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KKR Solutions

# Investment Insights

## The Next Chapter for U.S. Corporate Pension Plans

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## KKR Solutions



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# The Next Chapter for U.S. Corporate Pension Plans

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U.S. corporate pension plans have quietly entered a new era. After years of underfunding and equity-heavy allocations, most large plans are approaching fully funded status or better, driven by rising interest rates, strong equity markets, and disciplined liability management.

**But this progress brings new challenges in what we believe will remain a dynamic interest rate environment:** future-proofing to lock in gains, sustaining returns to offset headwinds from unhedgeable liability risks, and matching cash flows as liability durations shorten and retirees draw benefits. Importantly, we note that while traditional fixed income allocations serve a crucial role in reducing funded status volatility, their marginal benefits can diminish significantly, especially for plans nearing their end-state portfolios.

As more plans mature to points of higher funded status and shorter liability duration, we believe forward-thinking CIOs may seek alternative allocations—such as asset-based finance (“ABF”), private investment-grade (“IG”) credit, direct lending, and leveraged credit—to further diversify portfolios, stabilize funded status, provide predictable cash flows, and navigate the path to end-state with greater confidence and control.

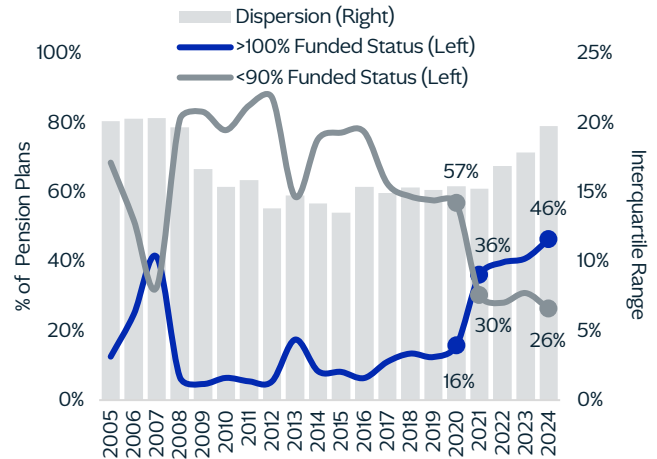
## The New State of Play

The landscape for U.S. corporate defined benefit plans has undergone a profound transformation over the past five years. For the first time since before the Global Financial Crisis, the average funded status of the top 250 U.S. corporate pension plans has exceeded 100% (Exhibit 1)—a milestone driven by persistent and reinforcing macro tailwinds. Strong equity markets in recent years, combined with a sharp rise in discount rates starting in 2022, have lifted funded status while reducing the present value of liabilities. The magnitude of this shift is striking: the share of fully funded plans has jumped from just 16% in 2020 to 46% in 2024, underscoring the depth and breadth of the improvement (Exhibit 2).

The landscape for U.S. corporate defined benefit plans has undergone a profound transformation over the past five years.

**Exhibit 2:** The Share of Fully Funded Plans Has Nearly Tripled Since 2020

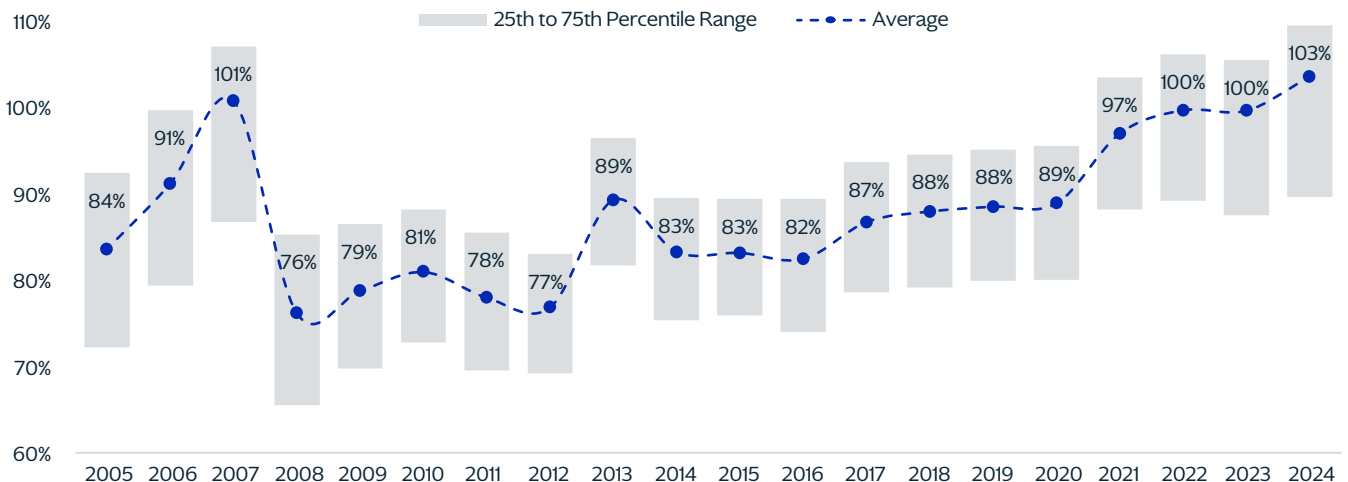
### Distribution of Corporate Pension Plans by Funded Status, %



KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Dispersion is estimated by the difference between 75th and 25th percentile of funded status. Source: S&P Capital IQ.

**Exhibit 1:** For the First Time Since Before the Global Financial Crisis, U.S. Corporate Pension Plans’ Average Funded Status Surpasses 100%

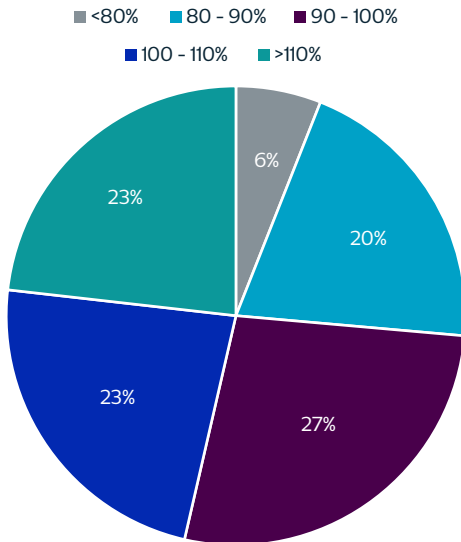
### GAAP Funded Status Over Time for Corporate Pension Plans by Funded Status, %



KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Source: S&P Capital IQ.

**Exhibit 3: One in Four Remains Below 90% Funded Status**

**Distribution of Corporate Pension Plans by Funded Status in 2024, %**



KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Dispersion is estimated by the difference between 75th and 25th percentile of funded status. Source: S&P Capital IQ.

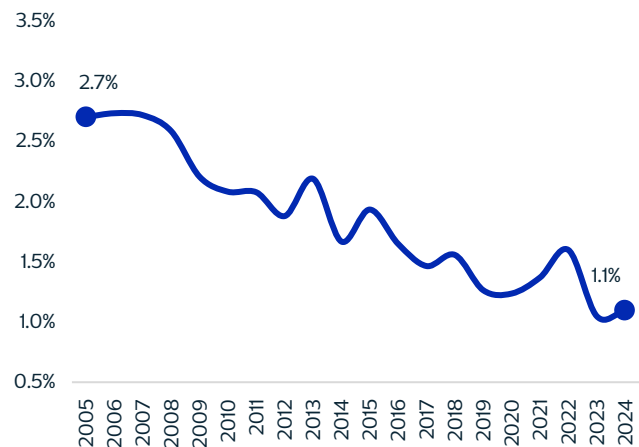
While this development provides corporate pension plans with a compelling opportunity to lock in recent gains, the underlying distribution of funded status tells a more complex story. Despite nearly half of plans now sitting above fully funded levels, 26% remain underfunded with funded status below 90% (Exhibit 3). Simultaneously, dispersion across plans has widened materially: there is now a 20 percentage point gap between the 75th and 25th percentiles, the broadest spread since 2008 (Exhibit 2). The growing dispersion underscores the urgency of prudent, differentiated portfolio management. Notably, this period of dramatic change has highlighted a clear divergence—plans that implemented disciplined, forward-looking strategies are ahead, while others are still playing catch-up. With this context, we highlight the importance of increasingly tailored approaches to asset allocation and risk management, reflecting unique glide paths, liability profiles, and funding levels.

## Rethinking the Corporate Pension Plan

Today, U.S. corporate pension plans look distinctly different from how they were prior to the Global Financial Crisis. Most plans are now closed or frozen, with accrual rates down nearly 60% over the past two decades, from 2.7% in 2005 to 1.1% in 2024 (Exhibit 4). Approximately 45% of the top 250 plans now report accrual rates below 1%, underscoring the broad trend of plan closures and benefit tapering. As new entrants have slowed and benefit accruals have been capped, liability durations have shortened materially. Combined with rising rates, this has led to reduced interest rate sensitivity and less exposure to long-dated obligations. The convexity of pension liabilities has further amplified this effect: higher discount rates shorten liability duration and accelerate the shift toward end-state asset allocations.

**Exhibit 4: Accrual Rates Have Fallen Nearly 60% Since 2005, Reflecting Widespread Plan Freezes/Closures**

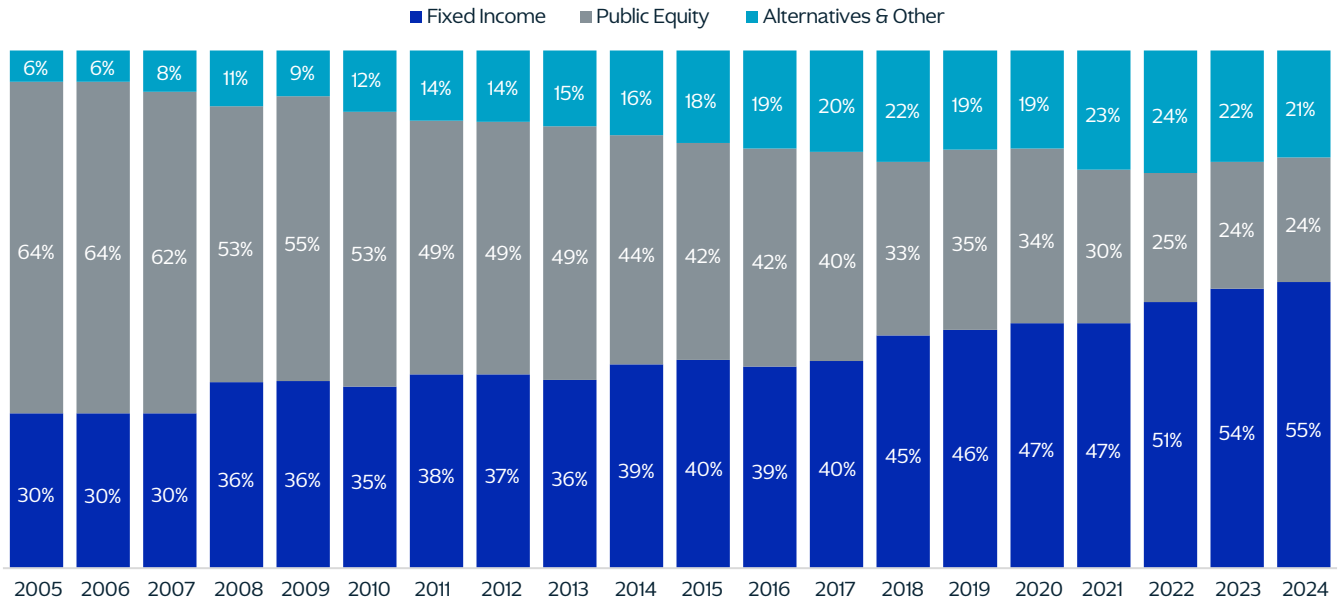
**Median Accrual Rate for Corporate Pension Plans, %**



KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Source: S&P Capital IQ.

### Exhibit 5: Pension Portfolios Have De-Risked Meaningfully, Rotating from Public Equity into Fixed Income and Alternatives

#### Median Asset Allocation Breakdown for Corporate Pension Plans



KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Source: S&P Capital IQ.

Importantly, corporate pension plans have also made meaningful progress in de-risking their portfolios. In response to improved funded status and guided by liability-driven investing (“LDI”) glide paths, allocations have shifted steadily toward fixed income. From 2005 to 2024, the median fixed income allocation increased from 30% to 55%, while public equity exposure fell from 64% to 24%. Alternatives allocation has also grown steadily, now representing 21% of total plan assets versus just 6% in 2005 (Exhibit 5). Collectively, these shifts underscore how different corporate pension portfolios look today—generally more liability-aware, structurally conservative, and tactically diversified.

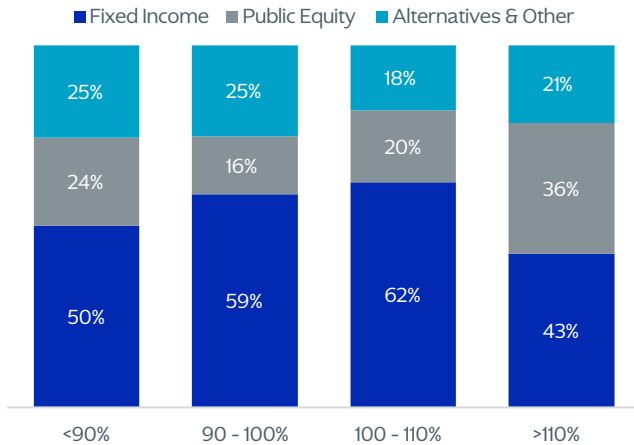
Taking a closer look at the allocation data, many corporate pension plans are already positioned near their end-state portfolios, with significant fixed income allocations. Among plans with funded status between 100% and 110%, the median fixed income allocation is 62% (Exhibit 6). While those with funded status above 110% tend to hold somewhat lower fixed income levels, this is largely due to a greater prevalence of open, growth-oriented plans

within that cohort. In contrast, plans with accrual rates below 1%—typically closed or frozen—maintain slightly over 60% fixed income on average, regardless of funded status. This consistency reinforces the influence of glide path discipline and the system-wide prioritization of stability over incremental return.

From 2005 to 2024, the median fixed income allocation increased from 30% to 55%, while public equity exposure fell from 64% to 24%.

**Exhibit 6:** Well-Funded Plans Have Allocated More to Fixed Income, Approaching End-State Portfolios

**Asset Allocation Breakdown for Corporate Pension Plans by Funded Status in 2024**



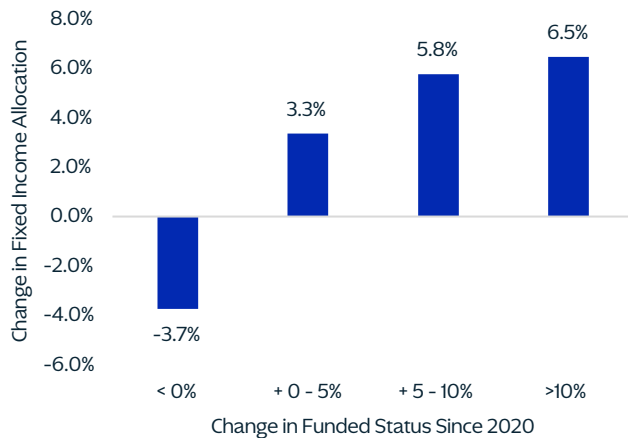
KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Source: S&P Capital IQ.

This portfolio evolution has created stronger hedging, better duration matching, and greater resilience. Notably, during the 2022 equity market sell-off, plans improved their funded status by 2%, a potential testament to improved liability hedging as higher rates drove liabilities lower even as assets declined. It is also worth noting that plans with the strongest funded status improvements since 2020 have correspondingly advanced furthest along their glide paths, including further increases in fixed income allocations (Exhibit 7). This highlights that U.S. corporate pension plans have continued to take advantage of their improved positions by systematically hedging more of their liabilities, reinforcing the disciplined transition toward their end-state portfolio targets.

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**Exhibit 7:** Recent Improvements in Funded Status Have Driven Meaningful Increases in Fixed Income Allocation

**Median Change in Fixed Income Allocation by Funded Status Improvement Since 2020**



KKR Solutions analysis based on the largest 250 U.S. corporate pension plans in terms of plan assets as of December 31, 2024. Allocation change is measured in percentage points. Source: S&P Capital IQ.

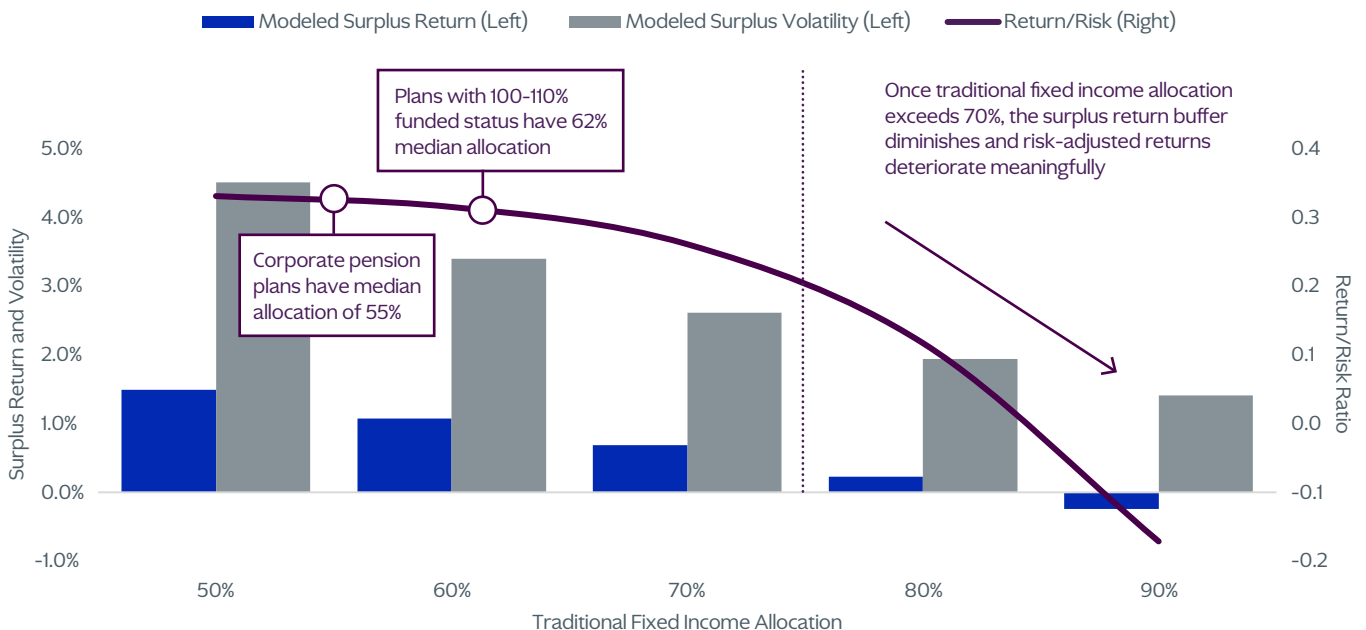
## Future-Proofing Beyond the Traditional End-State Portfolio

As corporate pension plans near their end-state targets, priorities evolve: locking in funding gains, maintaining returns amid persistent liability risks, and aligning asset cash flows with increasingly shorter liability durations. In this context, the incremental benefit of traditional fixed income begins to taper. While early increases in fixed income meaningfully reduce funded status volatility, the marginal utility fades once allocations exceed approximately 70%, especially given the drag on surplus return (Exhibit 8). With many plans already at or near this level, CIOs face the dual challenge—and opportunity—of continuing to de-risk while maintaining an adequate return buffer to absorb unhedgeable risks and ensure long-term funded status stability.

As corporate pension plans near their end-state targets, priorities evolve: locking in funding gains, maintaining returns amid persistent liability risks, and aligning asset cash flows with increasingly shorter liability durations.

**Exhibit 8:** As Plans Approach Their End-State Allocations, Volatility Reduction Plateaus and Excess Returns Diminish

### Illustrative Surplus Return and Volatility by Traditional Fixed Income Allocation



The data presented herein is based upon the assumptions detailed in Exhibit 9. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used have been stated or fully considered. Actual performance may differ substantially from the model performance presented. Changes in the assumptions may have a material impact on the model returns presented. The data presented on this slide is based on information obtained from sources believed by KKR to be reliable; however, KKR does not guarantee or give any warranty as to the accuracy, adequacy, timeliness or completeness of such information. KKR analysis for illustrative purposes only. The discount rate for pension liabilities is estimated by FTSE Corporate Pension Index. Surplus return is estimated by the difference between discount rate and illustrative portfolio returns. We incorporated the impact of downgrade drag on expected portfolio returns and interest rate basis risk on surplus volatility. Analytics are based on return data from 2011-2024.

Unhedgeable risks constrain how far surplus volatility can be reduced and increasingly create headwinds that reinforce the need to maintain a robust surplus return buffer to preserve long-term funded status. Among the most critical are downgrade drag in corporate bond hedging assets, basis risk in interest rate hedges, and longevity risk in pension liabilities. Downgrade drag occurs when bonds are downgraded or default, reducing asset values while the liability discount rate, based on high-quality bond indices, drops the ineligible securities and avoids corresponding losses. This asymmetry introduces a persistent return drag, which we estimate as 50-100 bps annually. Basis risk emerges from the structural mismatch between the shorter maturity of most investable bonds (typically under 30 years) and the longer-dated nature of pension liabilities, which often extend beyond 50 years.

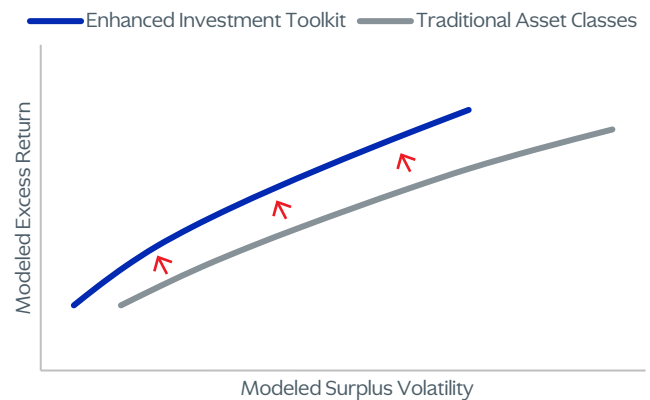
This gap limits the ability to perfectly hedge interest rate exposure and results in duration and convexity mismatches. Finally, longevity risk arises as retirees live longer than expected, extending liability cash flows beyond assumptions and placing additional strain on asset performance. In today's more volatile rate environment, these risks may become even more pronounced, underscoring the importance of maintaining a return buffer to help absorb these structural headwinds and protect funded status over time.

Rather than continuing to expand traditional fixed income allocations, where the marginal benefit has diminished, corporate pension plans should consider including alternative fixed income strategies such as ABF, private IG credit, direct lending, and leveraged credit.

We believe this moment calls for a strategic redefinition of the end-state toolkit. Rather than continuing to expand traditional fixed income allocations, where the marginal benefit has diminished, corporate pension plans should consider including alternative fixed income strategies such as ABF, private IG credit, direct lending, and leveraged credit. These asset classes offer differentiated sources of return, often with enhanced structural protections and reduced correlation to traditional markets, which can support funded status stability, improve portfolio diversification, and provide predictable cash flow to meet projected benefit payments. As Exhibit 9 illustrates, their inclusion can improve the overall efficiency of the portfolio frontier by enhancing the balance between return and risk. By integrating these alternative fixed income strategies, plans can achieve greater diversification and align more effectively with today's macroeconomic environment.

#### Exhibit 9: Alternative Credit Strategies Can Improve Portfolio Efficiency and Support End-State Objectives

##### Illustrative Efficient Frontier for Corporate Pension Plans<sup>1</sup>



KKR analysis for illustrative purposes only. The discount rate for pension liabilities is estimated by FTSE Corporate Pension Index. Traditional asset classes include traditional fixed income, public equities, hedge funds, private equity, real estate, and cash. Analytics are based on return data from 2011-2024.

## What Does This Mean for Portfolio Construction?

The widening range of funded status outcomes across corporate pension plans has made it increasingly clear that a one-size-fits-all approach is not sufficient. Corporate pension plans face a unique combination of constraints and opportunities depending on their funded status, liability structure, risk appetite, and performance to date. As a result, we outline tailored strategy suggestions based on where plans sit along the funding continuum. We recognize that thoughtful customization, not generic

allocation rules, is critical for next-generation portfolio design.

To guide our proposals, we segmented the top 250 U.S. corporate pension plans by funded status and analyzed typical asset allocations, glide path positioning, and return objectives for each group. Our focus was on enhancing traditional fixed income strategies through the introduction of more innovative, return-efficient tools. When implementing portfolio adjustments, several considerations can arise, including the potential impacts on liquidity and accounting outcomes. Below, we aimed to limit any reduction in liquidity to about five percentage points, keeping portfolios highly liquid, with more than

The table below outlines our illustrative allocation and risk management strategies by funding category.

| Category                                      | Fully Funded (100-110%)   | Well-Funded (90-100%)  | Underfunded (<90%)   |
|---|---|--|--|
| <b>Portfolio Goal</b>                         | Prioritize surplus protection while unlocking enhanced diversification with alternative credit  | Continue de-risking while generating the incremental returns needed to close the funding gap   | Close the funding gap by enhancing returns through higher diversification and disciplined risk management  |
| <b>Typical Current Portfolio</b>              | Fixed Income: 62%<br>Public Equity: 20%<br>Alternatives & Other: 18%  | Fixed Income: 59%<br>Public Equity: 16%<br>Alternatives & Other: 25%   | Fixed Income: 50%<br>Public Equity: 25%<br>Alternatives & Other: 25%   |
| <b>Portfolio Construction Considerations</b>  | Consider taking profits from strong-performing public equities and reallocating into private investment-grade strategies, such as multi-sector high-grade asset-based finance, to enhance diversification, reduce surplus volatility, and better align with shorter-term liabilities while capturing attractive spreads | Expand total fixed income & exposure while reducing public equity allocations by incorporating alternative credit to enhance returns and reduce risk. Emphasize a diversified mix across liquid and private credit, favoring investment-grade private credit and direct lending for attractive spread per unit of WAL, alongside multi-sector liquid credit strategies with flexibility across high yield, loans, and CLOs | Closing the funded ratio gap requires higher return targets, balanced with prudent management of funding volatility. Consider increasing exposure to opportunistic strategies within liquid and private credit, such as asset-based finance and opportunistic credit solutions, that offer equity upside participation with lower correlation and strong downside protection |
| <b>Enhanced Portfolio Allocation</b>          | Fixed Income: 62%<br>Public Equity: 15% <b>(-5%)</b><br>High-Grade ABF / Private IG: 5% <b>(+5%)</b><br>Alternatives & Other: 18%   | Fixed Income: 54% <b>(-5%)</b><br>Public Equity: 10% <b>(-6%)</b><br>High-Grade ABF / Private IG: 3% <b>(+3%)</b><br>Direct Lending: 3% <b>(+3%)</b><br>Leveraged Credit: 5% <b>(+5%)</b><br>Alternatives & Other: 25%   | Fixed Income: 46% <b>(-3%)</b><br>Public Equity: 18% <b>(-8%)</b><br>High-Grade ABF / Private IG: 3% <b>(+3%)</b><br>Opportunistic Credit: 3% <b>(+3%)</b><br>Leveraged Credit: 5% <b>(+5%)</b><br>Alternatives & Other: 25%   |
| <b>Modeled Portfolio Impact<sup>(1)</sup></b> | <b>Reduce funding surplus volatility by ~50 bps while maintaining excess returns</b> through higher diversification and low-risk alternative fixed income strategies like high-grade ABF  | <b>Improve excess returns by ~30 bps and reduce funding volatility by ~15 bps</b> through reallocating to alternative fixed income strategies like ABF, direct lending, and leveraged credit   | <b>Enhance excess return potential by ~40 bps while maintaining funding volatility</b> through reallocation to low-risk, high-yielding alternative credit strategies with equity-like returns  |

**See important endnote on page 13 pertaining to this chart.** KKR analysis for illustrative purposes only. Traditional portfolios are estimated based on median allocations for the largest 250 U.S. corporate pension plans. Alternatives & Other is assumed to include 3% cash allocation, and the remaining assets are split as 46% Private Equity, 28% Hedge Funds, and 26% Real Estate. WAL refers to weighted average life. Source: S&P Capital IQ.

70% of plan assets still liquid after the proposed changes. We also expect minimal adverse accounting impact, such as on pension expense, as our recommendations are designed to maintain or improve expected returns. We also acknowledge plans anticipating near-term structural shifts, such as pension risk transfers, may face distinct constraints that affect allocation decisions beyond what is contemplated herein.

## Unlocking the Value of Alternative Fixed Income

With many corporate pension plans now approaching or at their end-state targets, these plans are increasingly turning to alternative fixed income strategies to refine their portfolios. These strategies can enhance diversification, improve yield, and offer better alignment with liability profiles than traditional fixed income alone. While there are a range of products across the credit risk spectrum, we focus here on asset-based finance, private IG credit, direct lending, and leveraged credit, as we believe these categories are particularly well suited to the needs of corporate pension plans. The following sections explore how each can support more efficient, resilient portfolio construction.

### Asset-Based Finance

ABF offers a flexible toolkit for corporate pension plans seeking to align return objectives with prudent risk management. Strategies span a spectrum: high-grade ABF provides investment-grade exposure with strong downside protection, while higher-yielding products offer enhanced return potential through selective credit or structural complexity. This range allows plan sponsors to tailor allocations based on funding status, duration needs, and de-risking glide paths.

High-grade ABF is particularly compelling for plans aiming to reduce risk without sacrificing yield. The asset class offers stable contractual cash flows, low mark-to-market volatility, and strong structural protections—attributes well suited to matching projected liability cash flows. As funded ratios improve, sponsors are increasingly shifting from

equities into fixed income, and high-grade ABF offers enhanced spread relative to traditional investment-grade credit, delivering yield pickup of 100-150 bps versus IG corporate benchmarks. We also note that ERISA-friendly evergreen fund structures offer corporate pension plans attractive access to the asset class with no limitations on ERISA capital.

Beyond return enhancement, ABF brings unique diversification. Many segments are tied to distinct economic drivers, such as housing, consumer spending, or lease payments, rather than broad corporate credit cycles. This makes ABF a valuable complement in multi-asset portfolios, especially for sponsors seeking to reduce public market reliance while maintaining yield efficiency.

ABF's natural amortization and predictable cash flows also support benefit payment alignment. With typical durations of 3-5 years, it allows sponsors to manage both interest rate and spread duration effectively. Combined with broad sector and structural diversification, ABF offers an efficient path to de-risking, particularly for plans nearing end-state.

### Private IG Credit

Private IG credit offers corporate pension plans a compelling way to enhance yield, diversify exposures, and better align portfolios with long-term liabilities while maintaining strong credit quality. Spanning corporate credit, high-grade ABF, and real assets, the asset class delivers tailored, privately negotiated transactions with high-quality borrowers, opportunities often unavailable in public markets. These transactions typically provide 100-

With many corporate pension plans now approaching or at their end-state targets, these plans are increasingly turning to alternative fixed income strategies to refine their portfolios.

250bps of incremental spread over public IG benchmarks, supported by structural protections, contractual cash flows, and collateral-backed security packages.

For plans approaching or at end-state, private IG's customizable structures and duration profiles directly support liability-driven investing objectives, reduce surplus volatility, and mitigate benchmark concentration risk. As allocations to illiquid credit expand, private IG is emerging as a distinct and attractive complement to traditional exposures. While direct lending will likely remain the "core" allocation within private credit, growing portfolios increasingly require differentiated sources of yield and diversification within illiquid sleeves. Similar to ABF, private IG broadens the opportunity set beyond corporate loans into a spectrum of investment-grade corporate credit, high-grade ABF, and real assets. By pairing core direct lending with complementary allocations to ABF and private IG, corporate pension plans can improve sector balance, capture illiquidity premiums, and build more resilient, diversified income streams that sustain funded status stability over the long term.

## Direct Lending

Direct lending provides corporate pension plans with access to privately originated, senior-secured loans that can deliver equity-like returns with moderate volatility. These loans are typically extended to middle-market companies and feature floating-rate coupons, structural covenants, and negotiated terms that reduce credit risk and increase resilience to rising interest rates. For underfunded plans seeking return enhancement, direct lending seeks to offer an appealing way to generate meaningful yield without the same mark-to-market sensitivity as public equities while offering a yield premium to traditional fixed income.

Direct lending also diversifies portfolio exposures away from traditional bond benchmarks. The asset class performance is typically driven by negotiated spread rather than broader market forces, offering diversification benefits relative to traditional bonds. Its underlying exposures, largely tied to idiosyncratic business fundamentals, provide a differentiated return stream

that can help reduce overall portfolio volatility. For plans pursuing a blended strategy, seeking to close funding gaps while maintaining disciplined risk control, direct lending can serve as a valuable complement to fixed income and public credit allocations.

## Leveraged Credit

Leveraged credit, which includes syndicated bank loans and high-yield bonds, represents a liquid, intermediate-risk option for corporate pension portfolios. These assets tend to offer higher yields than investment-grade corporate bonds and have shorter durations, making them well suited for plans that require liquidity while managing funding volatility.

With a return profile that bridges traditional fixed income and equity, leveraged credit strategies can enhance income generation without meaningfully increasing risk. Many strategies offer periodic or daily liquidity, enabling tactical rebalancing within liability-driven portfolios. For CIOs looking to add return-seeking exposure without introducing substantial volatility, diversified leveraged credit funds can provide flexibility and stability in evolving rate environments.

## Conclusion

U.S. corporate pension plans have entered a new era—one defined by stronger funding, shorter liabilities, and a structurally more resilient portfolio architecture. Yet this progress brings new challenges: as end-state portfolios approach maturity, CIOs must evolve their toolkits to preserve gains, enhance diversification, and future-proof portfolios for long-term success.

With higher funding levels and increased investment flexibility, corporate pension plans now have an opportunity to shift from defense to offense—redefining what it means to invest prudently in a lower-growth, higher-rate world. We believe that those who embrace a forward-looking, risk-aware approach that incorporates high-quality alternatives may be better prepared to navigate the road ahead.

## Endnotes

1. The data presented herein is based upon the following modeling assumptions: Fixed Income: Bloomberg U.S. Long Government/Credit Unhedged USD; Public Equity: MSCI World Index; High-Grade ABF: JPM ABS A Index; Direct Lending: Cliffwater Direct Lending Index Leveraged Credit: KKR Leveraged Credit composite track record; Alternatives & Other: PE: Cambridge Buyout Index, Hedge Funds: Bloomberg All Hedge Fund Index; Liabilities: FTSE Pension Liability Index. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used have been stated or fully considered. Actual performance may differ substantially from the model performance presented. Changes in the assumptions may have a material impact on the model returns presented. The data presented on this slide is based on information obtained from sources believed by KKR to be reliable; however, KKR does not guarantee or give any warranty as to the accuracy, adequacy, timeliness or completeness of such information. Not representative of actual KKR funds or strategies.

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