



KKR

GLOBAL OUTLOOK

PAULA CAMPBELL ROBERTS

MARCH 2023

CONFIDENTIAL AND PROPRIETARY:
For Investment Professionals Only

Disclaimer

The views expressed in this presentation are the personal views of Paula Campbell Roberts of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of KKR itself or any investment professional at KKR. This presentation is not research and should not be treated as research. This presentation 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. This presentation is not intended to, and does not, relate specifically to any investment strategy or product that KKR offers. 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.

The views expressed reflect the current views of Ms. Roberts as of the date hereof and neither Ms. Roberts nor KKR undertakes to advise you of any changes in the views expressed herein. References to "we", "us," and "our" refer to Ms. Roberts and/or KKR's Global Macro and Asset Allocation team, as context requires, and not of KKR. 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 Ms. Roberts provides investment advice to or on behalf of KKR. It should not be assumed that Ms. Roberts 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. Further, Ms. Roberts may make investment recommendations and KKR and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this document.

This presentation 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 presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither KKR nor Ms. Roberts 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. Target allocations contained herein are subject to change. There is no assurance that the target allocations will be achieved, and actual allocations may be significantly different than that shown here. This presentation 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 presentation 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 presentation, 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.

Neither KKR nor Ms. Roberts assumes any duty to, nor undertakes to update forward looking statements. No representation or warranty, express or implied, is made or given by or on behalf of KKR, Ms. Roberts or any other person as to the accuracy and completeness or fairness of the information contained in this presentation, and no responsibility or liability is accepted for any such information. By accepting this presentation in its entirety, the recipient acknowledges its understanding and acceptance of the foregoing statement.

The MSCI sourced information in this presentation is the exclusive property of MSCI Inc. (MSCI). MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

Our Work Suggests That We Have Entered a New Environment for Real Estate Investing

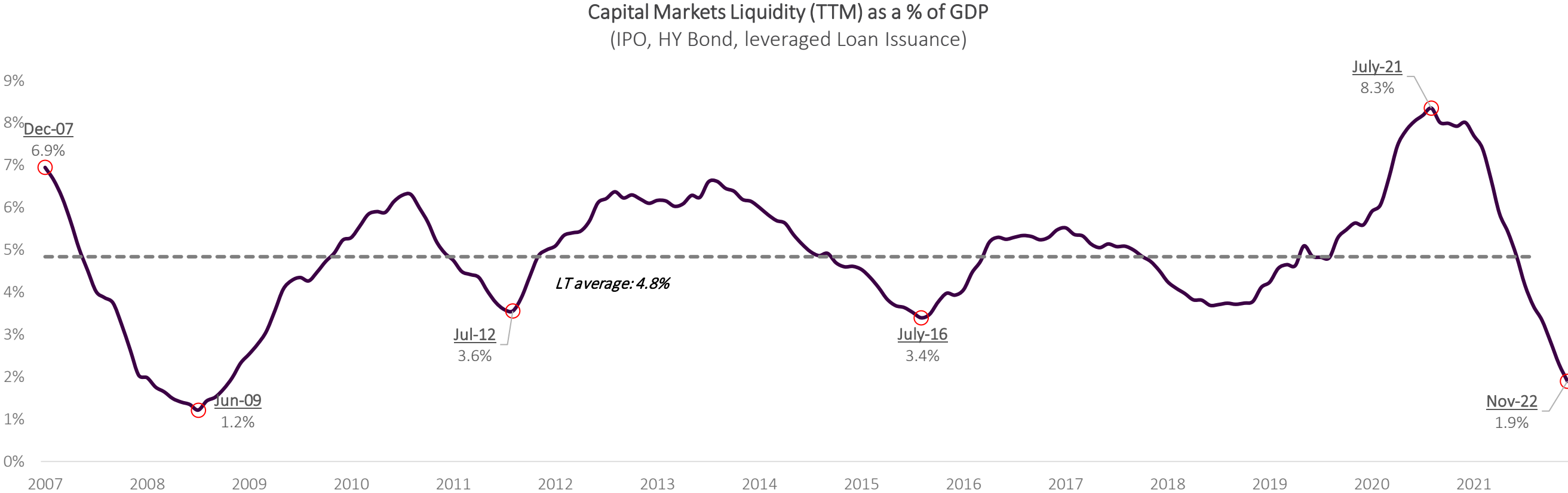
- 01 **We are experiencing a regime change.** We expect the higher 'resting heart rate' for inflation to persist. Higher inflation should support growth in nominal GDP, despite the mild recession we anticipate.
- 02 **Asynchronous recovery.** Rates are rising rapidly in the U.S. and Europe, but China and Japan have looser monetary policies.
- 03 **Lender's market.** Amid tightening financial conditions, it is currently a lenders market. That said, we expect global policy rates to peak this year.
- 04 **Bifurcation across assets.** Real estate returns differ markedly by sub-sector and market. Understanding secular themes – including ESG, location and asset size preferences, is key to identifying areas of conviction.
- 05 **All of this requires a rethinking of asset allocation.** Diversification and pacing matter. We advocate leaning into collateral-based cash flows.

I

Overview of Risk Positioning

We Enter 2023 With A More Constructive Tilt

Capital Markets Liquidity As A % of GDP Is Down To GFC Era Levels

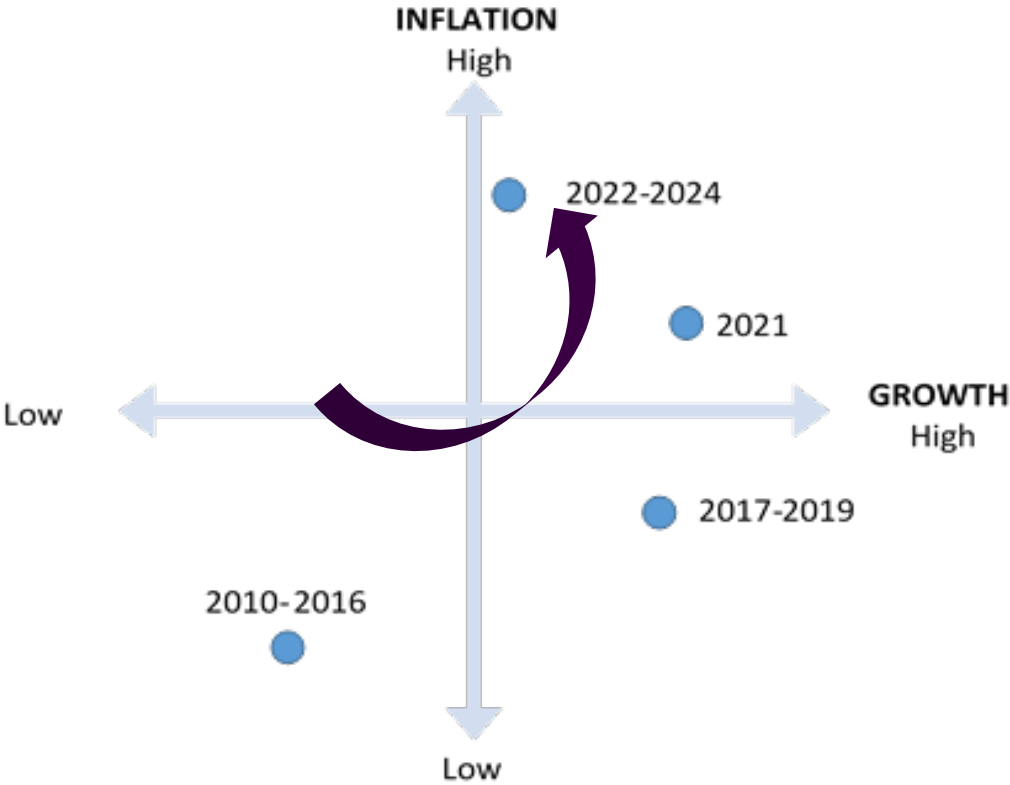


II

Macroeconomic Outlook

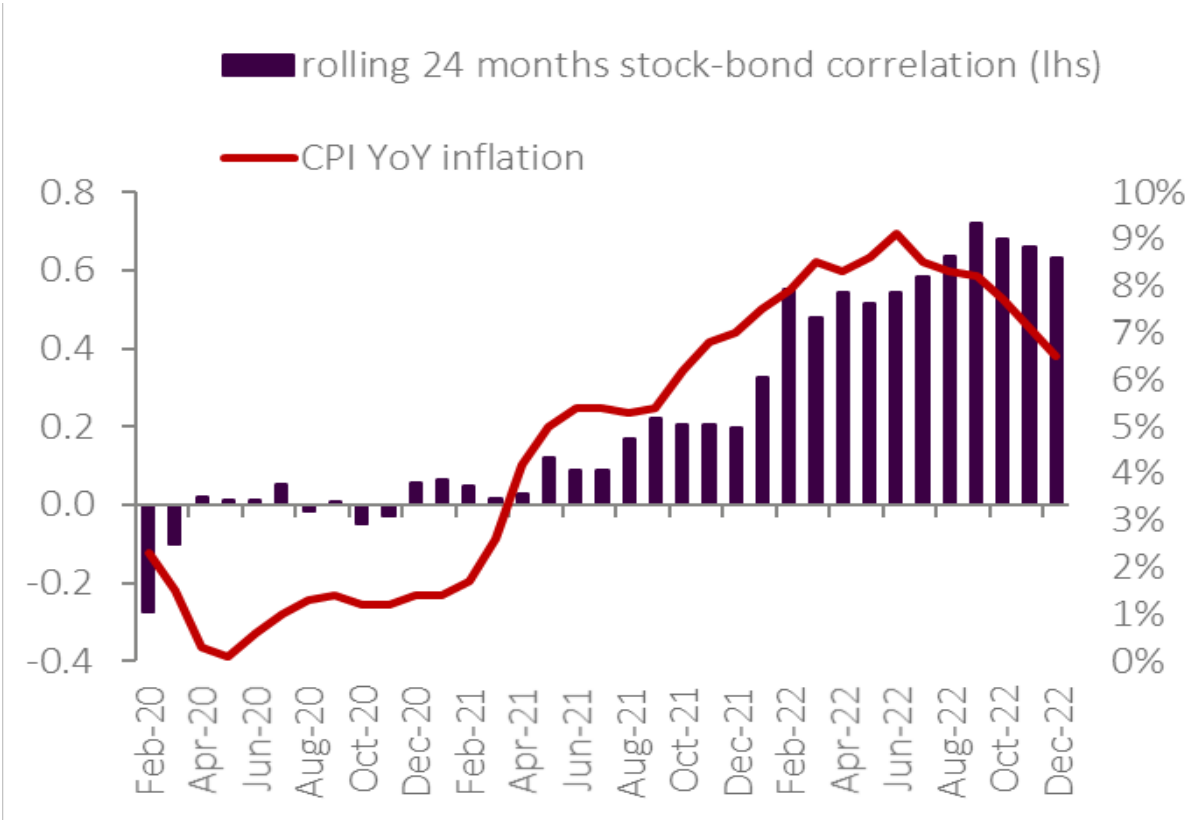
We Believe We Have Entered A New Investment Regime

A Regime Change Is Occurring



Data as at March 9, 2022. Source: KKR GMAA analysis.

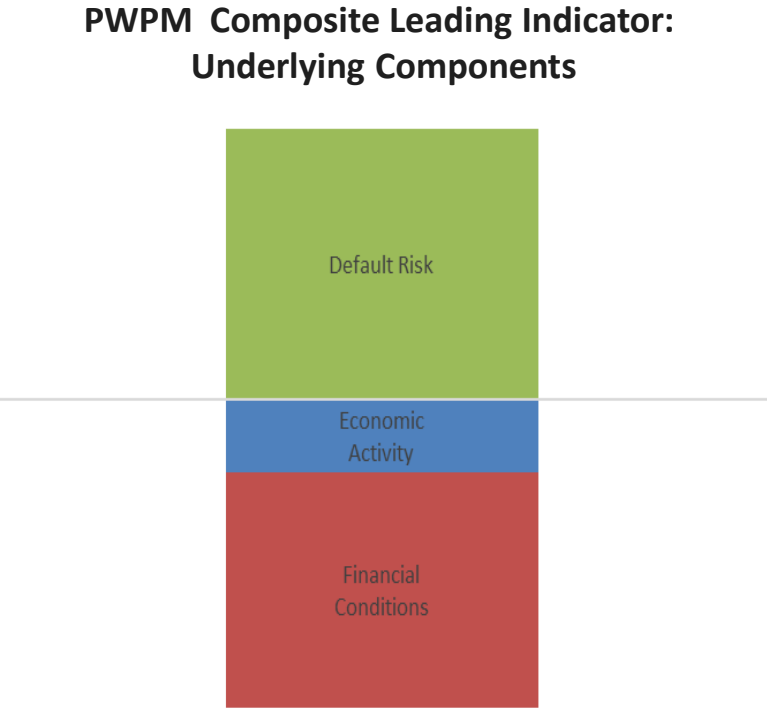
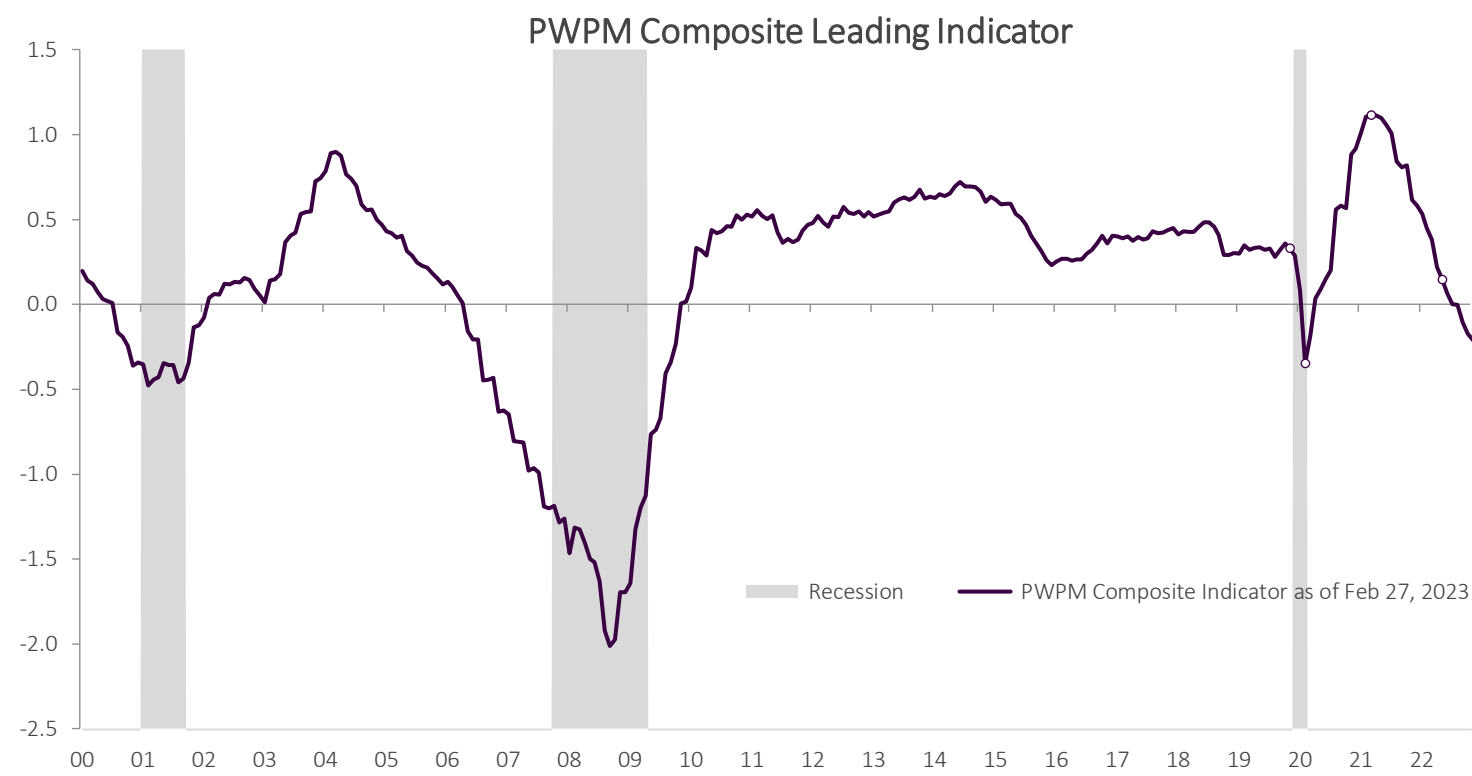
The Relationship Between Stocks And Bonds Has Changed In This Inflationary Environment



Data as at December 31, 2022. Source: Bloomberg.

Our Proprietary Indicators Suggests That Tight Financial Conditions Will Likely Lead To A US Downturn In The US Over The Next 12 Months

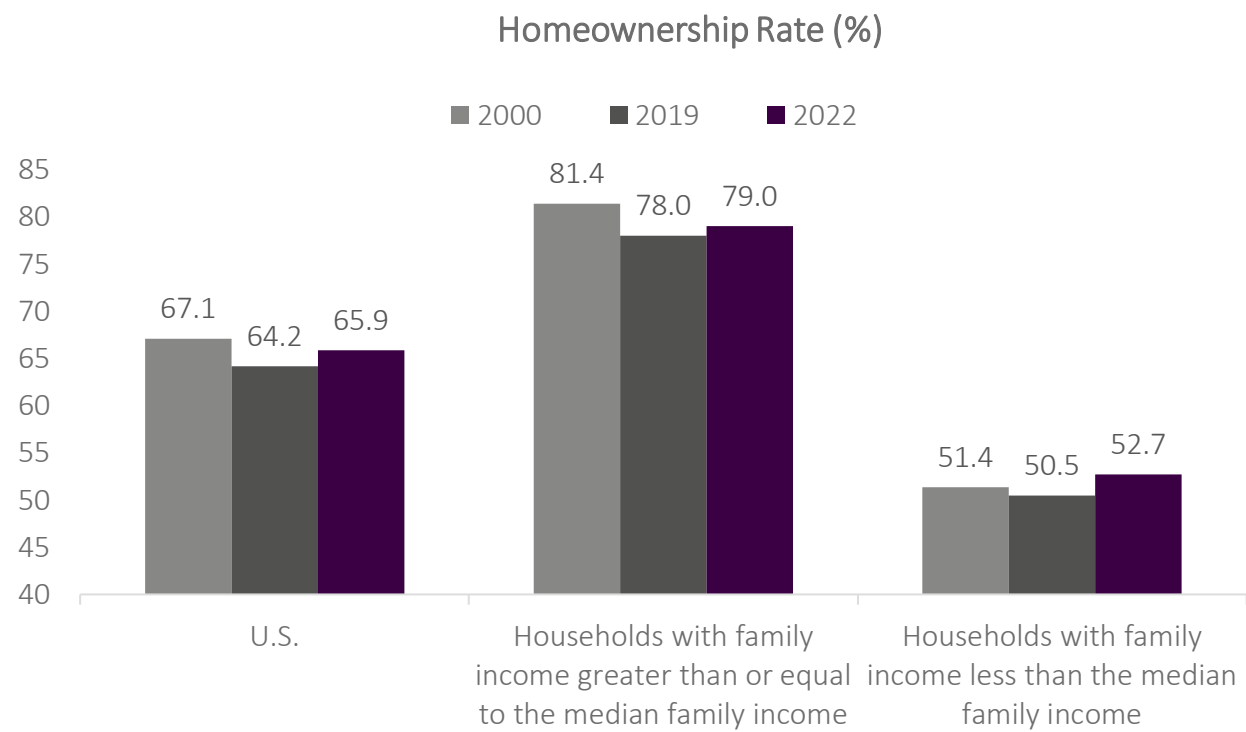
Leading Indicators Suggest Consumer Is Weakening, But In Aggregate It Is Still In Decent Shape Largely Because Default Risk Remains Low



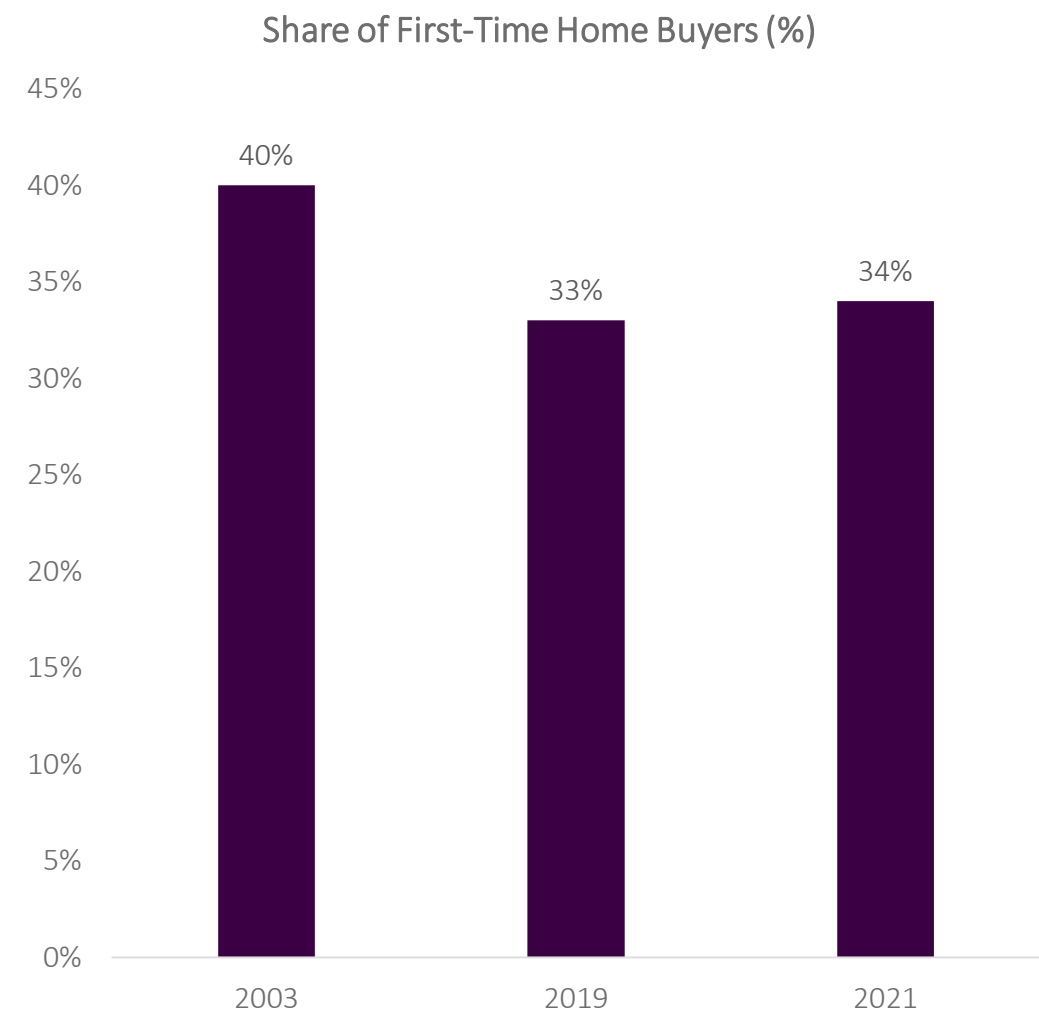
Jan-23

U.S. Housing Will Likely Continue to Be a Pain Point This Year

Despite The COVID RE Boom, Homeownership Rate Today Is Lower Than In 2000.
Most Pandemic Buyers Were Not First-time Home Buyers



Number of Households	Homeowners	Renters
2000	70MN (67.4%)	34MN (32.6%)
2019	83.1MN (64.6%)	44.2MN (34.4%)
2022	86.3MN (65.8%)	44.8MN (34.2%)



U.S. Consumer Is Weakening, But In Aggregate It Is Still In Decent Shape Largely Because Employment Is High And Default Risk Remains Low

We Expect Continued Slowdown In Consumer Spending Amidst Rising Borrowing Costs

Headwinds to Consumption

Tightening financial conditions and higher borrowing costs

Depleting excess savings (especially for lower income cohorts)

Decline in goods spending (interest rate sensitive)

Decline in home prices

Layoffs in tech and finance

Sticky inflation

Declining consumer sentiment

Tailwinds to Consumption

Resilient labor market

Healthy household balance sheets

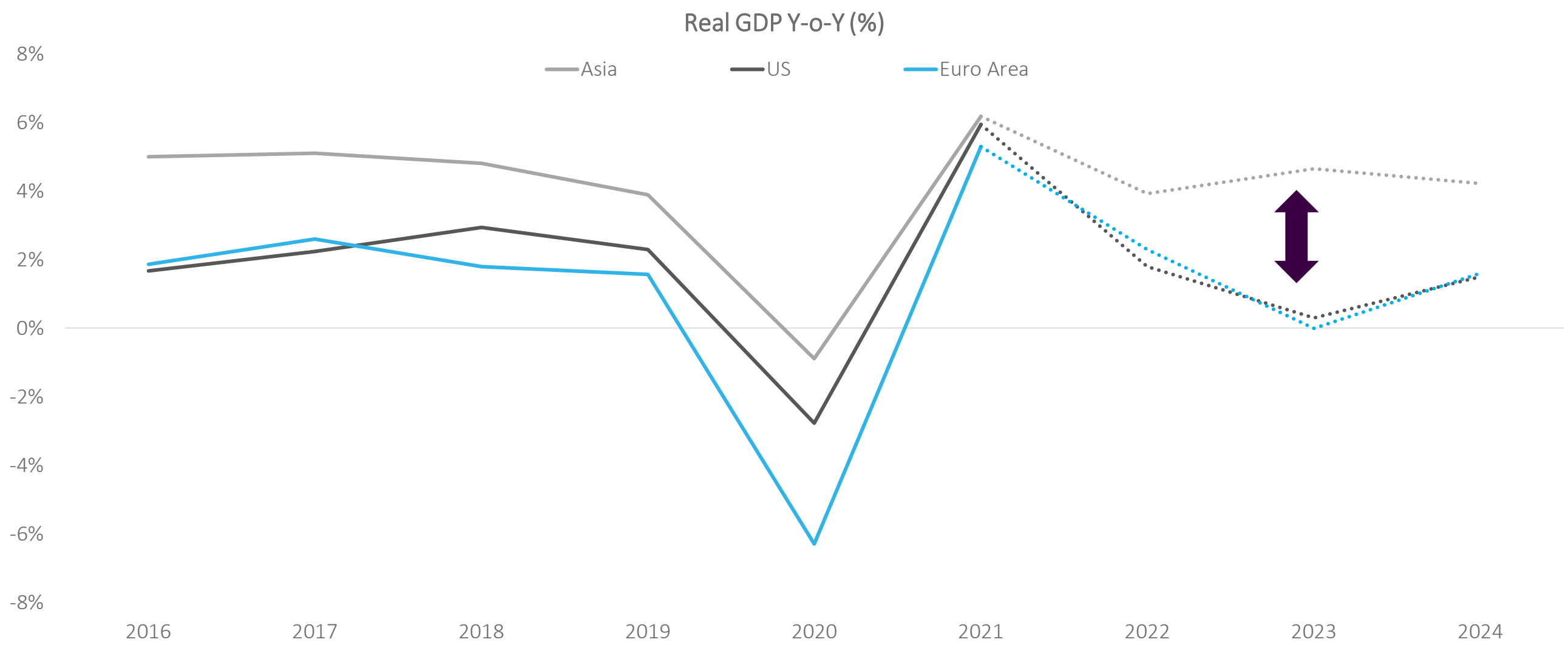
Low levels of leverage and loan delinquencies

Real average hourly earnings growth

Declining gasoline prices

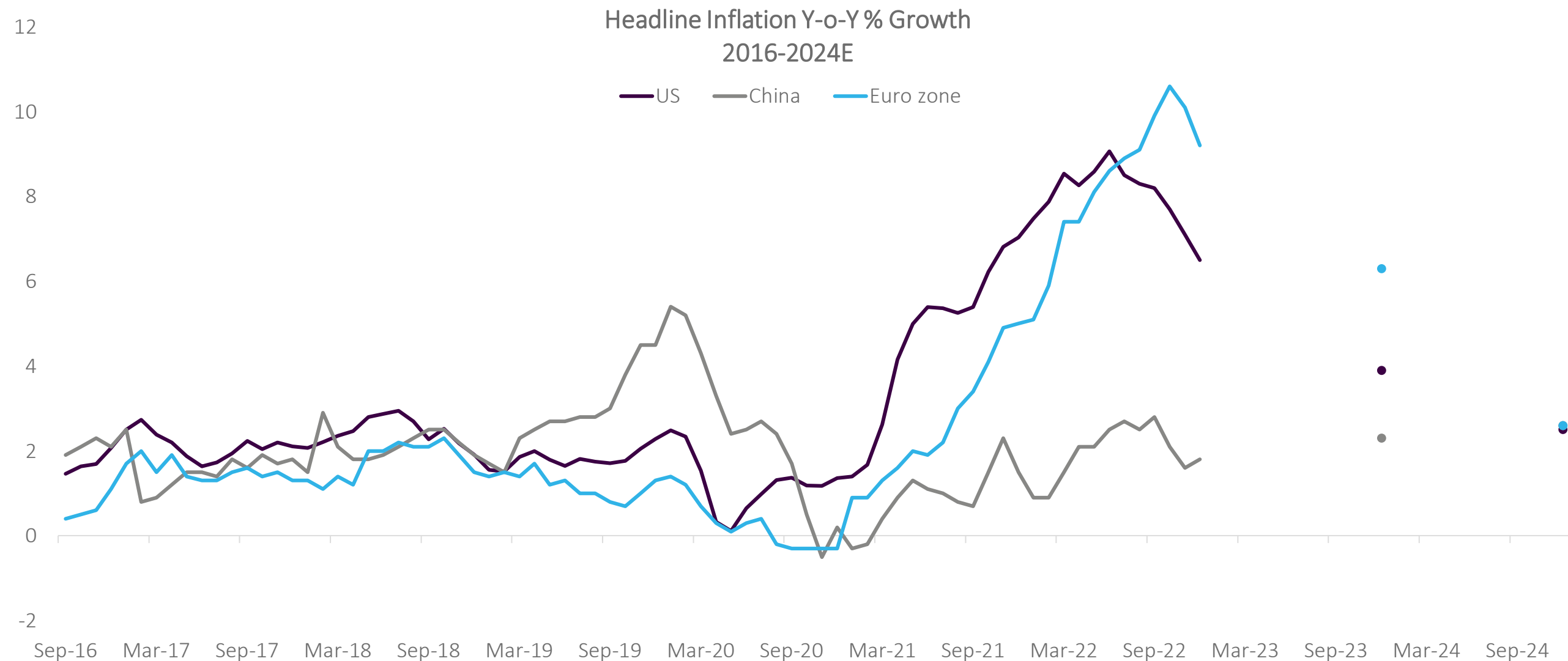
The Global Economic Cycle Is Asynchronous

Real GDP Growth in Asia Is Expected to Hold Up Better Compared with Europe and the US



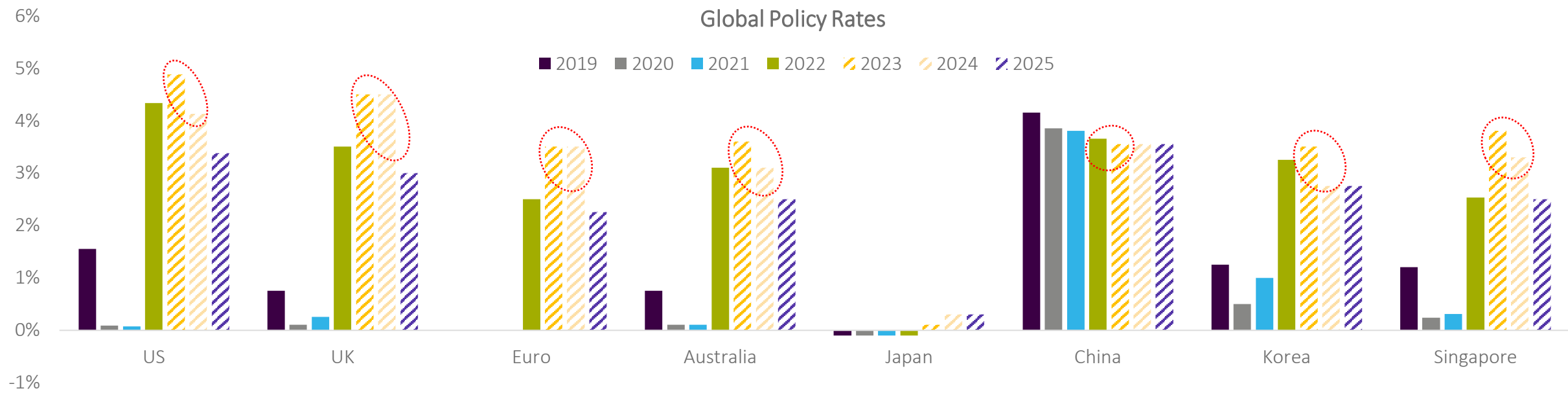
We Expect Inflation To Remain Elevated Above Central Bank Targets

Consensus Has Made Progress In Catching Up to Our Expectations, But We Remain Guards-Up About the Potential for Inflation to Stay Elevated for Longer

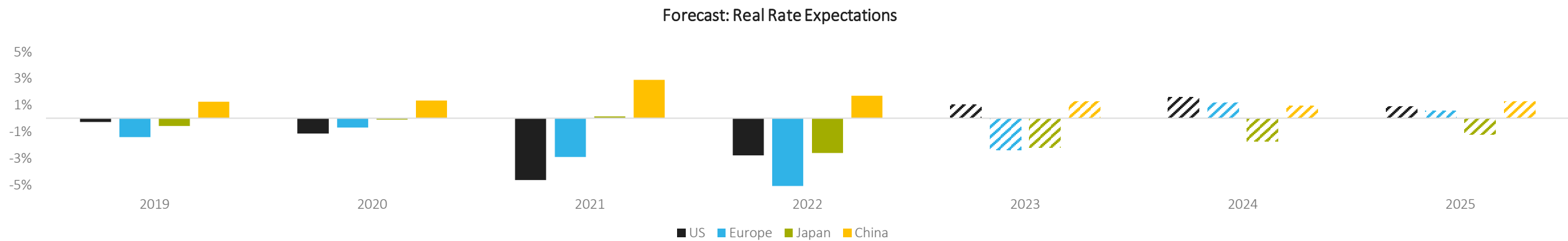


As A Result Higher Inflation, Policy Rates Are Likely Headed Higher In Most Regions This Year But Real Rates Will Remain Low

Nominal Policy Rates Are Likely To Peak This Year In Many Markets

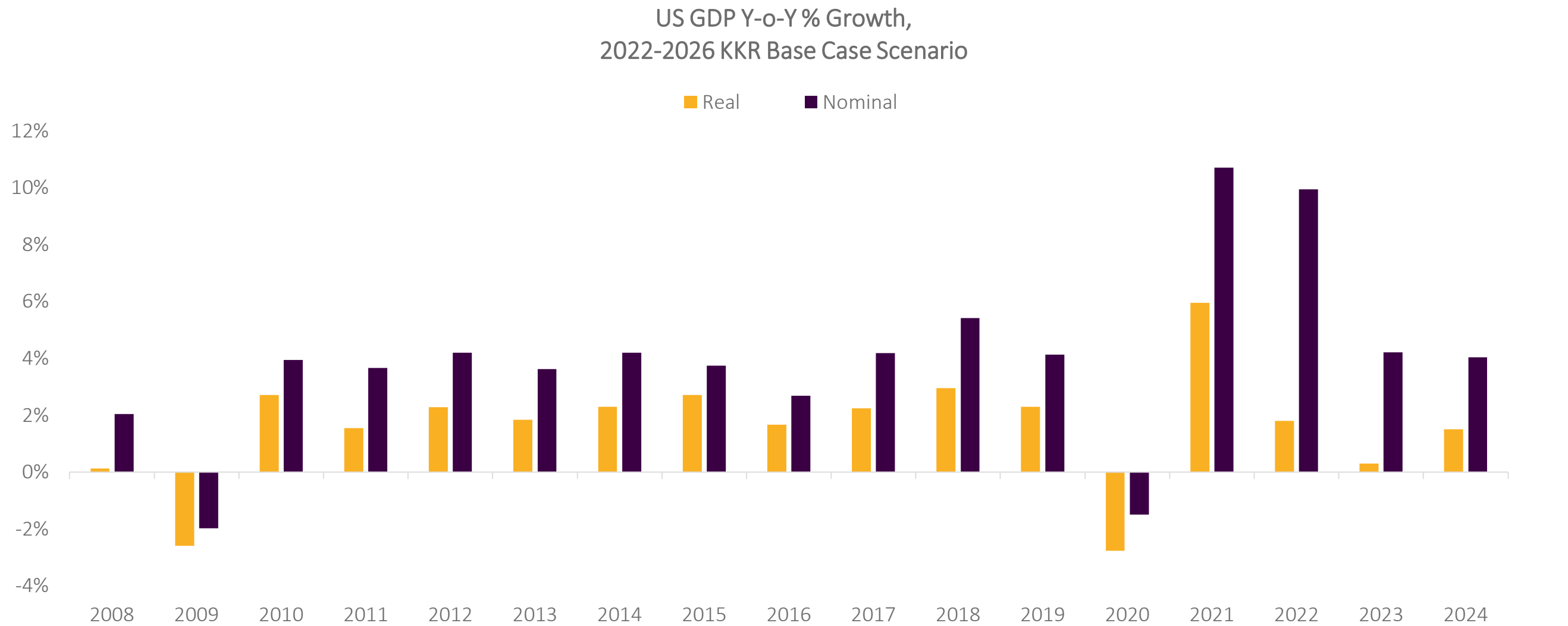


Importantly, We Expect Short Term Yields To Remain Low, Which Is The Main Focus For Investment



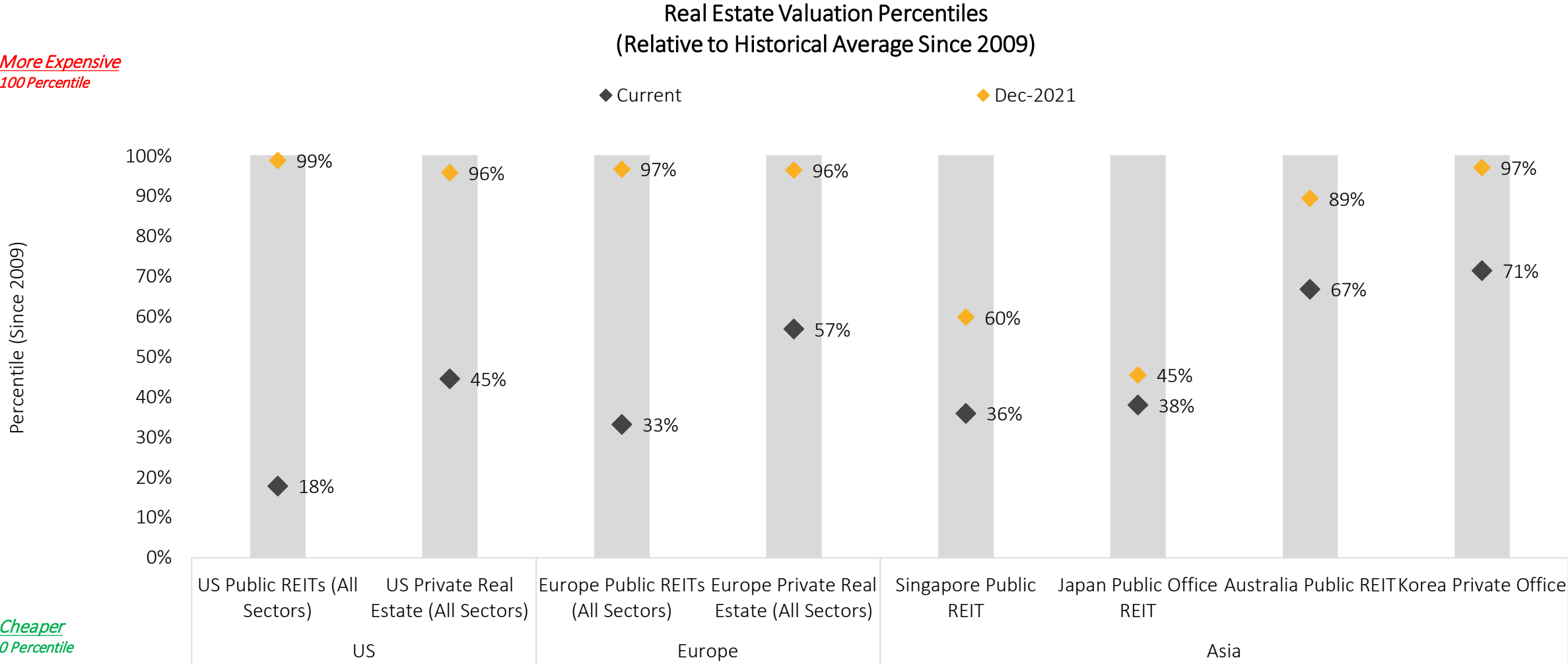
Importantly Elevated Inflation Should Support Positive Growth In U.S. Nominal GDP

Unlike Other Recessions, We Do Not Foresee Nominal US GDP Contracting

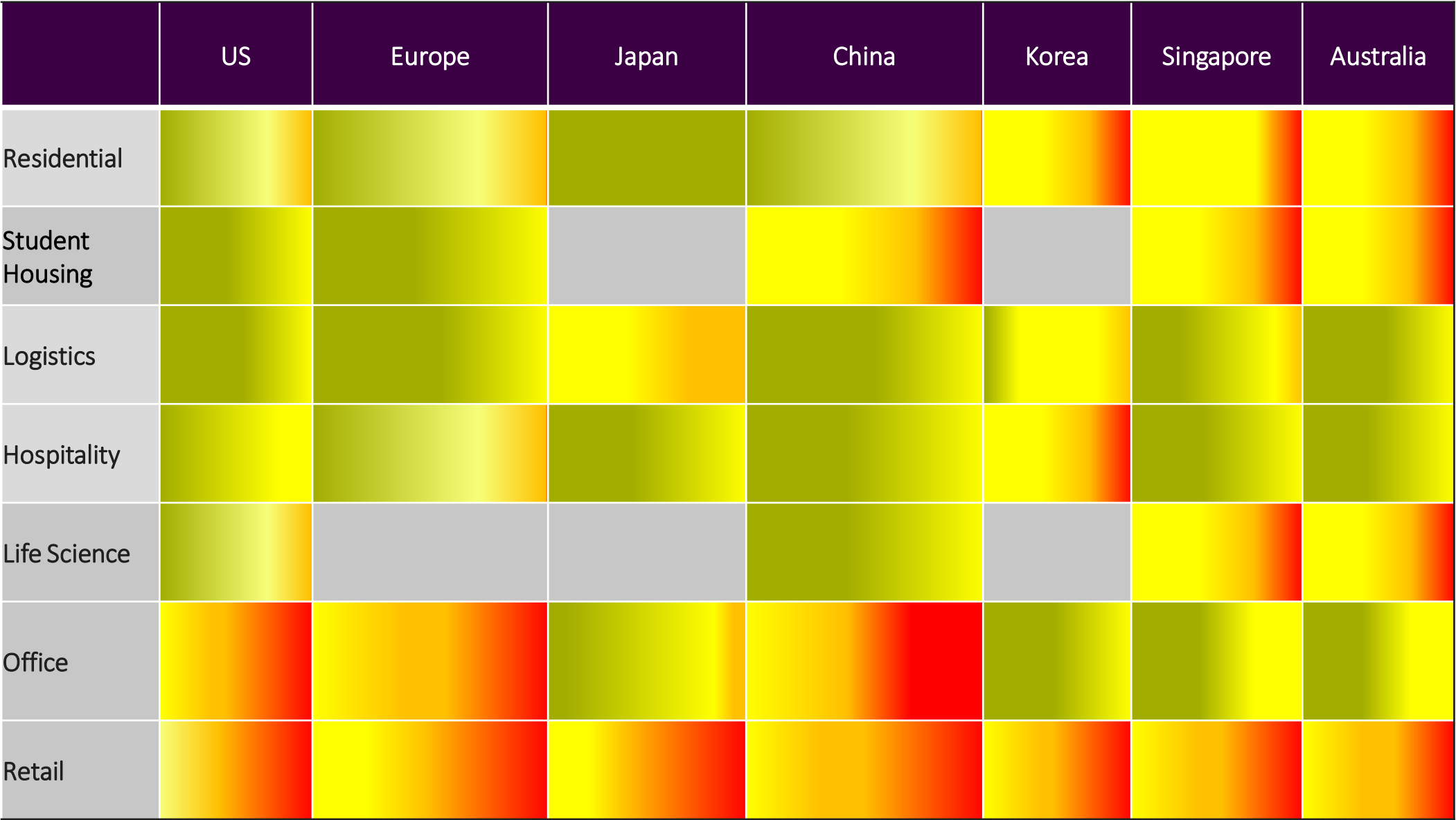


Identifying The Optimal Entry Point Amidst Tight Financial Conditions Is Paramount in Real Estate

Public Market Valuations Have Generally Reset More Than Private Markets, Especially in Europe



Comparison of Real Estate Sub-Sector Fundamentals



Broadly Attractive Fundamentals Within Sector (Green)

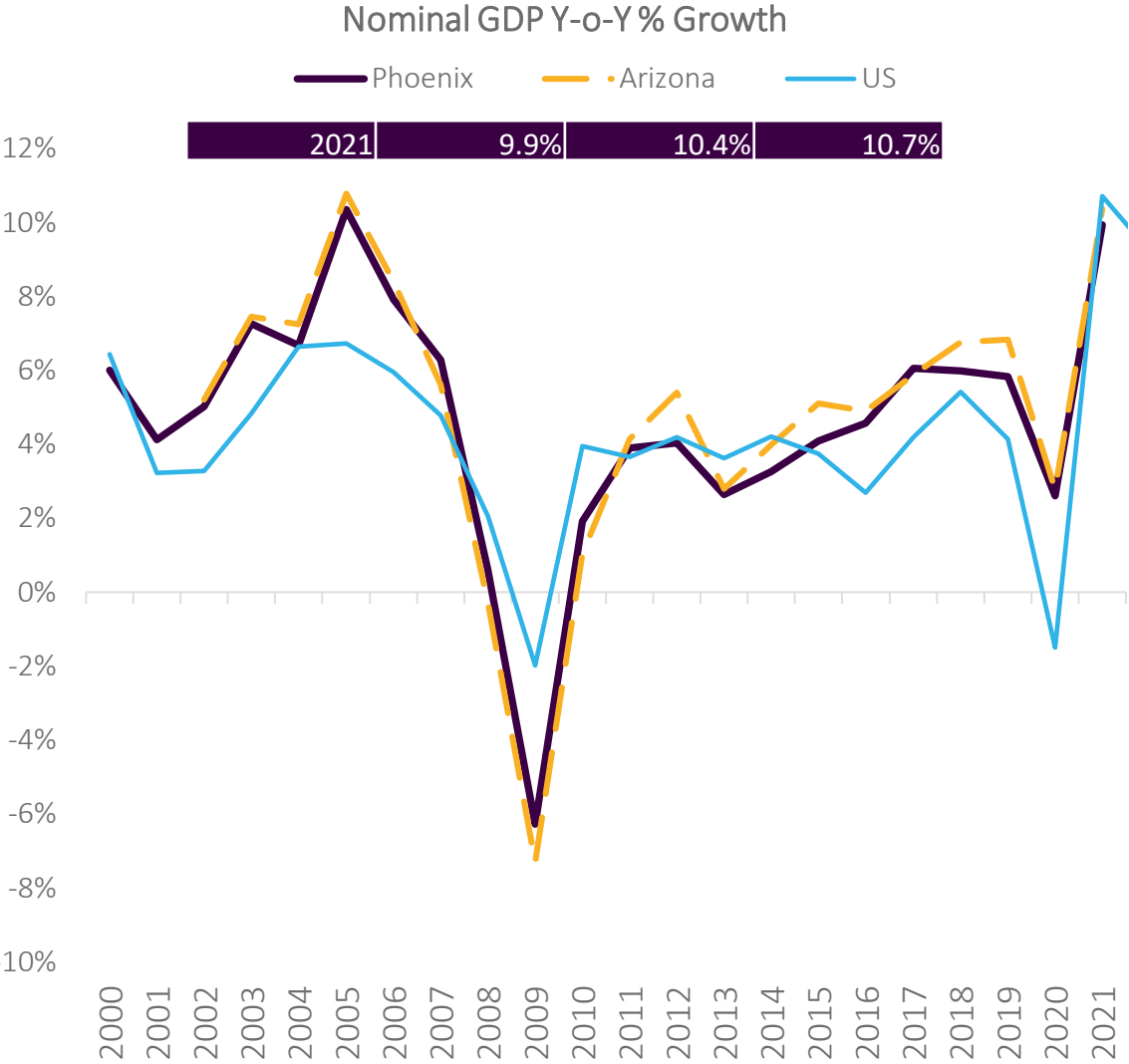
Broadly Unattractive Fundamentals Within Sector (Red)

KKR

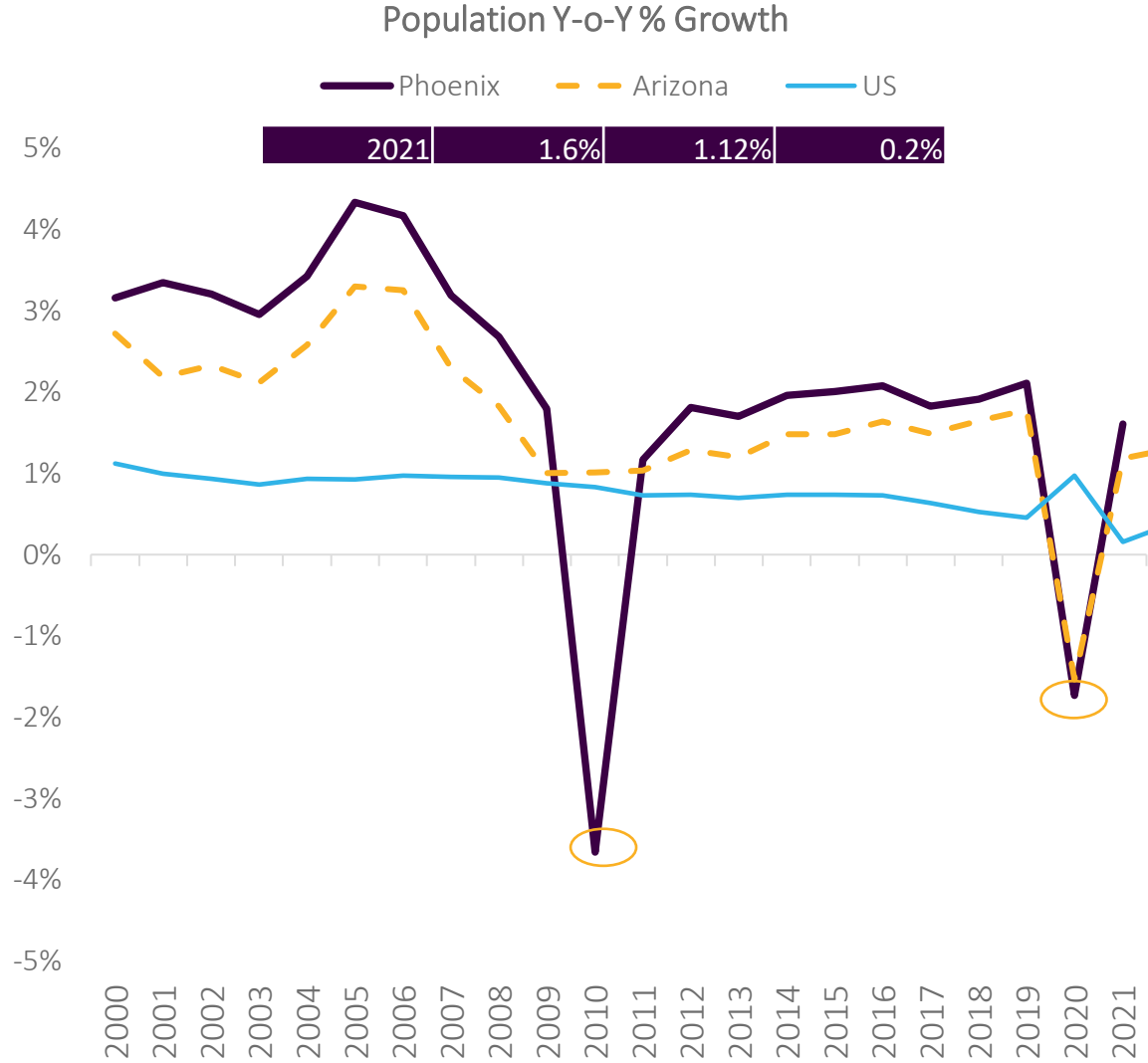
III Phoenix

The Pandemic Boosted Growth In An Already Expansionary Phoenix Economy

From 2015 until 2020 Phoenix GDP on avg. expanded 1.7% more than the US. In 2021, Phoenix lagged the US by ~0.8%

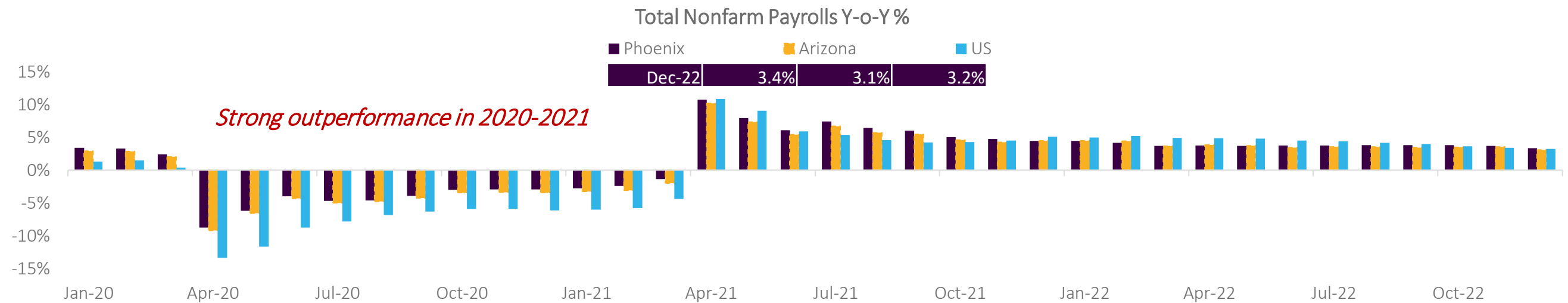


In the last 20 years the population of Phoenix grew at a faster pace than the US and Arizona excluding recessions

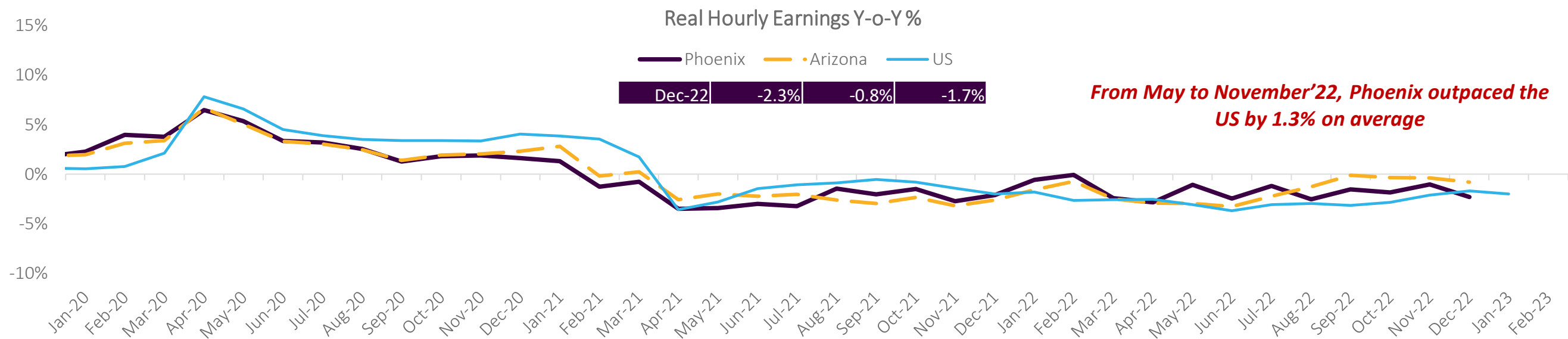


Phoenix Labor Market Seems To Be Growing More Resilient

Since the start of the pandemic Phoenix added 1.2% more jobs on a monthly basis compared with the US

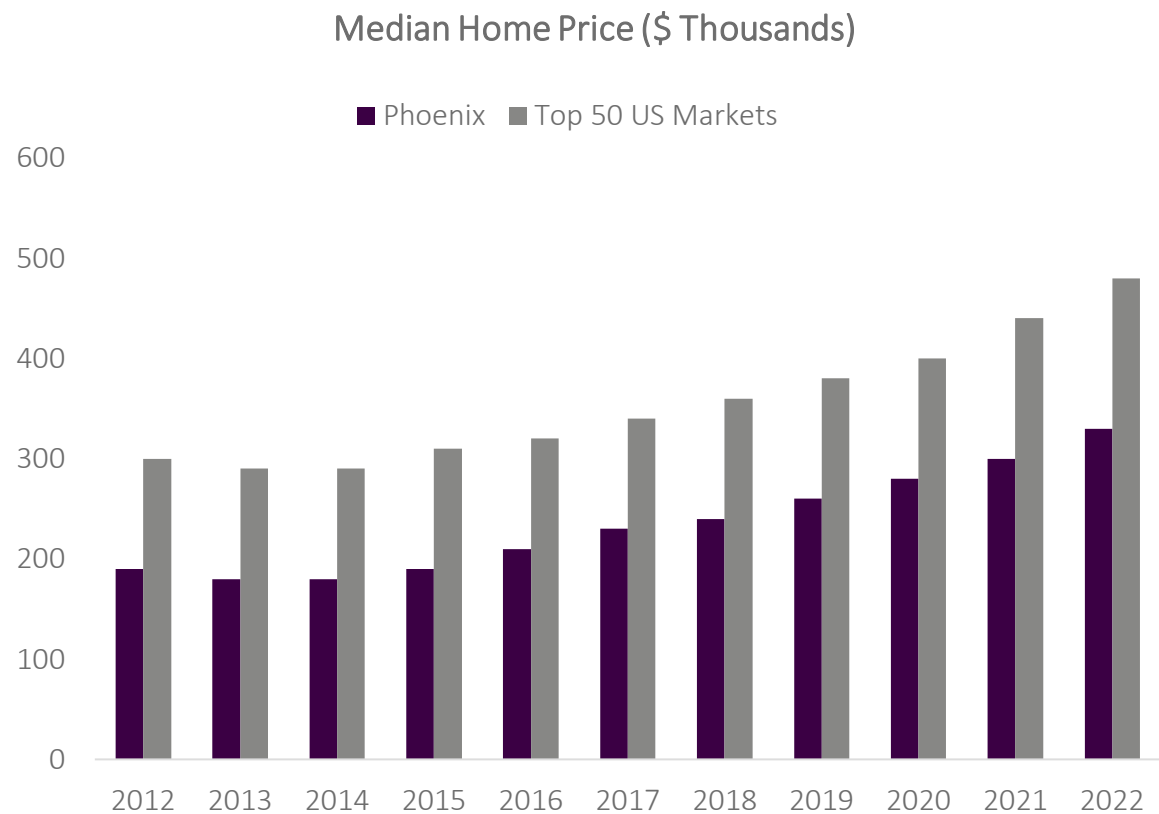


Historically real earnings in Phoenix have lagged the US but the trend appears to be turning

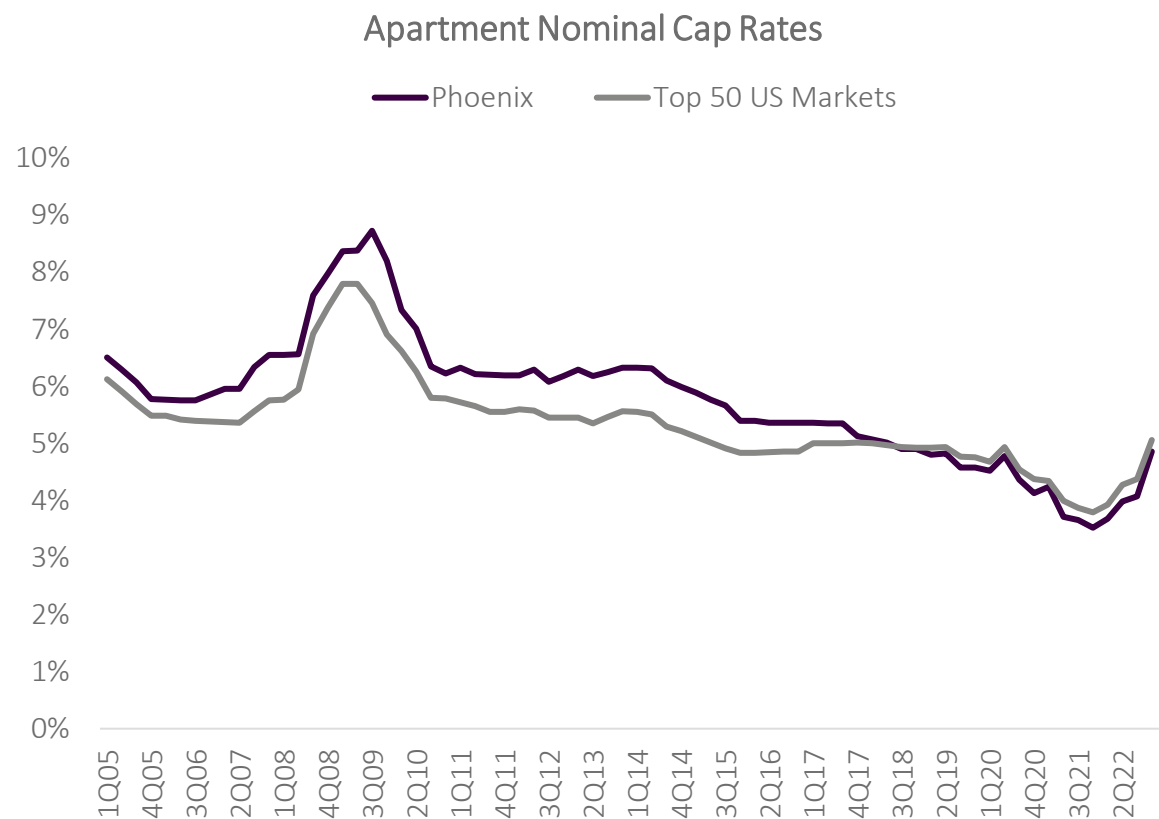


Phoenix Housing Market Has Seen Impressive Price Growth

Median price of an apartment in Phoenix rose by 74% in the last decade to \$330k, but is below the median price of \$480k in top 50 US markets



Last December multifamily cap rates in Phoenix stood at 4.9% (vs. 5.1% in top 50 US markets), increasing 20bps from February 2020

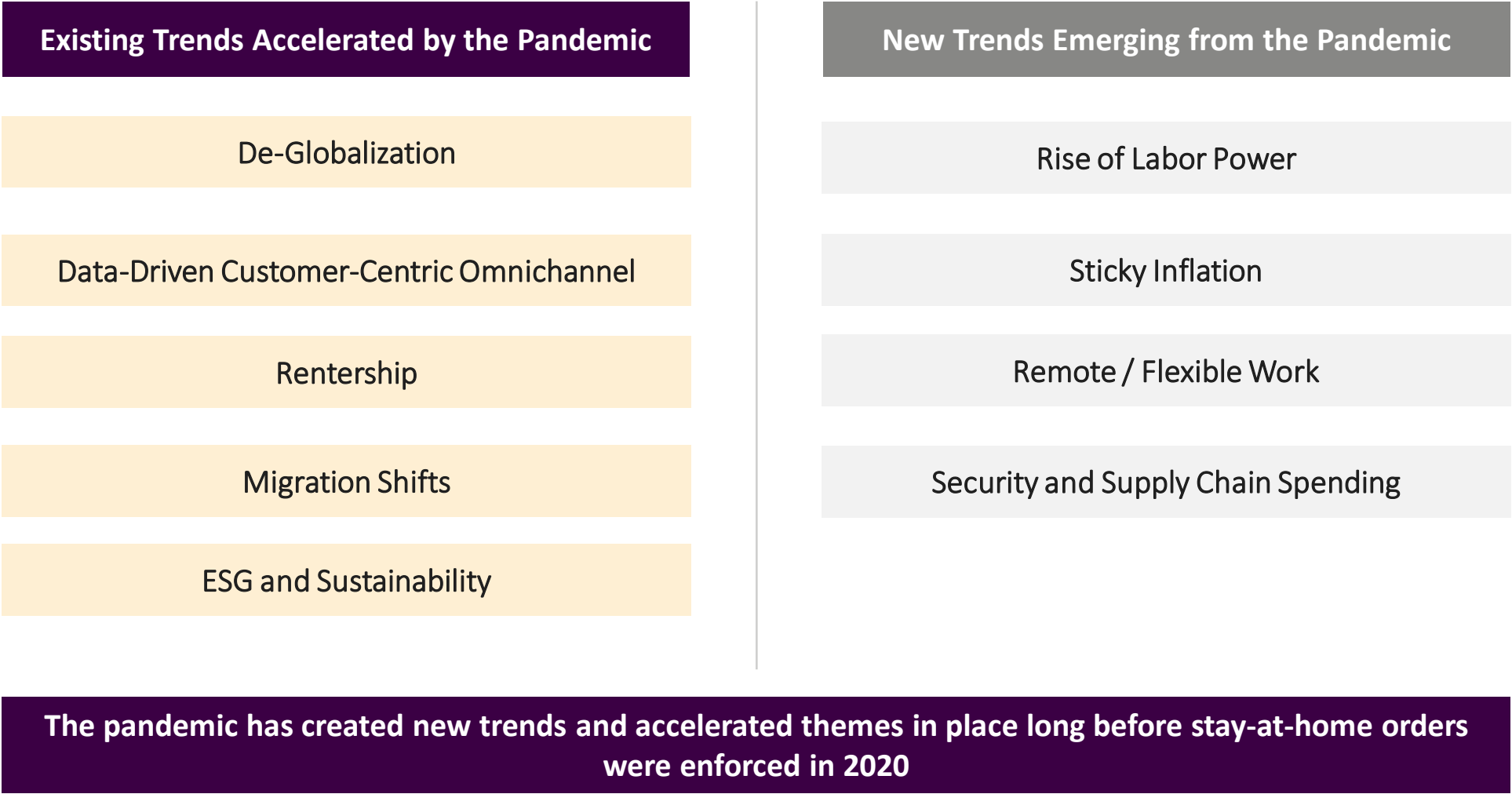


According to Redfin, in January 2023, Phoenix home prices (single family and apartments) were down 4.3% year-over-year, selling for a median price of \$404k

KKR

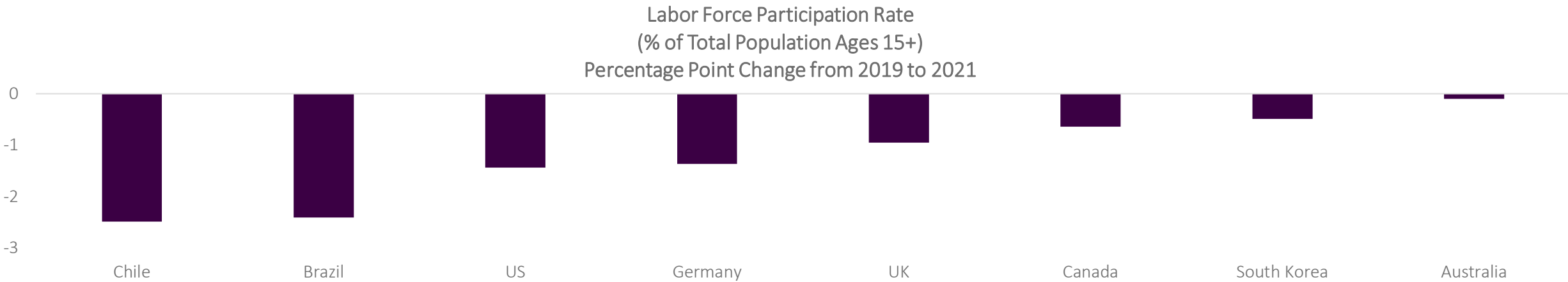
IV Secular Trends

Understanding Shifts In Secular And Macro Trends Will Be Key To Selecting Subsectors And Markets

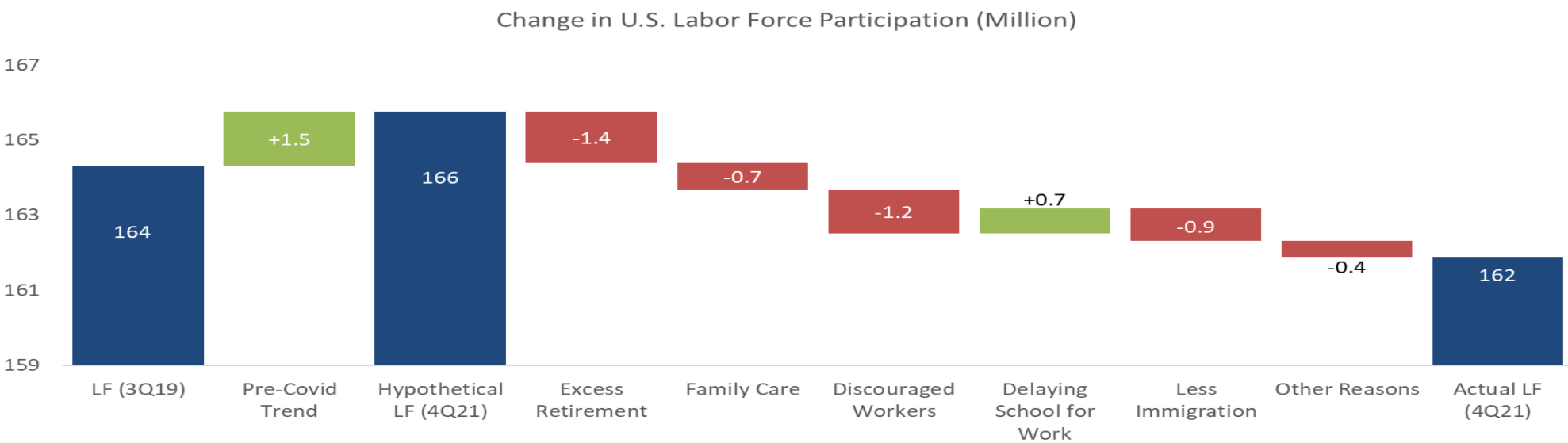


Demographics Have Turned Inflationary Amid Labor Shortages

The Great Resignation Is Occurring Across Developed Economies; This Is Especially Inflationary Given The Vulnerabilities Associated With Aging Populations And Limited Immigration



2.1M of the Total 3.9M Erosion In the US Labor Force Since 2019 May Be Permanent Due To Excess Retirement, Discouraged Workers, Less Immigration, And Family Responsibilities

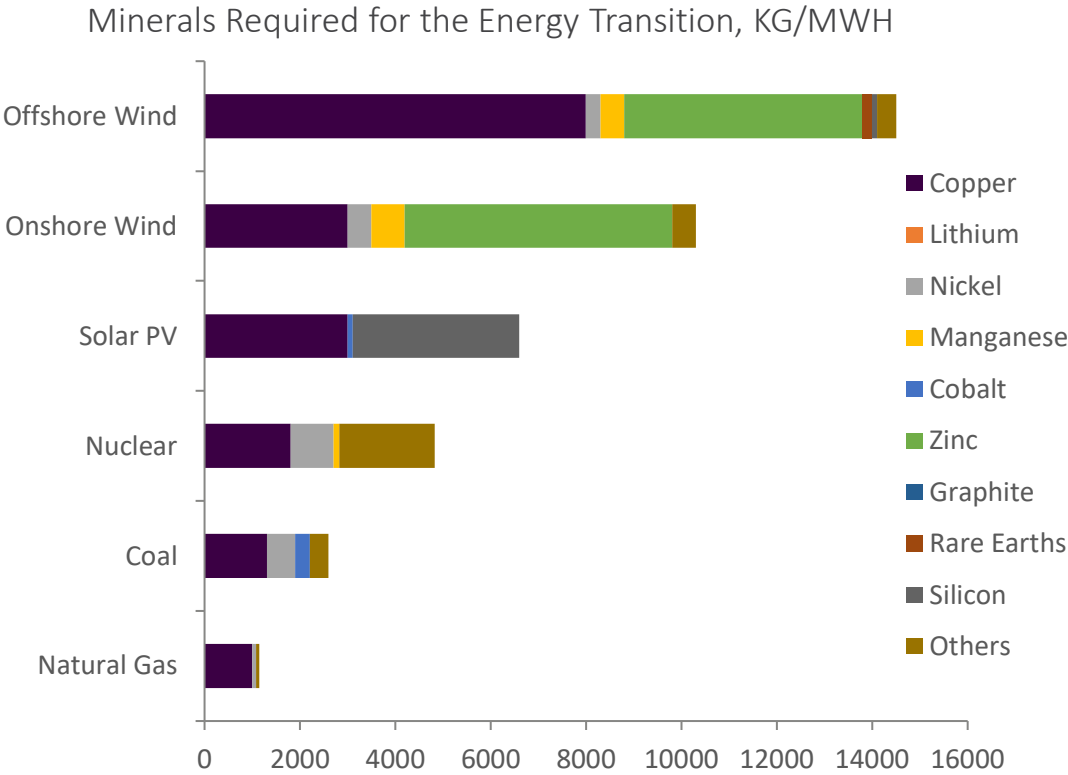


The Energy Transition Is A Mega-Theme

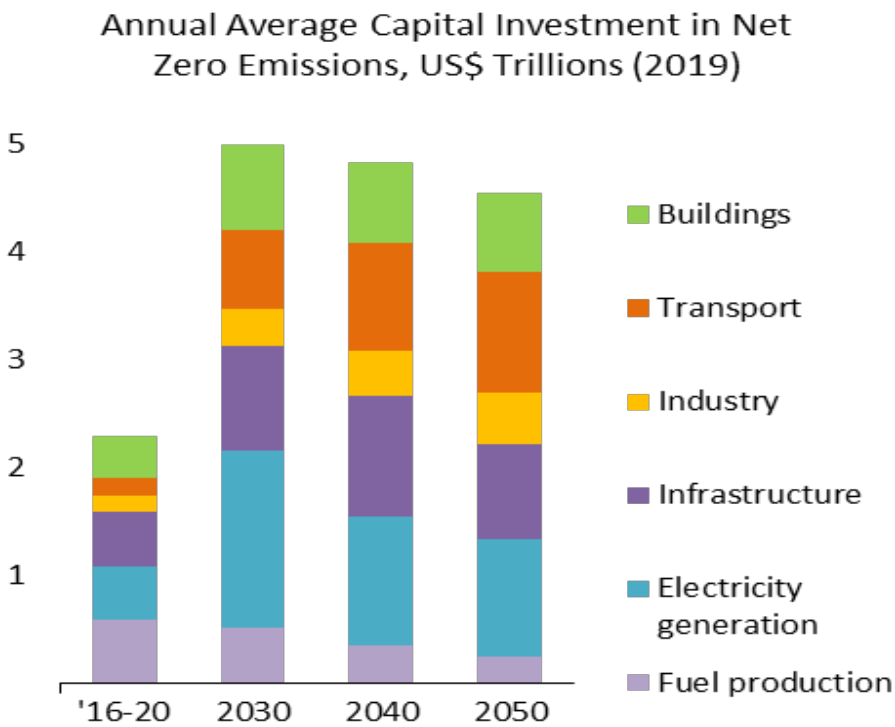
The energy transition will require huge amounts of capex. Like past energy transitions in history, we think there will be highly inflationary periods where demand for key variables exceeds supply

Critical Components Needed for the Energy Transition Will Likely Make This Transition a Bumpy One

Total Annual Capital Investment in a Net Zero Global Emissions Scenario for Energy Rises From 2.5% of Global GDP to About 4.5% by 2030



Data as at May 4, 2022. Source: IEA.

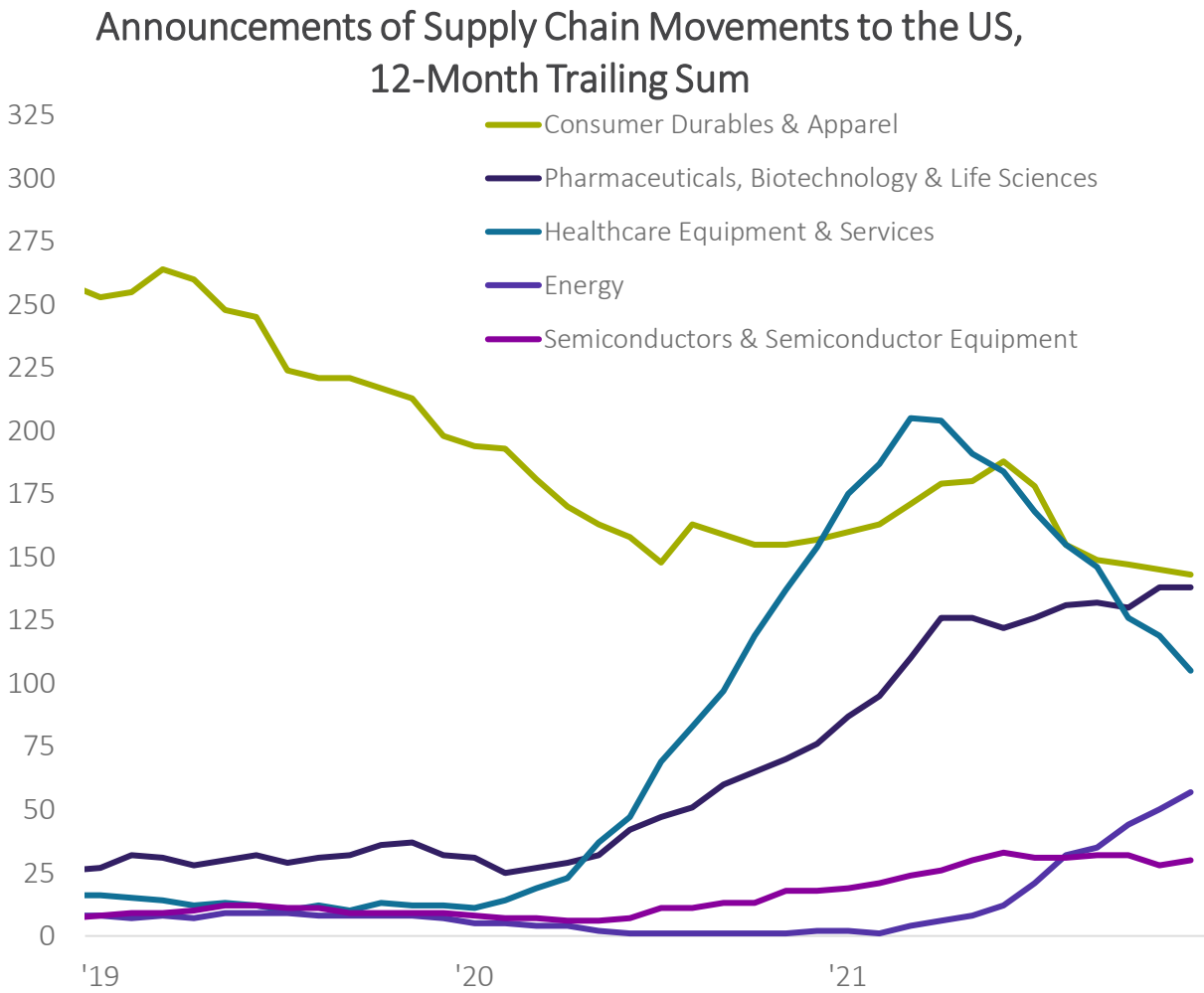
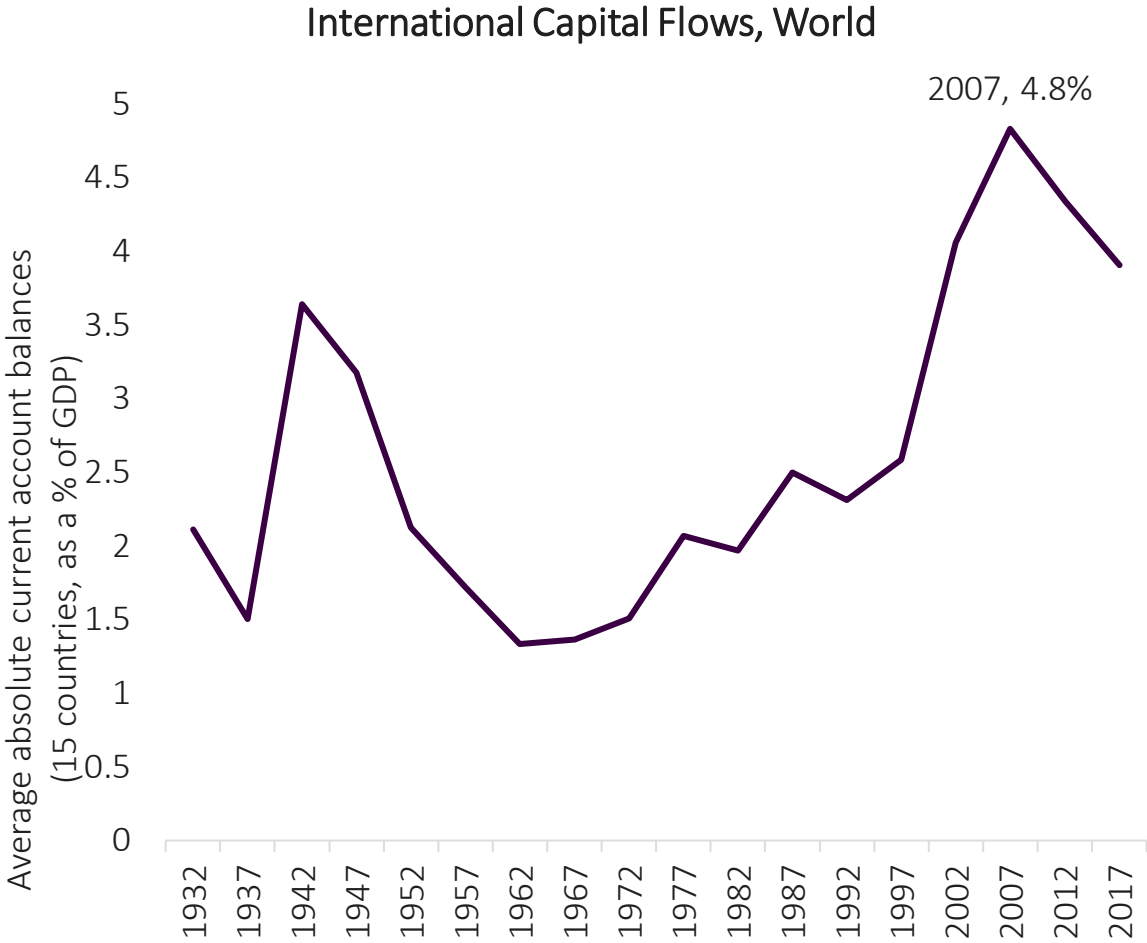


2030-2050 are estimates. Data as at April 2021. Source: Goldman Sachs Global Investment Research, IHS Global Insight.

Globalization Has Been Decelerating Since Early 2000s

International Capital Flows Have Not Reverted to their 2007 Peak

Supply Chain Reshoring to the US Continues

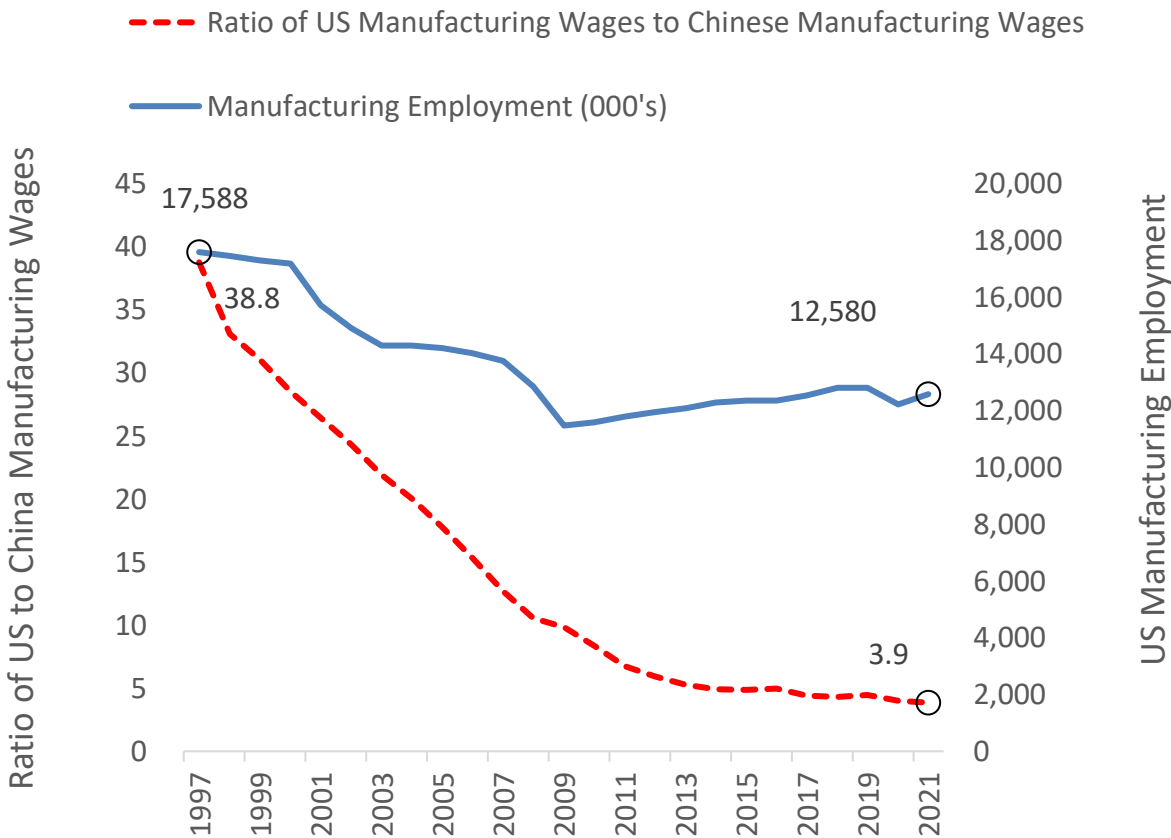


US Companies Have Been Reshoring Workers Since 2010

US Companies Have Been Gradually Reshoring Workers Since 2010



The Wage Gap With China Has Shrunk Considerably, US Workers Are Now More Sought After

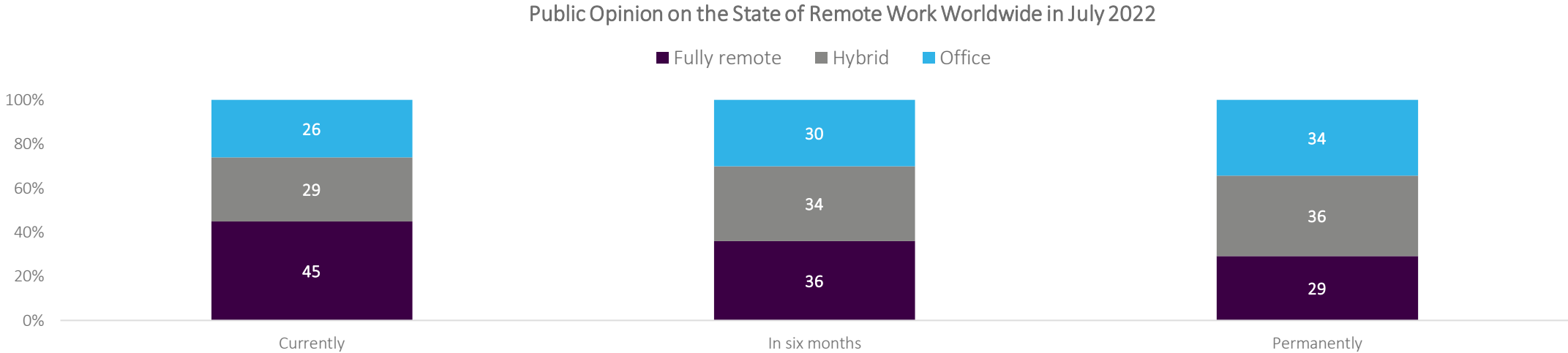


Top Factors Influencing Reshoring Decisions From 2021 to 2022

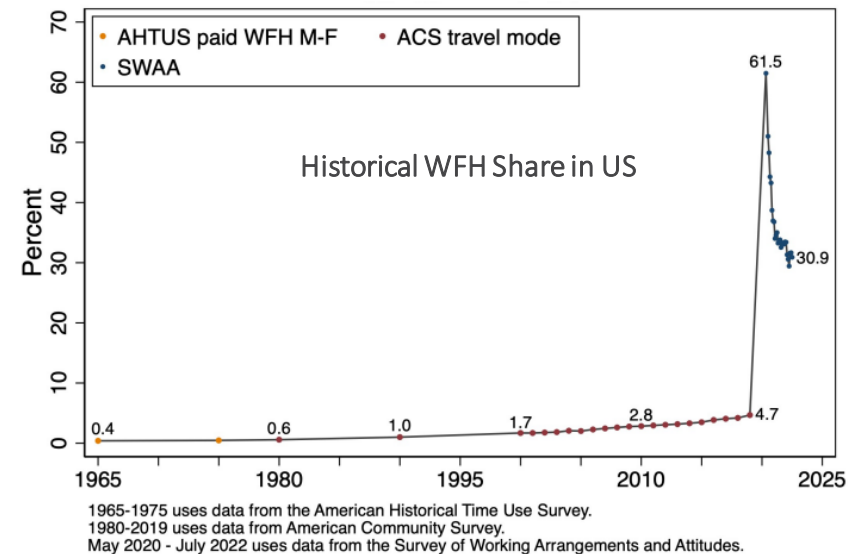
Government Incentives, Skilled Workforce Availability/Training, Supply Chain Interruption Risk/ Natural Disaster Risk/Political Instability, Proximity to Customers, Infrastructure

Work Arrangements that Incorporate Remote Access Are the New Normal In the US and Western Europe

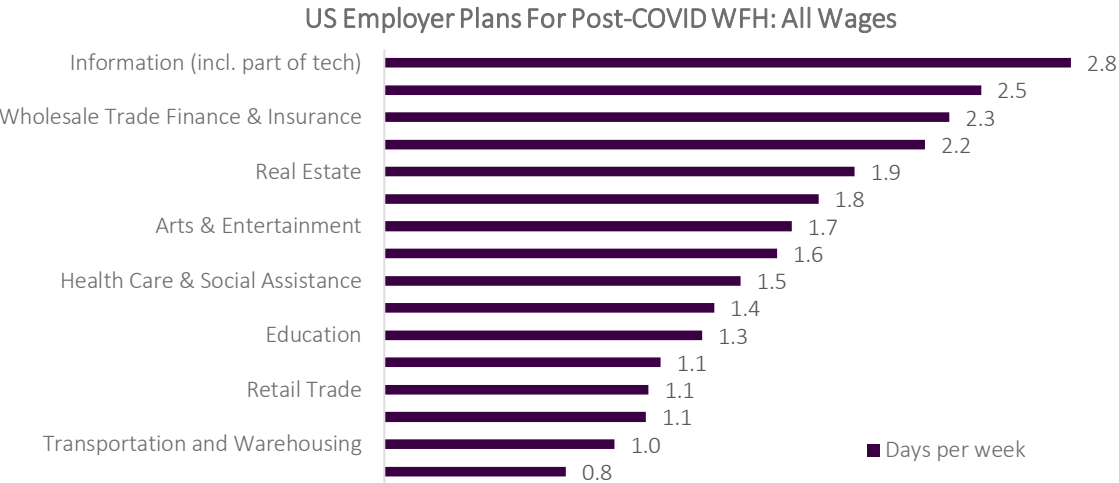
Global Public Opinion Suggests that Hybrid and Remote Work Arrangements Will Remain Popular Permanently, but the Office Is Far From Dead



Share of Workers Who Worked Remotely At Least One Day A Week Doubled Every 15 Years

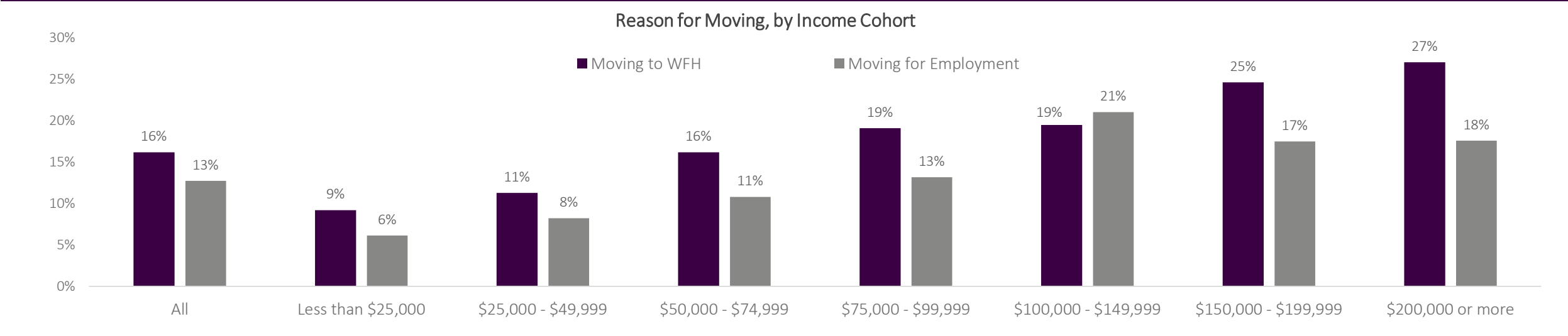


Employers Across US Industries Plan to Implement Remote Working Arrangements

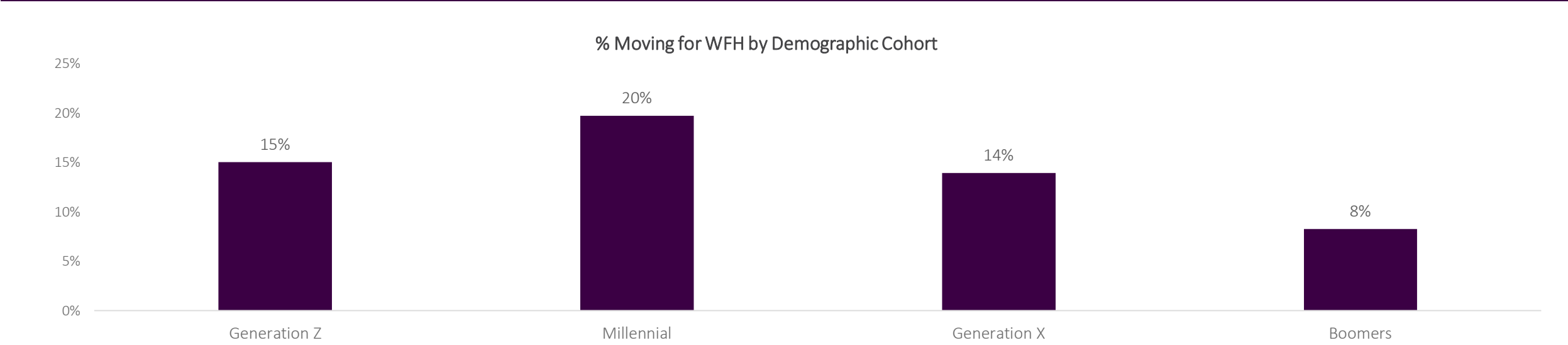


Our US Survey Results Reflected That Consumers Are Making Housing Decisions Based on WFH Plans

More Buyers Are Moving Away From Their Jobs Than Are Moving Toward Them



Younger Buyers Stand Out for WFH Trends



Our Work Suggests That We Have Entered a New Environment for Real Estate Investing

- 01 **We are experiencing a regime change.** We expect the higher 'resting heart rate' for inflation to persist. Higher inflation should support growth in nominal GDP, despite the mild recession we anticipate.

- 02 **Asynchronous recovery.** Rates are rising rapidly in the U.S. and Europe, but China and Japan have looser monetary policies.

- 03 **Lender's market.** Amid tightening financial conditions, it is currently a lenders market. That said, we expect global policy rates to peak this year.

- 04 **Bifurcation across assets.** Real estate returns differ markedly by sub-sector and market. Understanding secular themes – including ESG, location and asset size preferences, is key to identifying areas of conviction.

- 05 **All of this requires a rethinking of asset allocation.** Diversification and pacing matter. We advocate leaning into collateral-based cash flows.