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KKR

Global Wealth Investment Playbook

Highlights | July 2024

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Executive Summary

- 01 While we remain cautiously optimistic about **global economic growth**, especially in the US and Japan, this year we are tracking closely pockets of weakness especially in consumer segments across geographies.
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- 02 We believe we are in a **new macroeconomic regime of an elevated inflation bias** and **higher rates**, upheld up by four **tectonic shifts**: the energy transition, the rebalancing of labor dynamics, the emergence of AI, and a shift from “Benign Globalization” to “Great Power Competition.”
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- 03 **Interest rates** have peaked in most parts of the world except for Japan. We expect the Fed to cut once this year, with four more cuts in 2025. The ECB began its rate cutting cycle in June, we foresee two cuts in 2024 and three more in 2025. After decades of deflation Japan is experiencing inflation and rising rates, which we interpret as a sign of economic reawakening.
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- 04 Given our expectations for the macro environment, we believe the regime change requires a shift from the traditional 60/40 allocation. By incorporating private asset classes investors can achieve **higher diversification**, **hedge against inflation**, and **boost their return potential** over the next five years.
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We Believe Investors Need To Re-Assess Their Portfolios In This New Regime

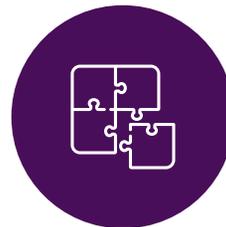
New Macro Regime

- Higher Inflation And Rates
- Asynchronous Regional Cycle
- Slower Real Economic Growth



Implications For Asset Allocation

- Lower Asset Class Returns
- Shifts In Asset Class Correlations



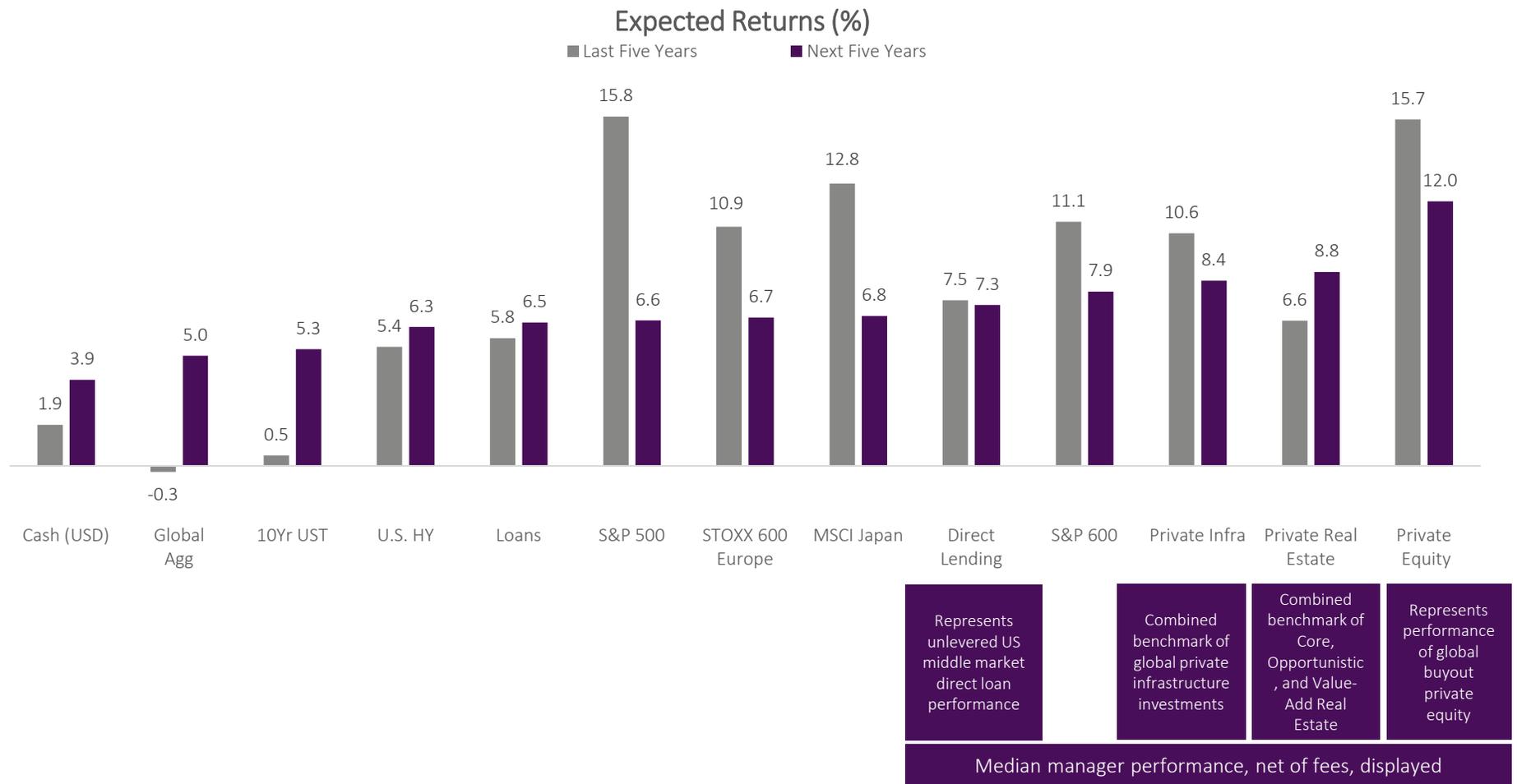
Opportunities In Private Assets

- Increased Importance Of Alternatives
- Control-Equity/Real Assets Outperformance
- Regional Diversification



We Believe This Period Will Be An Opportune Time to Adjust Portfolio Construction And Lean into Private Markets

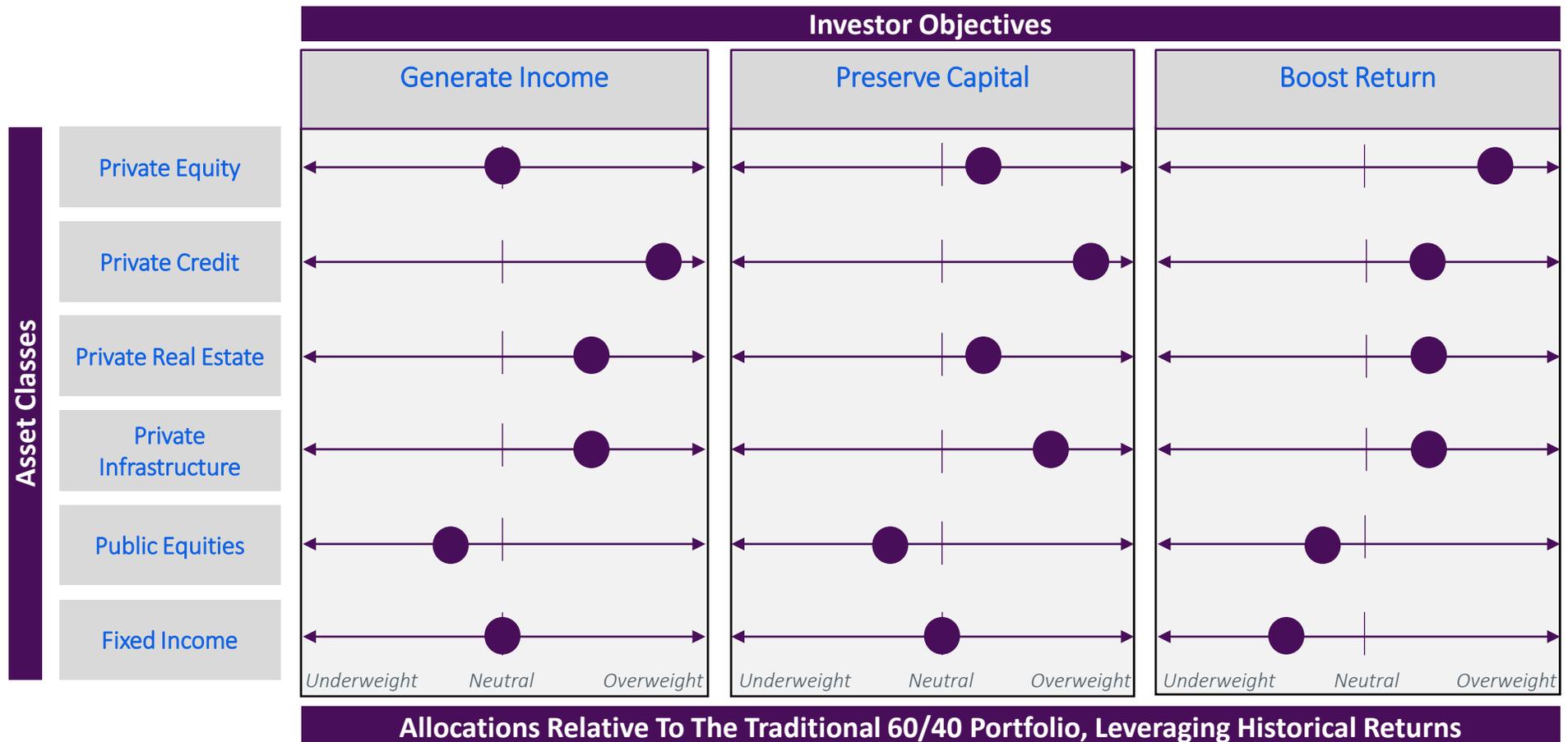
- Over the past 10 years, 60/40 portfolios returned an average of ~8%.
- To achieve close to that return over the next five years amid elevated inflation, higher borrowing costs, and slower real economic growth, investors may need to diversify into alternative asset classes.



Data as at 04/29/2024. Note: Capital markets assumptions are average across all quartiles annualized total returns. Forecasts represent five-year annualized total return expectations. For private asset classes (Private Credit, Private Infra, Private Real Estate, and Private Equity), returns are net of Fee/Carry. Note that we have altered our Private Credit methodology to exclude fund-level leverage, which has lowered total return on a go forward basis. Source: Cambridge Associates, Bloomberg, KKR Global Macro, Balance Sheet and Risk analysis. Compound Annual Growth Rate (CAGR) measures an investment's growth rate, assuming profits are reinvested at the end of each period. Private Real Estate modeled using the Cambridge Associates Real Estate Index. Private Infrastructure modeled using the Cambridge Associates Infrastructure Index. Private Equity modeled using the Cambridge Associates Private Equity Index. Private Credit modeled using the Cliffwater Direct Lending Index. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only.

Relative to the Traditional 60/40 Portfolio, Investors Can Tilt Asset Class Exposure To Increase Return And Reduce Vol

- The incorporation of investor preferences is an integral step in the strategic asset allocation process.
- To incorporate Alternatives into an existing traditional 60/40 portfolio, it is important to thoughtfully reduce allocations to equities and fixed income in a manner consistent with portfolio objectives (i.e., reducing fixed income more than equities when incorporating Alternatives into the 'Boost Return' objective) and to consider asset class performance, volatility, and correlations between asset classes.



Alternative Asset Classes Have Historically Helped Investors Generate Income, Preserve Capital, And Boost Returns

- Today, many investor portfolios still resemble the traditional 60/40 portfolio, but investors are increasingly looking to enhance their portfolios with Alternatives to achieve their investment objectives in this new macroeconomic regime.
- Through optimization techniques applied to historical asset class returns, return volatility, and cross-correlations, we back tested the output confirming the incorporation of Alternatives, aligning with investor preferences, has historically enhanced the relevant objective.

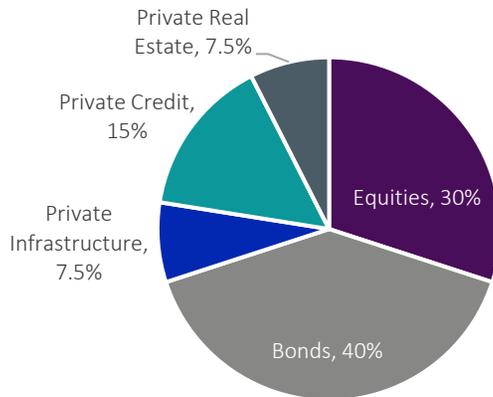
KKR Alts Enhanced Framework For Wealth

Objective: Increase income potential of portfolio while maintaining liquidity

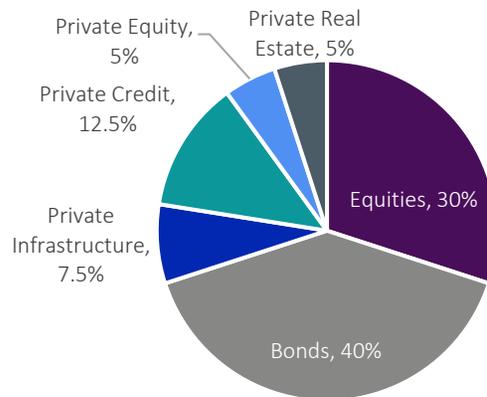
Objective: Receive loss protection and inflation hedging benefits

Objective: Boost the return potential of the portfolio

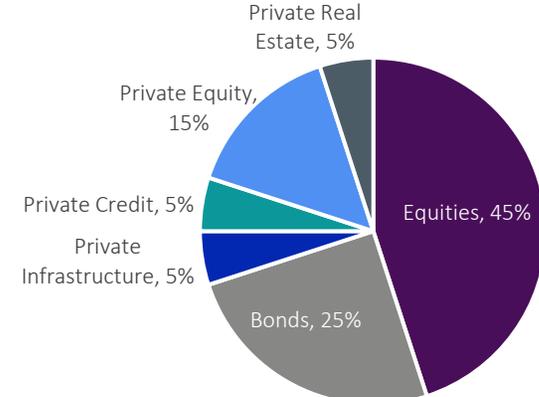
Alts Enhanced – Generate Income



Alts Enhanced – Preserve Capital



Alts Enhanced - Boost Return



Historical Performance vs 60 / 40:

- Income +1.6%
- Liquidity ↓

- Volatility -2.4%
- Liquidity ↓

- Return +1.1%
- Liquidity ↓

Traditional

- Reallocate from the Public Equity tranche to more yield, inflation protection and diversification in Alternatives. Maintain substantial Bond allocation

- Reduce portfolio volatility by tilting some Public Equities exposure to Alts. Maintain substantial Bond allocation given downside protection

- Increase the return potential of the portfolio by tilting Bond allocation towards Equities

Alts

- Increase Private Credit allocation given predictable and high streams of cash flow, followed by Infra & Private Real Estate (yield may emanate from RE Credit vs Equity) for both additional yield and diversification

- Increase allocation to Private Credit given potential for downside protection followed by Private Infrastructure which benefits from lower volatility and inflation-hedging attributes

- Overweight Private Equity to boost total return, followed by Real Assets