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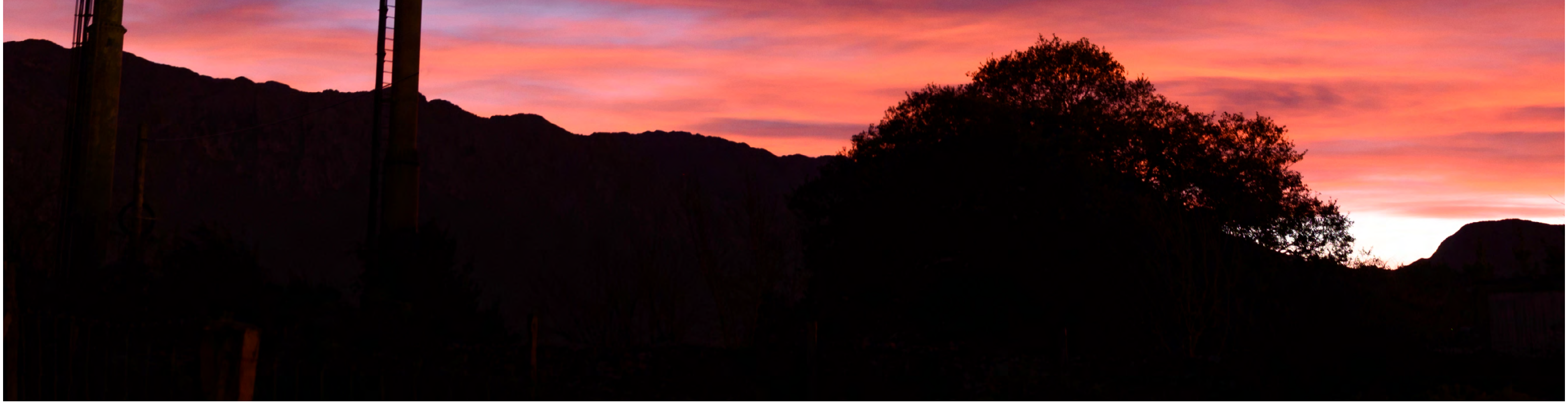
ALTERNATIVES UNLOCKED

5 Reasons to Consider Private Infrastructure



The fiber optic cables and cell towers that keep us connected, the treatment plants and pipelines that bring us clean water, and the power grids that keep the lights on: It's clear how valuable these assets are to a well-functioning society. What may be less obvious is how much value and stability they can add to an investment portfolio.

We believe private infrastructure investments, complemented with strong risk management and operational expertise, offer the potential for steady income, a measure of inflation protection, more effective diversification, and attractive risk-adjusted returns.

5 REASONS

1 A Buffer against Economic Shocks »

2 A Hedge against Inflation »

3 Consistent Yields »

4 Diversification Times Three »

5 Upside Opportunity »

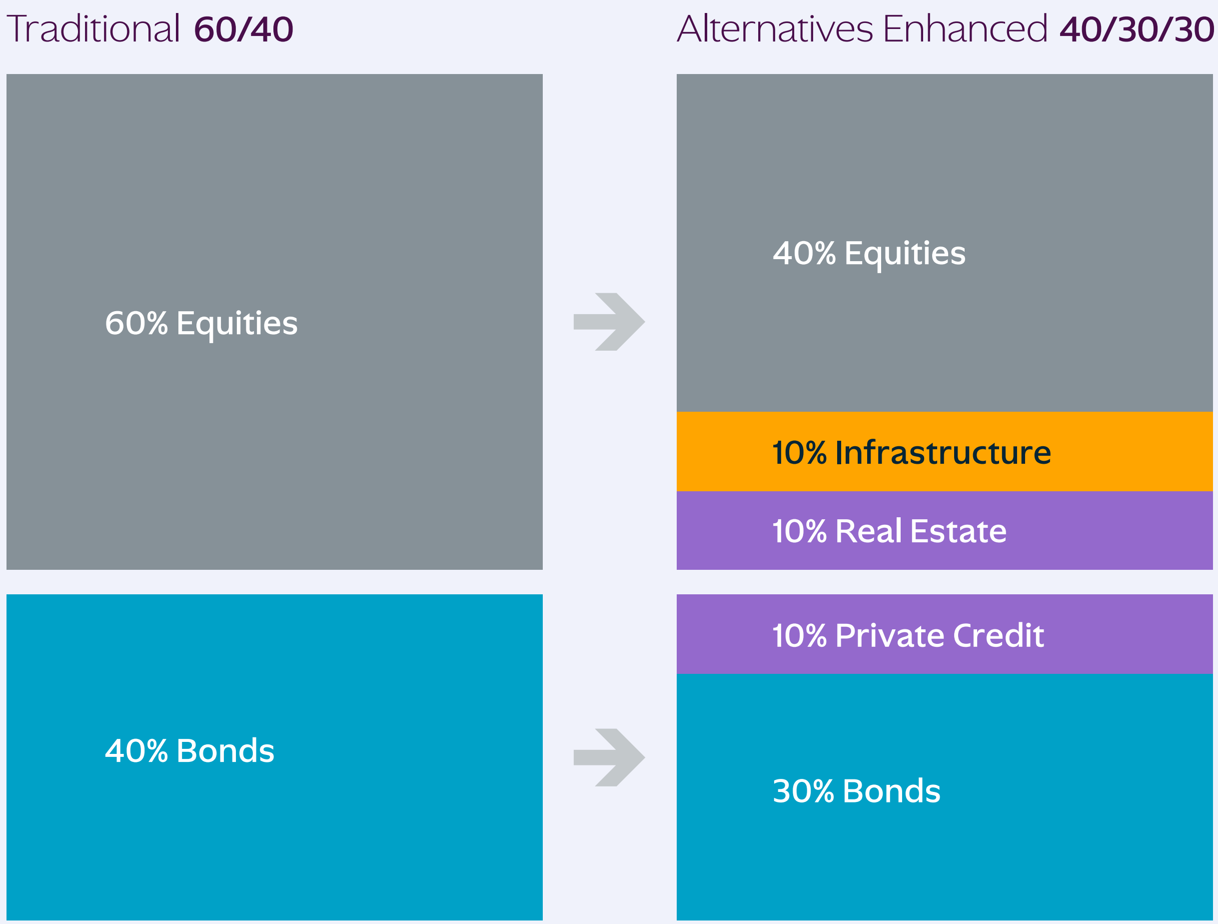
REASON 1:

A Buffer against Economic Shocks

Our Global Macro & Asset Allocation (GMAA) and Portfolio Construction teams believe investors need a new approach to the traditional 60/40 portfolio to meet the challenges of higher inflation and higher volatility. Shifting a portion of traditional equity allocations into infrastructure, can provide downside protection through challenging economic environments (Exhibit 1).

Downside protection is no guarantee against future losses.

EXHIBIT 1 | **Shifting from Equities to Infrastructure Provides Exposure to Real Assets**



Data as at May 3, 2022. Source: KKR Portfolio Construction and Data Analytics. For more information, please see "Regime Change: Enhancing the 'Traditional' Portfolio."

Adapting to the Changing Behavior of Stocks and Bonds

In past economic downturns, bonds served as a cushion against poor stock performance. Recently, however, inflation and rising interest rates have hurt both bond returns and lowered expectations for corporate earnings (Exhibit 2).

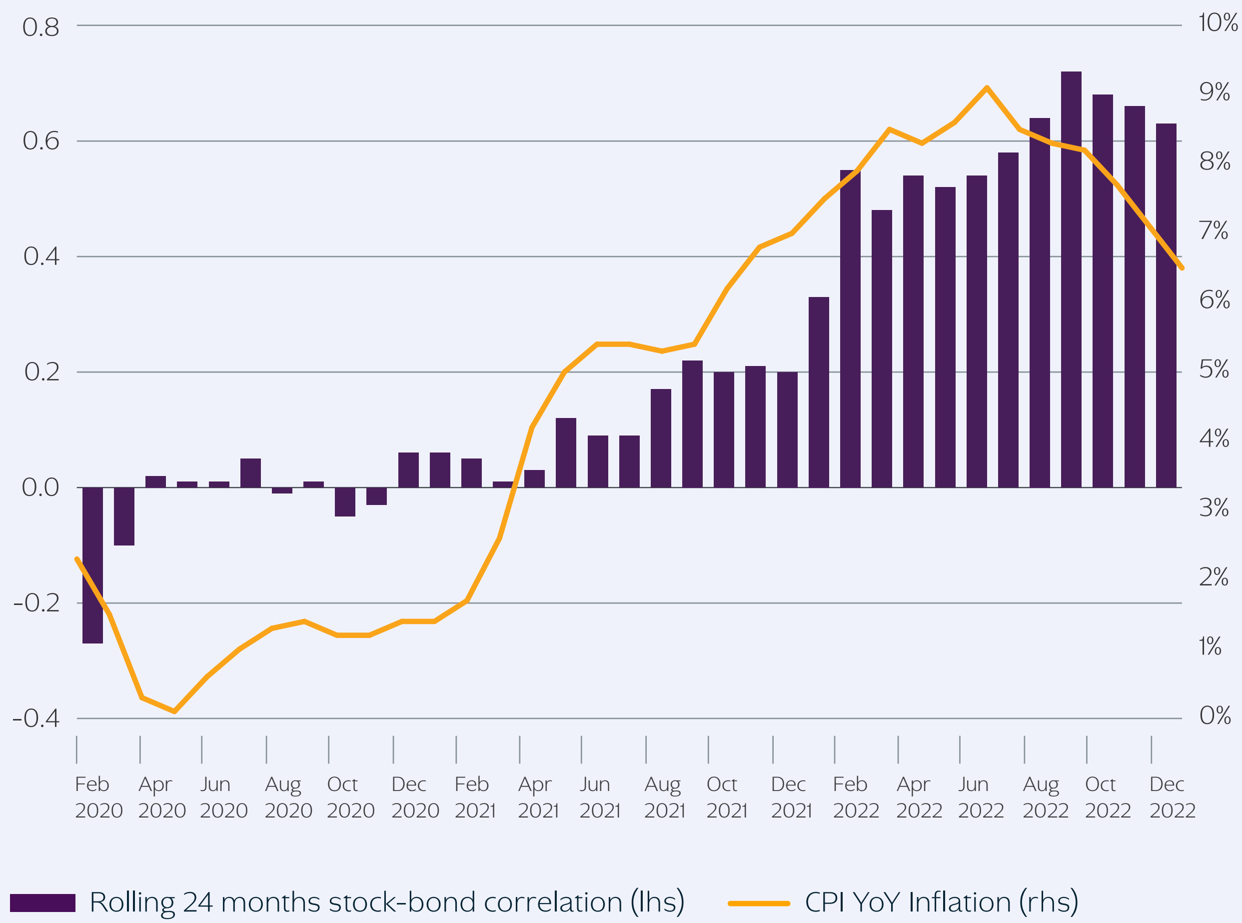
Fundamental characteristics of infrastructure create the potential for additional downside protection. Some of those characteristics may include:

- Providing essential services
- Large market share
- High barriers to entry

Choosing infrastructure investments with predictable cash flows can potentially provide an additional cushion in volatile times.

Downside protection is no guarantee against future losses.

EXHIBIT 2 | Stocks and Bonds Are Moving in Sync



Data as of December 31, 2022. Rolling 24-month correlations calculated using monthly total returns of the S&P500 Index and Barclays US Aggregate Index. For more information, please see "Regime Change: Enhancing the 'Traditional' Portfolio."

REASON 2:

A Hedge against Inflation

Our GMAA team says that inflation is likely to settle at a higher resting heart rate going forward. Structural changes such as the renewable energy transition, labor shortages, housing shortages, the shift away from globalization, and a rise in security-related spending related to geopolitical volatility are all likely to contribute to elevated inflation levels. Infrastructure assets are often able to pass through costs when prices rise.

Why Are Infrastructure Assets Able to Pass Along Rising Costs?

Built-in Contractual Adjustments

Government Rate Formulas
May factor in rising prices

How Can Infrastructure Assets Pass Along Rising Costs?

Large Market Share

High Switching Costs

How Infrastructure Performs under Inflation Pressure

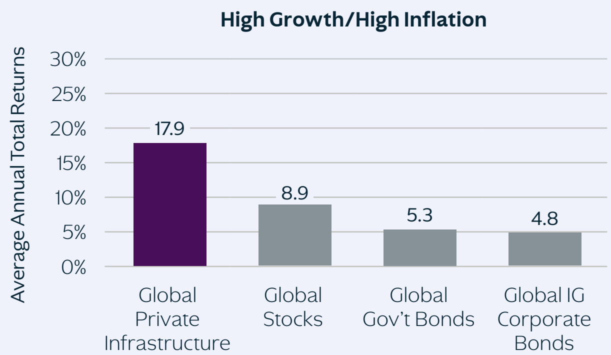
History supports our view that infrastructure is an all-weather investment that can deliver important benefits when prices are rising, falling, or holding steady (Exhibit 3).

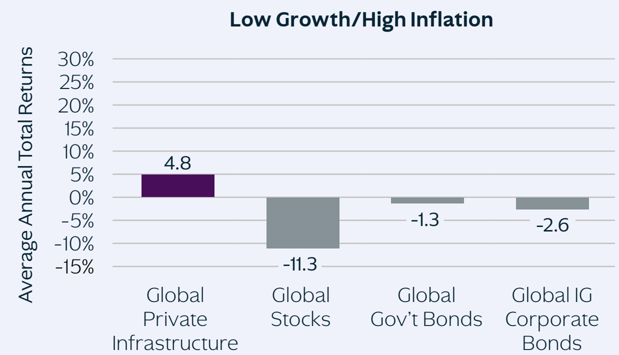
In high-inflation periods of the past, the capacity to adjust prices helped infrastructure outperform stocks and bonds.

Infrastructure investments have worked in low-inflation periods, too, outperforming bonds when growth was high and remaining flat when growth was low.

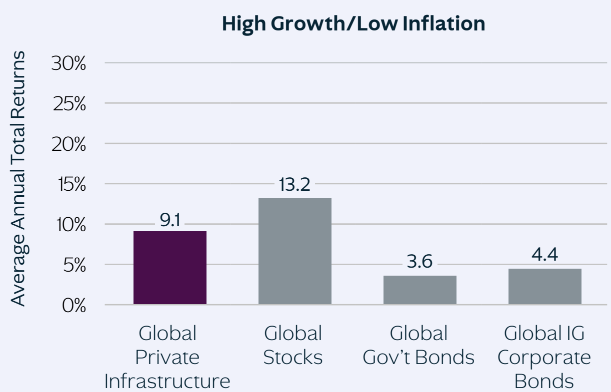
EXHIBIT 3 | Infrastructure in Different Growth and Inflation Scenarios

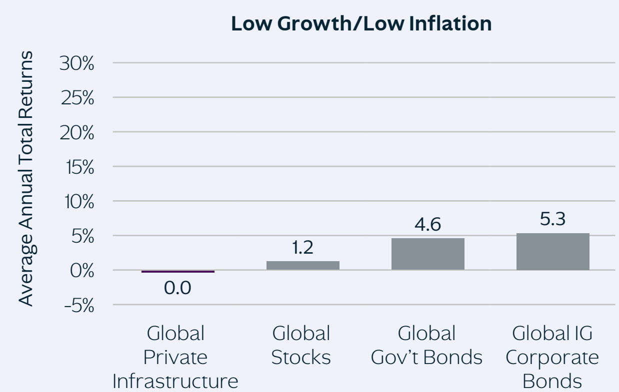
Infrastructure Has Historically Delivered High Returns in Inflationary Environments





Infrastructure Has Maintained Relatively Strong Performance in Low Inflation Periods





Note: Analysis conducted on annual data between 2001 and 2022. Above Average Inflation is defined as the year-over-year change in the US CPI greater than 2.5% and Above Average Growth is defined as the year-over-year change in US real GDP greater than 2.0%. Analysis uses the Bloomberg Barclays Global Aggregate Index for Government and IG Corporate Bonds, MSCI World index for Global Stocks, and the Burgiss Global Infrastructure Index for Global Infrastructure (As of Q3 2022). Source: Bloomberg, Standard & Poor's, Burgiss, KKR GBR Analysis, Bureau of Economic Analysis, Bureau of Labor Statistics.

REASON 3:

Consistent Yields

Infrastructure not only plays defense like bonds, but also offers the potential for predictable, bond-like yields (Exhibit 4), minus the inflation risk, in our view. The same features that allow infrastructure operators to pass on cost increases—market share, regulated or contractual revenues, etc.—make yields so dependable.

EXHIBIT 4 | Highly Stable Cash Flows in an Environment Starved for Yield

MSCI Global Quarterly Private Infrastructure Index, Gross Total Return, Local Currency

MSCI Global Quarterly Private Infrastructure Index returns as of June 30, 2021. Source: UBS Fundamental Research, MSCI.

REASON 4:

Diversification Times Three

Private infrastructure can diversify portfolios in three ways.

1.

Alternative to Bonds / Equities:
Private infrastructure has a moderate correlation with public equities and a negative correlation with publicly traded bonds.*

2.

The Other Real Asset:
Infrastructure and real estate are not perfect substitutes for one another. They're only moderately correlated and can complement each other.

3.

Diverse Return Drivers:
The wide variety of infrastructure assets offer exposure to a variety of social and economic trends (Exhibit 5).

*For more information, please see "Regime Change: Enhancing the 'Traditional' Portfolio."

The Wide World of Infrastructure

EXHIBIT 5 | **Infrastructure Assets Have a Wide Variety of Return Drivers**

Water/ Wastewater Utility

Return Drivers:

- Population growth
- Aging infrastructure

Data Centers

Return Drivers:

- Digitalization
- Structural shift to cloud storage

Cell Towers

Return Drivers:

- Demand for better, more reliable mobile services
- New wireless carriers entering the market

Mass Transit

Return Drivers:

- Population growth
- Urbanization
- Fuel prices (driving substitute)

Toll Roads, Bridges, Tunnels

Return Drivers:

- Traffic volumes
- Economic growth

Fiber-to-Home Internet Connections

Return Drivers:

- Demand for faster internet connection
- Internet increasingly necessary for daily life (work, education, shopping, communication, etc.)
- Market pricing

For illustrative purposes only

REASON 5:

Upside Opportunity

Infrastructure is not just a defensive play against inflation or economic shocks. We believe modern infrastructure offers an opportunity to earn strong returns by investing behind the long-term shifts that fundamentally change the way people live and do business. *Exhibit 6* offers an example.

EXHIBIT 6 | The Net Zero Numbers

Governments and corporations set aggressive targets for reducing carbon emissions. They can only succeed if there is a large-scale switch from fossil fuels to renewable energy. That will require major updates to the electrical grid, fueling stations for electric vehicles, solar and wind power development, and more.

128	Countries and self-governing territories with net zero targets
19	Number of G20 countries with net zero commitments
235	Cities with net zero targets
702	Publicly listed companies with net zero targets = 1/3 of global public companies

Source: Net Zero Tracker as of June 2022.

What Do We Think a Good Infrastructure Manager Brings to the Table?

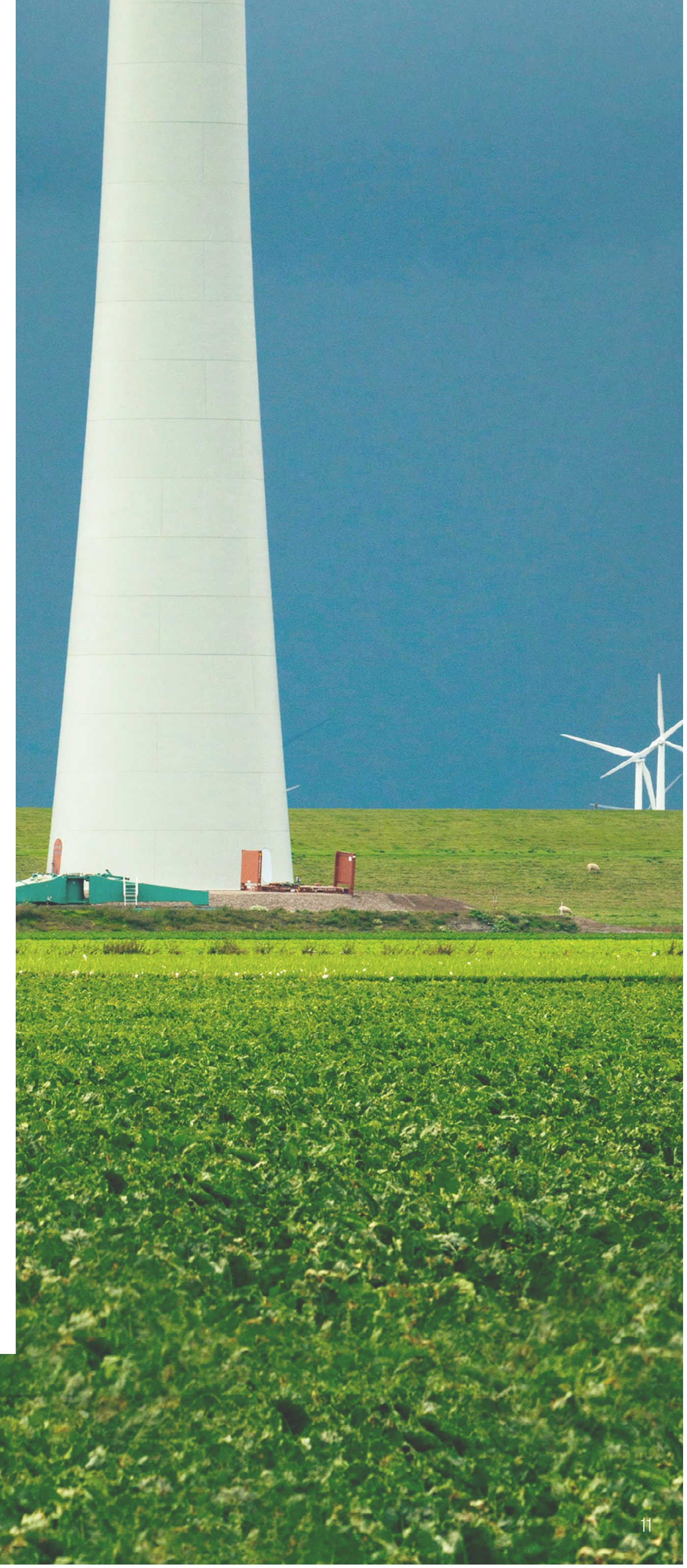
Private infrastructure investors have another source of potential upside: the skill of their managers and their ability to maintain and even improve their assets.

Industry Expertise:
Understanding the trends and risks that shape the sectors and communities their assets serve

Skilled Management:
Expertise and experiencing maintaining, upgrading, and future-proofing infrastructure assets

Strong Relationships:
A good working rapport with industry experts, operations experts, governments, and community stakeholders

Track Record:
A history of past successes can help in getting access to interesting and proprietary investment opportunities



KEY TAKEAWAYS:

Infrastructure Investing

We believe Infrastructure investments can guard against losses due to volatility and inflation while also opening up the potential for outsized returns. We would argue that private markets offer access to a wider variety of infrastructure assets, the potential to benefit from operational improvements, and more shelter from wide swings in market sentiment.

If you're considering private infrastructure, we've put together a list of key questions to ask before you invest (Exhibit 7).

EXHIBIT 7 | Going Private? Key Questions to Consider

Q. How much experience does the manager have in infrastructure investing? Have they tended to concentrate in one or a few sectors, or does their expertise span the range of opportunities?

Q. Does the manager have a strong global reach, or will their investments be tied to a particular region?

Q. How does the manager seek to balance risk when building the portfolio?

Q. What resources does the manager have to assess and address macro risk?

Q. How is the opportunity structured, and how does it operate? Issues such as tax treatment and liquidity options may be important for individual investors to consider.

Learn More

To find out more about infrastructure investing, please contact your financial professional. Financial professionals, please contact your KKR representative.

Endnotes

1 Note: The views of GMAA expressed in this section are the personal views of Henry McVey of KKR and do not necessarily reflect the views of KKR itself. This information is not research and should not be treated as research. It does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of KKR. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own views on the topic discussed herein. 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. Opinions or statements regarding financial market trends are based on current market conditions and are subject to change without notice. References to a target portfolio and allocations of such a portfolio refer to a hypothetical allocation of assets and not an actual portfolio. The views expressed herein and discussion of any target portfolio or allocations may not be reflected in the strategies and products that KKR offers or invests, including strategies and products to which Mr. McVey provides investment advice to or on behalf of KKR. It should not be assumed that Mr. McVey has made or will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client or proprietary accounts. This information 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.

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