

# **FS/KKR ADVISOR, LLC**

Investor Presentation

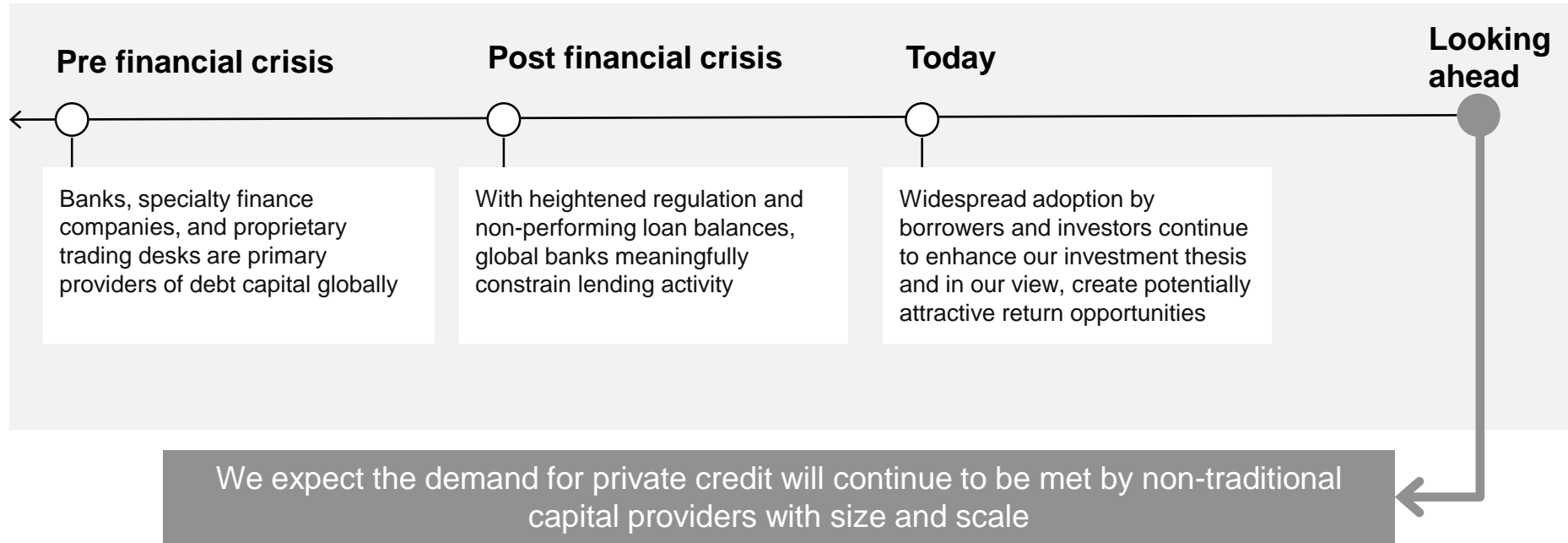
**DECEMBER 2018**

# 1

**Private credit/BDC  
market outlook**

# FINANCIAL REGULATION HAS RESHAPED THE GLOBAL CAPITAL MARKETS

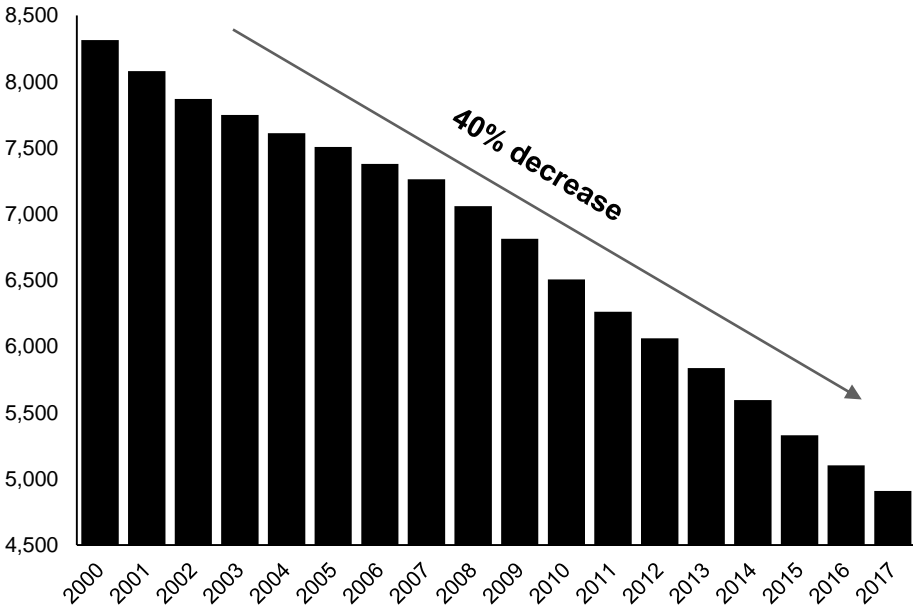
## The evolution of private credit



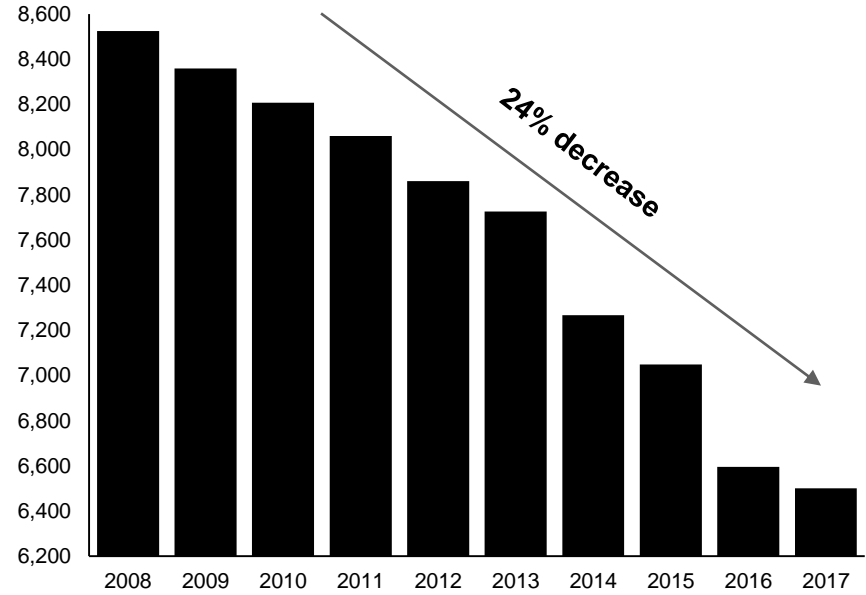
As of September 2018.

# U.S. AND EUROPEAN BANKING SECTORS HAVE BEEN STEADILY SHRINKING

Number of FDIC insured banks



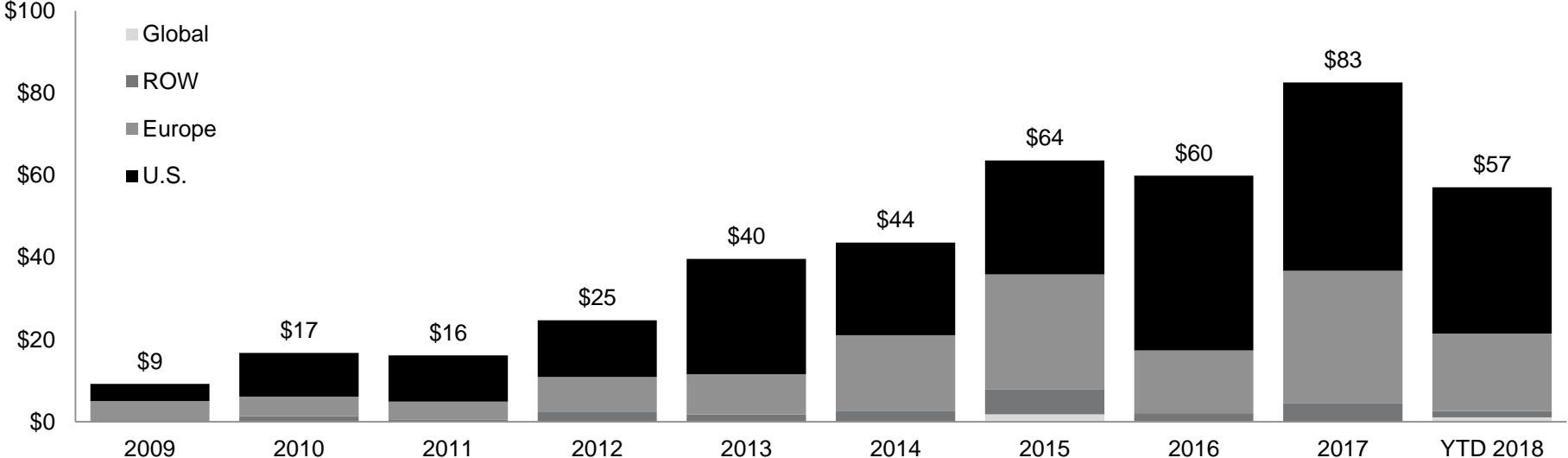
Number of credit institutions in the E.U.



Source: Federal Deposit Insurance Company (LHS) and European Banking Federation (RHS) as of December 31, 2017.

# INVESTORS' APPETITE FOR PRIVATE CREDIT HAS BEEN STRONG...

Private credit capital raised (\$B)

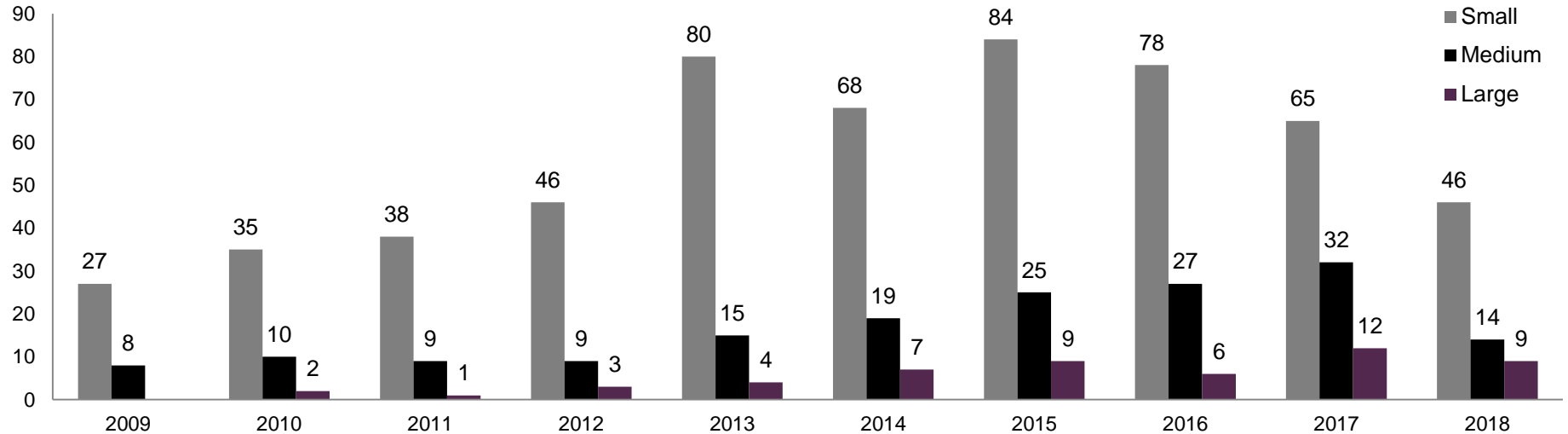


Source: As of September 11, 2018. Preqin Data, KKR Analysis. Includes only direct lending and mezzanine funds raised to date. Dollar raised as of final close date. ROW = Rest of World and includes funds with primary geographic focus in Africa, the Americas, Asia or Middle East & Israel. Unless indicated, the above reflects the current market views, opinions and expectations of KKR Credit based on its historic experience. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment or any KKR Credit fund, vehicle or account which, may differ materially, and are not to be relied upon as such. There can be no assurance that investors in any KKR Credit fund, vehicle or account will receive a return of capital.

# ...BUT LET'S TAKE A LOOK AT WHERE CAPITAL HAS BEEN RAISED

The majority of capital raised globally in private debt<sup>1</sup> has been in smaller funds (less than \$500M of capital)

## # OF FUNDS RAISED

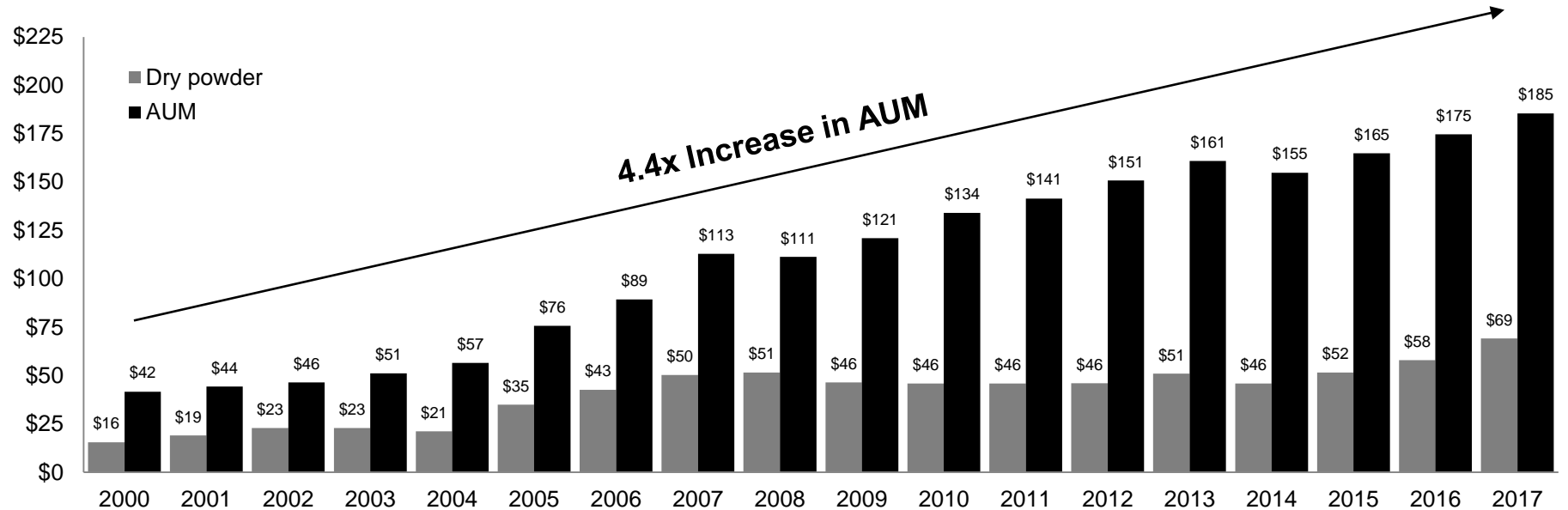


Source: As of September 11, 2018. Preqin Data, KKR Analysis. Small represents funds \$500 million or less in total assets raised, medium represents funds between \$500 million and \$1.5 billion of assets raised and large represents funds with \$1.5 billion or more in assets raised.

1. Includes direct lending and mezzanine debt funds.

# THE MARKET'S DEMAND FOR CAPITAL HAS BEEN GROWING, MAINLY DRIVEN BY LBO ACTIVITY

U.S. and Europe middle market PE buy out: AUM and dry powder (\$B)



Source: Preqin Ltd.; Middle Market defined as \$501M-\$1,500M

Unless indicated, the above reflects the current market views, opinions and expectations of KKR Credit based on its historic experience. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment or any KKR Credit fund, vehicle or account, which may differ materially, and are not to be relied upon as such. There can be no assurance that investors in any KKR Credit fund, vehicle or account will receive a return of capital.

# WE BELIEVE NON-BANK LENDING IS HERE TO STAY

1

Cyclical and secular underpinnings of U.S. and European private credit are firm

2

There is an increasing need for scale and differentiated asset originations – and we are scaling where scale matters

3

We are sticking to our principles of taking a thematic investment approach and fundamental underwriting with a focus on downside protection

4

Focused on scrappy, disruptive opportunities

- Upper middle market direct lending
- Specialty finance
- Financial assets
- Hard assets



# 2

KKR Credit

# KKR CREDIT OVERVIEW

## KKR attributes



~\$195 billion AUM and an over 40 year investment track record



Offices in 21 cities in 16 countries



Over 400 investment professionals across private and public markets



~\$19 billion balance sheet invested in KKR strategies alongside our clients

## KKR Credit attributes



~\$63 billion AUM across leveraged credit, private credit and special situations<sup>(1)</sup>



Offices in 10 cities in 8 countries



~120 dedicated investment professionals



\$2.5 billion of KKR balance sheet committed across KKR credit strategies<sup>(2)</sup>

## KKR credit investment strategies

Leveraged credit	Private credit	Special situations
~\$32.2 billion <sup>(1)(3)</sup>	~\$22.5 billion <sup>(1)</sup>	~\$8.1 billion <sup>(1)</sup>
Offering a range of risk / return		
+		
Liquidity profiles		

1. As of September 30, 2018. Please see Important Information for important information regarding the calculation of AUM.

2. As of September 30, 2018. Includes legacy investments in KKR Financial Holdings LLC (a specialty finance vehicle) and various collateralized loan obligation vehicles.

3. Leveraged Credit AUM is inclusive of strategy assets for revolving credit.

# KKR CREDIT INVESTMENT PHILOSOPHY



## Proprietary sourcing

- “Single-platform sourcing”
- Long-standing relationships with a wide network of issuers
- Valued client to Investment Banks with a network of PE sponsors, banks and trading desks
- Direct corporate sourcing effort leveraging all of KKR relationships
- Experienced, dedicated sourcing professionals
- Ability to leverage the full KKR Business Platform and its network, including the Senior Advisor network and KKR Capstone



## Capital preservation

- Steward investors’ capital as if it were our own
- Recognize that credit investing comes with limited upside (par) and asymmetric downside risk
- Require detailed, proprietary research for any credit considered for portfolio inclusion
- Re-underwrite portfolio on a quarterly basis, resulting in extremely low default statistics



## Active portfolio management

- Investment decisions are predicated on a clear thesis
- Deep due diligence and a distinguished competitive advantage required before credit investing
- Re-evaluate and re-underwrite each credit in the quarterly Portfolio Management Committee meetings
- Ongoing re-evaluation of portfolio structure and risk measures
- Continuous portfolio optimization

KKR Credit utilizes a fundamental investment approach and leverages proprietary resources to seek out long-term capital appreciation and attractive risk-adjusted returns. Please see “Important Information” at the end of this presentation for additional disclosure regarding KKR’s internal information barrier policies and procedures, which may limit the involvement of certain personnel in some investment discussions.

# KKR DIRECT LENDING STRATEGY OVERVIEW

## KKR'S DIRECT LENDING STRATEGY

- Focus on senior secured lending to larger middle market companies
- Compelling value proposition to borrowers, creating outsized set of opportunities to choose from
- Differentiated underwriting by leveraging key KKR resources, resulting in a low annualized default rate
- KKR balance sheet and KKR employees have ~\$290.0 million invested in our direct lending strategies<sup>2</sup>

## EXPERIENCED TEAM

KKR Credit has experience managing through cycles

- ~50 investment professionals are responsible for sourcing, underwriting and managing investments for our private credit pools of capital
- KKR Credit manages ~\$62.8 billion across leveraged credit, private credit and special situations<sup>1</sup>

## ILLIQUIDITY PREMIUM EXISTS

- Secular shift towards private lending where asset managers can be solutions providers across the entire capital structure
- Consistently generating ~300bps over the syndicated loan market

1. Presentation of AUM as of September 30, 2018.

2. Includes balance sheet and employee commitments in our commingled European direct lending fund.

Past performance is no guarantee of future results. Please see Important Information for a discussion of the limitations of related performance.

~\$16.7B<sup>1</sup>  
Strategy size

2005  
Inception date

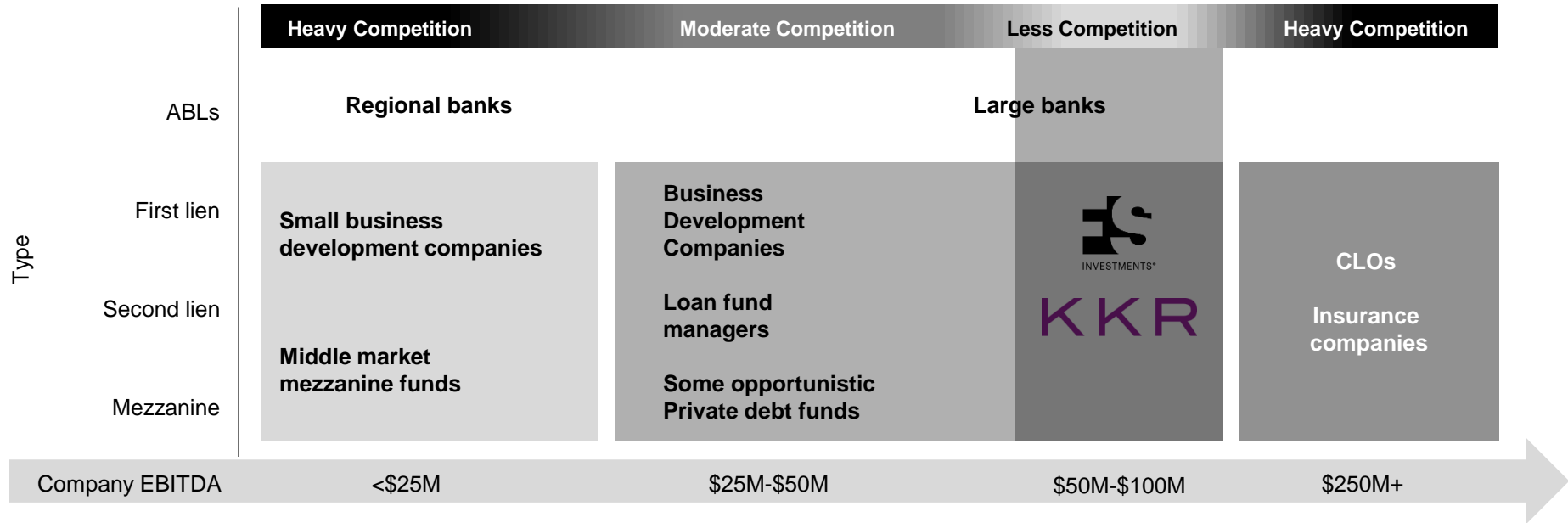
~175  
Transactions  
completed

9.9%  
KKRLP II Net IRR

~9.0%  
KKRLP II weighted average  
current cash coupon

# A CLOSER LOOK AT THE MIDDLE MARKET

From our perspective, there are more managers chasing opportunities at the lower end of the middle market, thereby driving down pricing and structural protections in that segment of the market



Source: KKR Credit

# DIFFERENTIATED ORIGINATION CAPABILITIES

Wide sourcing funnel creates compelling deal flow which enables us to be highly selective in execution of opportunities

- KKR Credit is well resourced to originate with ~95 dedicated private credit and capital markets professionals
- Given our thorough underwriting process, the hit rate in our private credit strategies is typically less than 5%

## A closer look at our recent sourcing funnel<sup>1</sup>

2015	2016	2017	YTD 2018 <sup>2</sup>
~600 evaluated	~700 evaluated	~760 evaluated	~990 evaluated
~140 discussed in investment committee	~160 discussed in investment committee	~175 discussed in investment committee	~150 discussed in investment committee
33 funded	37 funded	39 funded	30 funded

**Robust, continuing pipeline feeds comprehensive credit selection process**

Please see “Important Information” at the end of this presentation for additional disclosures, including disclosures relating to KKR’s information barriers.

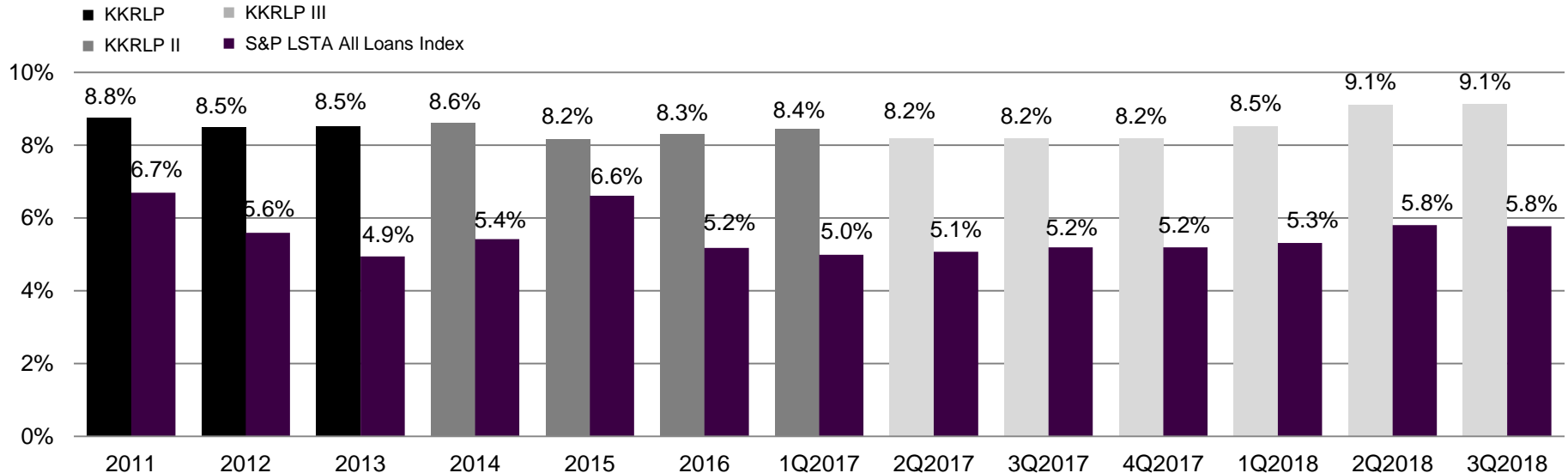
1. Number of deals funded includes new investments made across our private credit funds as well as portfolios and excludes add-ons.

2. As of September 30, 2018.

# WE BELIEVE THE ILLIQUIDITY PREMIUM REMAINS ATTRACTIVE

Despite more volatile secondary market conditions, we have originated assets that have delivered a consistent yield profile

**KKR LENDING PARTNERS L.P. (“KKRLP I”), KKR LENDING PARTNERS II L.P. (“KKRLP II”) AND KKR LENDING PARTNERS III L.P. (“KKRLP III”)  
WEIGHTED AVERAGE UNLEVERED CURRENT CASH COUPON VS. LSTA ALL LOANS INDEX YIELDS**



Note: Past performance is no guarantee of future results. Does not include upfront fees, discount accretion or PIK coupon.

Source: Cumulative weighted average cash coupon for all transactions completed in KKRLP I, KKRLP II and KKRLP III as of September 30, 2018. S&P LSTA, All Loans Index Yields from Bloomberg as of September 30, 2018.

Note: Weighted Average Current Cash Coupon represents the weighted average of the coupons of all current loans included in the respective portfolios and excludes realized investments and PIK. Weighted Average Cash Coupon does not represent realized or unrealized performance of KKRLP I, KKRLP II or KKRLP III and is not an indication of how KKRLP I, KKRLP II or KKRLP III would have performed in the past or will perform in the future. It is presented to demonstrate the illiquidity premiums available on originated financings and is not meant to predict or project performance of any investment strategy or fund. Yield information does not reflect the deduction of management fees, carried interest, custody charges, withholding taxes, and other indirect expenses which would reduce performance.

# KKR SOURCING CHANNELS

KKR expects its sourcing channels to remain diversified as it bolsters its team

Focused on sponsor coverage with significant flow also seen from corporates, non-sponsors, proactive refinancing, and failed syndications, among others focused on the FIG and asset-based finance spaces further enhance its sourcing funnel

## Sourcing from sponsor coverage

- ~60-70% of corporate credit deal flow
- KKR's size and underwriting capability is appealing to sponsors
- Viewed as solution providers given capital markets expertise
- An expanding number of sponsors consider KKR to be their preferred financing partner



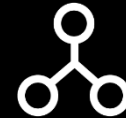
## Sourcing from corporates & non-sponsors

- ~20%-40% of corporate credit deal flow; likely ~50% of deal flow in the long term
- Cross-sales from KKR Credit & Private Equity direct relationships
- Also sourced through financial advisors, banks with no balance sheet, and brokers
- Family office and private bank relationships further enhance deal flow in a channel that will continue to secularly expand



## Sourcing from incremental channels

- ~10-20% of corporate credit deal flow
- May include proactive refinancings within KKR's portfolio, failed syndications, and club deals among others
- Wall Street relationships expand opportunity set, particularly in choppy capital markets
- Continue to benefit from the overall impact of regulation on financial institutions



**Diversified  
corporate credit  
sourcing platform**



# CONSISTENT PORTFOLIO CONSTRUCTION

KKR Credit has continued to source direct lending deals with attractive characteristics as the market opportunity has evolved over time

## Portfolio statistics for KKR Credit's commingled global direct lending funds

Based on invested amount as of September 30, 2018

KEY METRIC	2011	2017
Weighted average current cash coupon <sup>1</sup>	8.6%	9.1%
Weighted average purchase discount / upfront fees <sup>2</sup>	2.3%	2.5%
Weighted average spread <sup>2</sup>	7.2%	6.7%
Weighted average leverage <sup>2</sup>	3.7x	3.9x
Weighted average EBITDA <sup>2</sup>	\$67 million	\$80 million
Average tranche size	\$164 million	\$215 million
Sole lender	16%	53% (95% sole, lead or co-lead)

Note: 2011 metrics reflect the portfolio characteristics of KKR Lending Partners L.P. ("KKRLP I") and 2017 metrics reflect the portfolio characteristics of KKR Lending Partners L.P. III ("KKRLP III"). Each fund began investing in the stated calendar year. Past performance is no guarantee of future results. See "Important Information" at the end of this presentation for additional disclosures regarding related performance.

1. Based on LIBOR as of most recent reset date and weighted average of exposure of the portfolio as of September 30, 2018, net of realizations. Excludes PIK.

2. The weightings applied in the calculation of the weighted average statistics are based on the "Invested Amount" in KKRLP I and KKRLP III as of September 30, 2018. A weighted average is an average in which each quantity to be averaged is assigned a weight.

3

FS + KKR partnership

# FS/KKR ADVISOR

Joint Advisor brings together two leading alternative asset investment platforms

## KKR



<b>\$195B</b> Assets under management	<b>\$19B</b> Internal balance sheet largely invested alongside clients	<b>400+</b> Investment professionals	<b>21</b> Offices globally
Private equity & real assets <b>~290</b> investment professionals (\$104B AUM)		KKR Credit (\$63B AUM) <b>~120</b> investment professionals	
Capital markets <b>50+</b> capital markets professionals (~\$340B in global refinancings ITD)		Hedge fund partnerships (\$28B AUM)	

<b>\$24B</b> Assets under management	<b>12</b> Registered investment vehicles	<b>~300</b> Employees	<b>~211,000<sup>1</sup></b> Investors represented across strategies
History of combining <b>differentiated</b> strategies, <b>top</b> institutional managers and <b>innovative</b> structures to provide investors with alternative sources of <b>return</b>			
<b>Best-in-class</b> capital raising and fund management capabilities			

**Scaled platform generates differentiated sources of return by offering a full suite of lending solutions to a broad base of borrowers**

All figures in this presentation are as of September 30, 2018, unless otherwise noted.

1. Total number of unique investors across all FS Funds including CCT and CCT II.

# PARTNERSHIP CREATES LARGEST BDC PLATFORM

**~\$17B** ASSETS UNDER MANAGEMENT

**6** BDCs

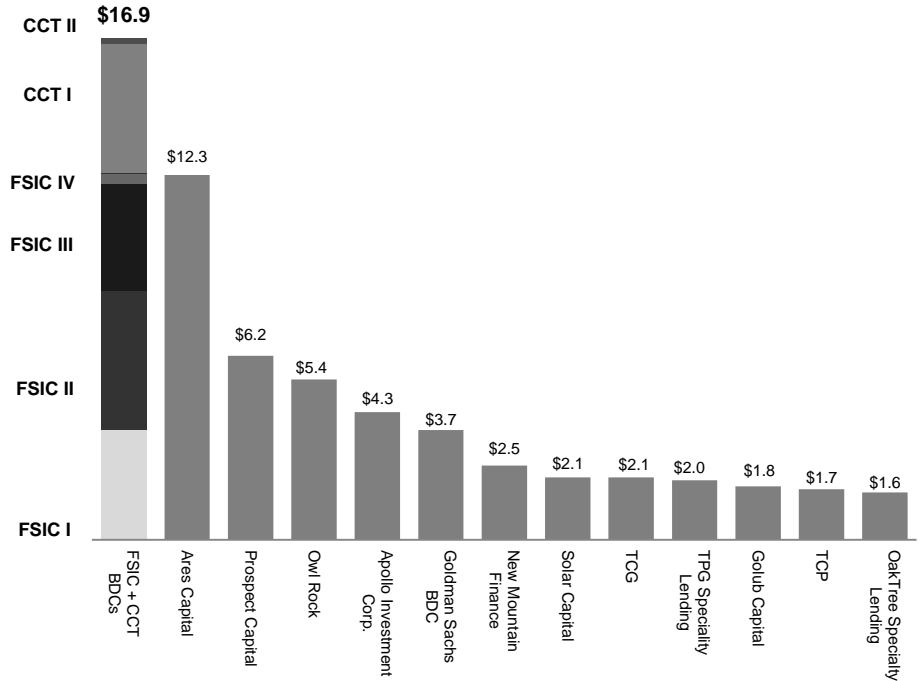
**120** SPONSOR RELATIONSHIPS

**313** PORTFOLIO COMPANIES

**\$13B** DIRECT ORIGINATIONS

**\$10B** EQUITY CAPITAL

ASSETS UNDER MANAGEMENT<sup>1</sup>



As of September 30, 2018. FS/KKR BDC platform data representative of reported gross assets.  
 1. All BDC AUMs as of September 30, 2018

# FS/KKR PLATFORM POSITIONED TO DELIVER VALUE FOR INVESTORS

Focused on upper end of middle market while offering holistic solutions for underserved and mispriced asset classes

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- 1 Scale provides distinct competitive advantages
  - 2 Exemptive relief with KKR Credit platform provides access to institutional deal flow and resources
  - 3 Flexible product offering makes FS/KKR a lender of choice among borrowers
  - 4 Differentiated asset based finance capabilities to drive earnings through expanded use of 30% basket
  - 5 Ability to increase leverage and optimize liability structure
-

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Industry and market data used in this presentation have been obtained from industry publications and sources as well as from research reports prepared for other purposes. We have not independently verified the data obtained from these sources and cannot assure you of the data's accuracy or completeness.

Certain figures in this presentation have been rounded.

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In addition, such target returns do not reflect the actual or expected returns of any portfolio strategy. Such target returns are based on KKR Credit's belief about the returns that may be achievable on investments that the Strategy intends to pursue in light of the experience of KKR and KKR Credit with similar investments historically, their view of current market conditions, potential investment opportunities that KKR Credit is currently or has recently reviewed, availability of financing and certain assumptions about investing conditions and market fluctuation or recovery. Targeted returns on specific investments are based on models, estimates and assumptions about performance believed to be reasonable under the circumstances. There is no guarantee that the facts on which such assumptions are based will materialize as anticipated, that market conditions will not deteriorate or that investment opportunities satisfying the Strategy's targeted returns will be available. Any changes in such assumptions, market conditions or availability of investments may have a material impact on the target return presented. Actual events and conditions may differ materially from those used to establish target returns. Any target return is hypothetical and is not a guarantee of future performance. Target gross returns for individual investments may be greater or less than the Strategy's overall target gross or net returns. Prospective investors should note that the targeted gross returns do not account for the effects of inflation and do not reflect the management fees, "carried interest," taxes, transaction costs and other expenses that will be borne by investors in the Fund, which will reduce returns and, in the aggregate, are expected to be substantial. Targeted returns are subject to significant economic, market and other uncertainties that may adversely affect the performance of any investments. Prospective investors are encouraged to contact the representatives of KKR Credit to discuss the procedures and methodologies (including assumptions) used to calculate the Fund's targeted returns.

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References in this presentation to "Gross IRR" are to the internal rate of return or multiple of invested capital, respectively, calculated at investment level, and thus do not take into consideration the payment of applicable management fees, carried interest, transaction costs, borrowing costs and other expenses borne by the relevant KKR investment, which will have a material impact on returns. In the case of unrealized investments, the gross returns are based on internal valuations by KKR of unrealized investments as of the applicable date. The actual realized returns on such unrealized investments will depend on, among other factors, future operating results, the value of the assets, and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the valuations used in the prior performance data contained herein are based. Accordingly, the actual realized return of these unrealized investments may differ materially from the returns indicated herein.

References to "Net IRR" are to the internal rate of return calculated at fund level, after payment of applicable management fees, organizational expenses and carried interest but do not reflect transaction costs that would be incurred in connection with the disposition of unrealized investments if realized. Internal rates of return are computed on a "dollar-weighted" basis, which takes into account the timing of cash flows, the amounts invested at any given time, and unrealized values as of the relevant valuation date. Multiples of invested capital referred to in this presentation have been calculated based on figures for the cost and total value of KKR fund investments that have been rounded to the nearest \$100,000. It should be noted that each of KKR Lending Partners L.P. ("KKRLP I") and KKR Lending Partners II L.P. ("KKRLP II") utilizes an asset line credit facility primarily for purposes of long term financing of investments. The performance information with respect to KKRLP I and KKRLP II contained herein reflects the positive impact of such leverage. In this regard, prospective investors should note that the Fund's performance is expected to be lower to the extent that the Fund does not utilize a similar leverage strategy or is unable to obtain similar financing arrangements. Moreover, the management fee terms for the Fund are expected to be different than those of KKRLP I. Accordingly, the differential between gross performance and net performance of the Fund may be materially different from KKRLP I.



# IMPORTANT INFORMATION

The indices referenced herein are broad-based securities market indices and used for illustrative purposes only. They have been selected because they are well known and easily recognizable. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into an index. The performance of the indices represents unmanaged, passive buy-and-hold strategies, investment characteristics and risk/return profiles that differ materially from managed accounts or investment funds, and an investment in a managed account or investment fund is not comparable to an investment in such index or in the securities that comprise the index. KKRLP I and KKRLP II have employed, and the Fund may employ leverage, whereas the indices are unleveraged. Investments of the Fund may be illiquid, making, at times, fair market valuation impossible or impracticable. As a result, valuation of the Fund may be volatile, reducing the utility of comparison to any index whose underlying securities are priced according to market value, such as the indices. Investors should be aware that the Fund may incur losses both when major indices are rising and when they are falling.

The statistical data included in this presentation regarding the indices has been obtained from sources believed to be reliable. The market index returns assume that on the day a portfolio investment is made, a hypothetical investment in a matching amount is made in the index. For each date on which either a portion or all of the portfolio investment is sold, a hypothetical index multiple (factor) is calculated by comparing the change in index value between the two dates. The cost of the investment sold (or portion of cost sold) is multiplied by this factor, resulting in a hypothetical index value. The return is calculated using these dates of investment and hypothetical value(s) generated. Index returns assume reinvestment of dividends and do not reflect any fees or expenses associated with a private fund. The indices are presented for comparison purposes only and should not be relied upon. All index performance is dated as of the date indicated herein. The index is presented for comparison purposes only and should not be relied upon. All index performance is dated as of the date indicated herein.

- The S&P LSTA US Leveraged Loan Index is a daily tradable index for the U.S. loan market that seeks to mirror the market-weighted performance of the largest institutional loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; ii) secured; iii) U.S. dollar denominated; iv) minimum term of one year at inception; and v) minimum initial spread of LIBOR plus 1.25%.
- The Barclays Aggregate Bond Index is a broad-based benchmark that measures the investment grade, fixed-rate bond market, such as Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS.

The performance shown herein is not the performance of the Fund and is not an indication of how the Fund would have performed in the past or will perform in the future. The Fund's performance in the future will be different from the performance shown due to factors including, but not limited to, differences in cash flows, expenses, performance calculation methods, and portfolio sizes and composition. The performance presented reflects the performance of all investments made or committed to under KKRLP I and KKRLP II utilizing a strategy substantially similar to that which will be utilized for the Fund. Characteristics and other information regarding KKRLP I and KKRLP II are not characteristics of the Fund and are not an indication of how the Fund would have performed in the past or will perform in the future. While the Fund will utilize a strategy substantially similar to that of KKRLP I and KKRLP II, the Fund's characteristics may be different from the characteristics of KKRLP I and KKRLP II due to factors including, but not limited to, portfolio size and composition. KKR believes, however, such characteristics to be relevant to investors considering an investment in the Fund to show the portfolio managers' experience implementing, and historical characteristics of, the Fund's anticipated investment strategy. Further, the investment performance of KKRLP I and KKRLP II is not representative of all originated senior debt investments made, sold or recommended by KKR. It should be noted that other investment vehicles and proprietary accounts of KKR have made originated senior debt and other investments that may have been appropriate for the Fund and are not presented herein.