacific. AUM data as per Preqin "Future of Alternatives 2027." S&P Capital IQ as of March 28, 2024. Based on KKR subjective views and subject to change.

## A Single, Multi-Touch Device

As we look ahead, we are focused on identifying the major supply-demand imbalances across markets and leaning in to capitalize on these opportunities. Customized portfolio and investment solutions are poised to become a transformative opportunity for investors, enabling them to blend debt and equity products tailored to their unique risk tolerance profiles. Whether the goal is yield or growth, these solutions represent a new paradigm in how capital is deployed and managed.

We have already seen this innovation take root in credit, and we believe the adoption of private equity and real assets within multi-asset solutions will accelerate, reshaping the landscape for alternative investments. This evolution underscores the importance of partnerships—between asset managers and insurers, banks and capital providers, and traditional and alternative players. These collaborations will be crucial as businesses seek to diversify and adapt to an ever-evolving backdrop.

Henry Kravis and George Roberts often reference General Eric Shinseki's timeless insight at firm meetings: **"If you dislike change, you're going to dislike irrelevance even more."** At KKR, we embrace this philosophy, thriving on the challenge of navigating change and getting comfortable being uncomfortable. We are optimistic about the year ahead, though we recognize it will not be without its challenges. That is why we are fortunate to have our team and platform in place—operating as one firm, like a single multi-touch device, striving to innovate and connect the dots globally to deliver value and outcomes.

Thank you to our investors, partners and readers for your continued trust and partnership. As always, we welcome your feedback on our letter and are grateful for the opportunity to discuss our market views with our readers.



Christopher A. Sheldon

[www.kkr.com](http://www.kkr.com)

Presented for informational purposes only. Please see "Disclaimer" at the end of this presentation for additional information regarding market views and commentary. All rights reserved.

## Bob Reminds Carl it's 2025...



Illustration by: Jerry Capria, KKR Credit.

## Footnotes

1. December 2024 FOMC Minutes; Federal Reserve Board
2. U.S. Bureau of Labor Statistics
3. JPMorgan Research, Pitchbook | LCD, and KKR Credit Analysis as of December 31, 2024
4. Pitchbook | LCD; includes re-syndications and KKR Credit Analysis as of December 31, 2024
5. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
6. Morningstar LSTA US Leveraged Loan Index TR and KKR Credit Analysis as of December 31, 2024
7. JPMorgan CLLIE and KKR Credit Analysis as of December 31, 2024
8. S&P LSTA and KKR Credit Analysis as of December 31, 2024
9. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
10. JPMorgan Research, Pitchbook | LCD, and KKR Credit Analysis as of December 31, 2024
11. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
12. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
13. Bank of America Research and KKR Credit Analysis as of December 2, 2024
14. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
15. Stanger Market Pulse October 2024
16. JPMorgan Research, Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
17. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
18. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
19. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
20. Pitchbook | LCD and KKR Credit Analysis as of December 31, 2024
21. ICE BofAML and KKR Credit Analysis as of December 31, 2024
22. Prequin as of June 30, 2024
23. Pitchbook and KKR Credit Analysis as of December 31, 2024
24. For Discussion Purposes Only. The data presented herein is based upon specific assumptions and is provided for illustrative purposes only. Certain of the assumptions have been made for modeling purposes and are inherently uncertain or unlikely to be realized. No representation or warranty, express or implied, is made as to the reasonableness, accuracy, or completeness of the assumptions made, nor that all assumptions used have been stated or fully considered. Actual performance, market conditions, or economic factors may differ materially from those reflected herein, and such differences may have a significant impact on the conclusions drawn. Furthermore, any forward-looking statements or projections contained herein are subject to various risks, uncertainties, and contingencies, many of which are beyond KKR's control. No assurance can be given that any expectations or projections will ultimately be achieved. Changes in underlying assumptions or market conditions may materially affect the information and conclusions presented. The data contained herein is based on information obtained from sources believed by KKR to be reliable; however, KKR does not guarantee or warrant, either expressly or impliedly, the accuracy, adequacy, timeliness, or completeness of such information. KKR undertakes no obligation to update this information in light of new data, changes in assumptions, or future events.
25. Worldeconomics.com as of May 30, 2024
26. S&P Global Market Intelligence July 27 2021, S&P Global Ratings, Oxford Economics
27. International Monetary Fund as of December 2024
28. Bank of International Settlements as of December 31, 2023
29. U.S.: Sourced via United States census as of YE 2022. Japan: Sourced via World Bank Organization as of YE 2022.

## Disclaimer

Disclaimer The views expressed in this material are the personal views of Christopher A. Sheldon, and the Credit & Markets Team of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of KKR itself. The views expressed reflect the current views of Mr. Sheldon and the Credit & Markets Team as of the date hereof and neither Mr. Sheldon and Credit & Markets Team nor KKR undertakes to advise you of any changes in the views expressed herein. In addition, the views expressed do not necessarily reflect the opinions of any investment professional at KKR, and may not be reflected in the strategies and products that KKR offers. KKR and its affiliates may have positions or engage in securities transactions that are not consistent with the information and views expressed in this material. This material 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 material has been developed internally and/or obtained from sources believed to be reliable; however, neither KKR nor Mr. Sheldon and the Credit & Markets Team 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. This material 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 material 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 material, 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. Participation of, and discussions with, KKR private markets personnel, KKR Capital Markets and KKR Capstone personnel, Senior Advisors, Industry Advisors and, if applicable, RPM and other Technical Consultants, in KKR Credit's investment activities is subject to applicable law and inside information barrier policies and procedures, which can limit or restrict the involvement of, and discussions with, such personnel in certain circumstances and the ability of KKR Credit to leverage such integration with KKR.

# KKR

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

[www.kkr.com](http://www.kkr.com)