KKR

# Thoughts From the Road

**EUROPE** | July 2026

As with past trips to this region, there is no material change to our long-held view that Europe's aggregate economic growth is likely to remain modest. Indeed, outside of the post-COVID stimulus-driven bounce, economic optimism around a sustained step-function increase in growth has never really been our macro call on Europe at KKR. We believe allocators waiting for a broad European renaissance to feel comfortable investing are asking the wrong question. The better question, we think, is where structural changes within the region are creating differentiated earnings growth and durable cash flows.


**Henry H. McVey**
Head of Global Macro & Asset Allocation, CIO of KKR's Balance Sheet
*henry.mcvey@kkr.com*

**Aidan Corcoran**
Managing Director, Co-Head of Global Macro
*aidan.corcoran@kkr.com*

**Bola Okunade**
Principal, Global Macro & Asset Allocation
*bola.okunade@kkr.com*

**Asim Ali**
Principal, Global Macro & Asset Allocation
*asim.ali@kkr.com*

Increasingly, that opportunity lies beneath the surface, which is one of the reasons we continue to get even more local in the region (including most recently opening our Milan office, which brings our total number of offices globally to 29). To this end, we note the following:

1. **First, dispersion within Europe are widening at a time of negative dispersion sentiment surrounding Europe at large.** From our vantage point at KKR, we see compelling structural tailwinds across defense, retirement and savings, health and wellness, experience-led consumption, and digitalization. In several of these areas, revenue and earnings growth increasingly resemble what we are seeing in stronger parts of the U.S. and Asia. On the other hand, traditional economic engines in Europe such as autos, energy-intensive manufacturing, and parts of Real Estate remain under pressure, a trend we expect to continue. Our bottom line: Consistent with our *Divergence Conundrum* thesis (see Mid-Year Outlook for 2026), Europe is not moving as one economy, and investors should not allocate to it as though it is.

2. **Our trip also reinforced that structural changes are helping the region absorb external shocks far better than in 2022.** More diversified energy sourcing, expanded LNG infrastructure, greater storage capacity, and increased renewable generation have improved Europe's ability to absorb volatility. Consider that German wholesale power prices averaged approximately €465 per megawatt hour during the fourth quarter of 2022; today, they are closer to €97. Europe still has less flexibility than the U.S. to look through energy inflation, but the region is much better positioned than it was several years ago (which is why we think that both central bankers and sell-side forecasters have often been too quick to make the recession call).

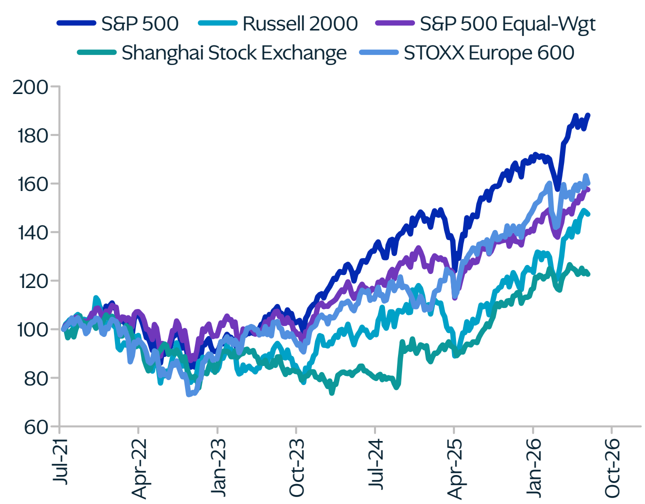
3. **Third, Europe is becoming an increasingly important market for private capital as it transitions from Capital Heavy to Capital Light.** There are two catalysts that feel more 'present' than in the past. First, corporates are under greater pressure to simplify portfolios, improve returns on invested capital, and reposition businesses for a higher-cost-of-capital environment. Second, governments now face rising demands to finance defense, energy security, digital infrastructure, and supply chain resilience at a time when public balance sheets are already stretched. Both trends point to a larger role for Private Equity, Infrastructure, Credit, Insurance capital, and Structured Solutions to meet the growing opportunity to create value through operational expertise, flexible capital, and long-duration investment. See below for details, but the smoke signals from the corporate sector this trip were clearly to find more ways to transition their businesses from complexity into simplicity.

4. **All eyes are on Germany and the U.K.** To date, the fiscal impulse around Germany has been slow to materialize. That said, Germany has announced one of its most comprehensive reform packages in decades, and our local teams are now telling us that investment has begun to accelerate across semiconductors, AI infrastructure, and venture capital. See below for details, but if Germany can successfully execute on this agenda, we believe the benefits could ultimately extend well beyond its own borders, supporting investment, productivity, and capital formation across much of Europe. Meanwhile, in the U.K., we await policy details from newly appointed Prime Minister Andy Burnham, with the possibility of reinvigorating the investment agenda (particularly private sector capex/infrastructure, given the fiscal constraints).

**What all this means for portfolio construction:** Against this macro backdrop, we continue to find a home for Europe in portfolios, including KKR's Balance Sheet, which today holds 29% of its assets in the region. We fully appreciate that it is more controversial to advocate for European allocations these days (especially to local Europeans). However, variant perception matters in investing, and the reality is that, as *Exhibit 1* shows, if we use the Euro Stoxx as a proxy for regional performance, Europe has bested most markets for some time more than enough to justify the risk (and this does not even assume an investor drilled down and allocated to the right themes). Some of this performance surprise is about fundamentals, but some of it reflects how overly cautious sentiment has been towards investing in this region of late. We also take comfort that as we look ahead, European earnings streams are increasingly diversified, as global markets become increasingly correlated to a 'market of one', which we define as the combination of AI and Financial Services. One can see this in *Exhibit 3.*

**Exhibit 1:** Despite Negative Sentiment, European Risk Assets Have Actually Been Performing Quite Well

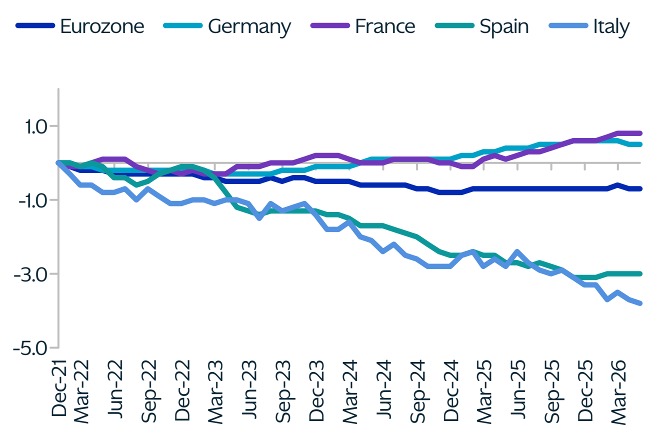
**Total Return (USD terms) (Indexed to 100 in July 2021)**




Data as at July 10, 2026. Source: Bloomberg.

**Exhibit 2:** While the Periphery Labor Markets Have Rebounded Well, the Core Still Needs to Regain Its Momentum

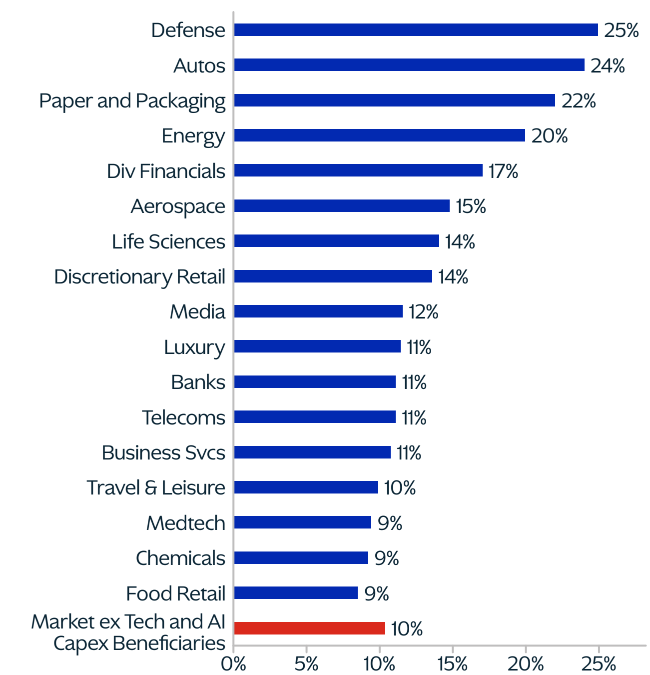
**Select Eurozone Countries: %Point Change in the Unemployment Rate Since December 2021**




Data as at April 30, 2026. Source: Eurostat.

**Exhibit 3:** Unlike Many Other Parts of the World, European Earnings Growth Is Becoming More Broad-Based

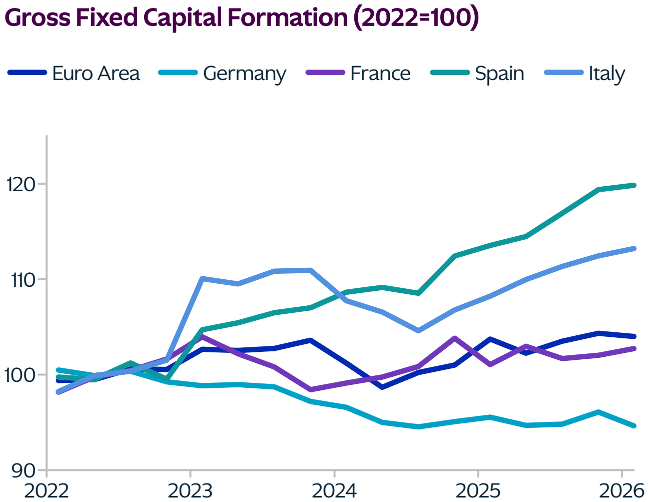
**European Sectors: 2026/27E Consensus EPS CAGR**




Data as at July 7, 2026. Source: LSEG Data & Analytics, FactSet, Morgan Stanley Research.

Many of Europe's traditional economic engines remain under pressure. Autos, for example, continue to face increasing competition from lower-cost Asian manufacturers. Meanwhile, low nominal GDP growth continues to weigh on parts of the Real Estate market, and coalition governments across the region often struggle to implement reforms at the pace investors would like. Against this backdrop, my colleague Aidan Corcoran's multi-year thesis that the "European periphery is poised to outperform the core this cycle" has exceeded even our expectations. This is shown in *Exhibits 2* and *4*, respectively.

**Exhibit 4:** Importantly, the Periphery Is Not Just Outperforming the Core on Better Employment Trends. Fixed Investment Patterns Show a Similar Bifurcation




Data as at 1Q2026. Source: Eurostat.

Rising debt burdens and higher defense commitments will make it increasingly difficult to fund Infrastructure and the broader 'Security of Everything' agenda through public balance sheets alone.

# Key Discussion Points From Our Most Recent Trip

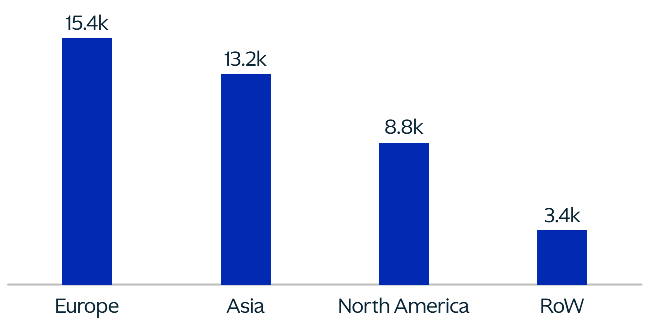
**Capital Heavy to Capital Light Is Becoming a Structural Theme.** One of the clearest messages from our corporate discussions was that European management teams are increasingly focused on simplifying operating footprints and improving capital efficiency. Importantly, the dialogue is becoming significantly broader and now extends well beyond traditional Private Equity and Infrastructure carve-outs. This viewpoint represents a new and important data point in our thinking.

European companies are considering joint ventures, Insurance capital solutions, Asset-Based Finance, and bespoke financing structures that can unlock capital, simplify balance sheets, and support long-term investment without requiring an outright sale. In our view, this is not simply a cyclical response to slower growth. Instead, it reflects a more structural shift in corporate behavior as higher capital costs, technological disruption, and greater geopolitical uncertainty place a premium on flexibility.

Europe's carve-out opportunity is particularly compelling. The region has greater corporate complexity, more conglomerate structures, and more non-core assets than many other developed markets. For investors with operational capabilities, these transactions can create opportunities to reset governance, install clearer incentives, improve procurement and working capital, and build standalone businesses with more durable cash-flow profiles (*Exhibit 5*).

**Exhibit 5:** Corporate Simplification Remains a Structural Opportunity Across Europe

**Number of Corporate Carve-outs by Seller Geography, 2022-24**

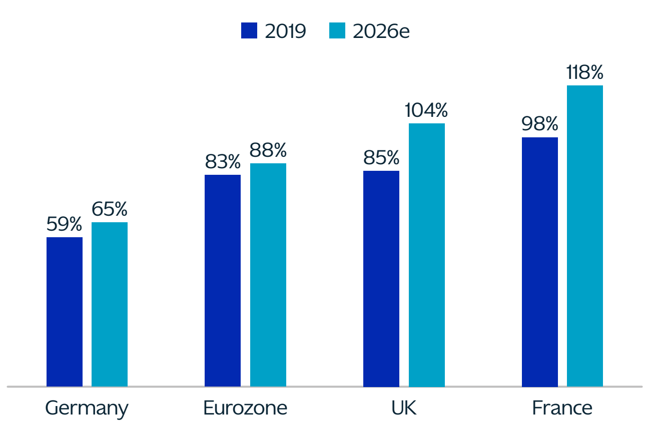



RoW is rest of world. Data as at 2024. Source: KPMG, "Winning the carve-out relay: From team selection to the finish line" (KPMG International, March 20, 2026).

At the same time, European governments are confronting similar challenges. Rising debt burdens and higher defense commitments will make it increasingly difficult to fund Infrastructure and the broader 'Security of Everything' agenda through public balance sheets alone. The above developments point to the same conclusion: Europe is likely to require significantly more private capital over the next decade, creating a broader opportunity set across Private Equity, Infrastructure, Credit, and Insurance.

**Exhibit 6:** Higher Government Debt Will Increase the Need for Private Markets Sources of Capital, in Our View

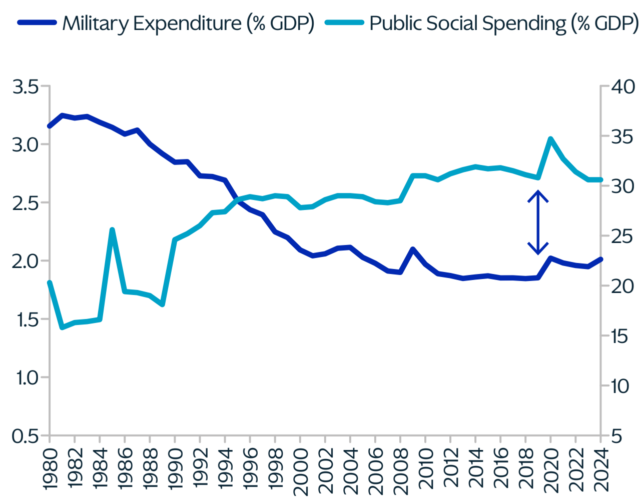
**Gross Government Debt to GDP, %**




Data as at April 15, 2026. Source: IMF.

**Exhibit 7:** Public Spending Has Always Been Substantial in Europe, But the Need to Increase Military Spending Will Strain Governments' Ability to Fund Infrastructure

**Defense vs. Social Expenditures as a % of GDP**

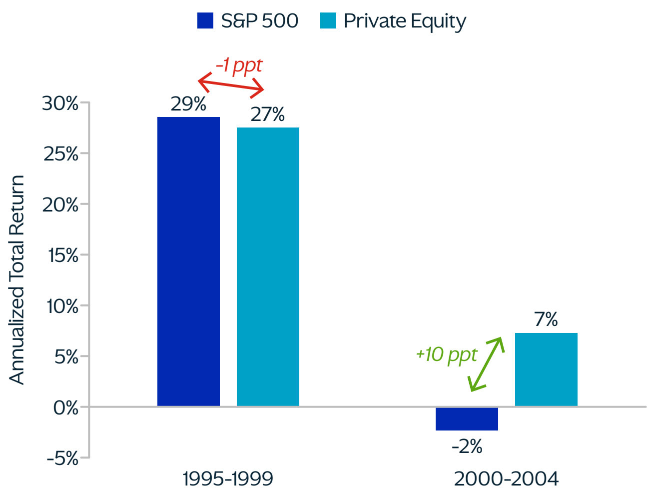



Data as at December 31, 2024. Source: BNP Paribas, Organization for Economic Co-operation and Development, Stockholm International Peace Research Institute.

**Allocators of Capital Are Focused On Realizations, the Durability of the Illiquidity Premium, and AI.** My client conversations centered on realizations, the durability of the illiquidity premium, and the implications of AI for portfolio construction. I reminded many of the investors with whom I spoke that during the 1995–1999 period, the illiquidity premium briefly turned negative before reverting sharply higher as Public Equities began to lag. As work by my colleague Brian Leunig highlights, history suggests these cycles tend to normalize over time rather than persist indefinitely. Interestingly, the AI discussion in Europe also appears to be evolving. Rather than attempting to identify precisely when AI-related spending will peak, many investors are increasingly focused on owning discounted businesses whose earnings can compound through the cycle, including insurance brokers, industrial companies, and housing-related businesses.

**Exhibit 8:** The Illiquidity Premium Has Historically Mean-Reverted Following Extended Public Equity Outperformance

**Private Equity vs. Public Equity Return (Proxy for Illiquidity Premium)**




Private Equity refers to both global buyouts and growth equity. Data as at December 31, 2004. Source: Bloomberg, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

Meanwhile, our discussions made clear that there is growing interest in more resilient, collateral-backed sources of return. Indeed, many European insurers with whom we spoke remain underweight Asset-Based Finance and Private Investment Grade Credit relative to their U.S. peers, reflecting what we believe is still an early stage in the evolution of portfolio construction across the region (*Exhibit 9*). As investors continue to reassess diversification and seek more contractual cash flows, we think those asset classes have the potential to attract a larger share of institutional capital over time.

**Exhibit 9:** European Insurers Are Lagging the U.S. in Private IG/Asset-Based Finance Adoption

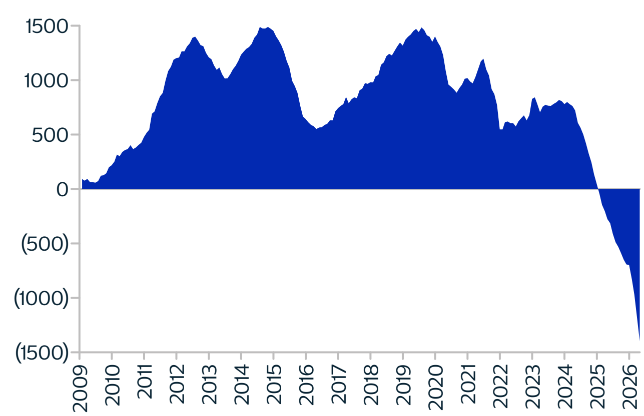
| Select Life Insurers by Country | Private IG as a % of the General Account | Private IG as a % of Private Assets |
|---|---|---|
| Italy | 0.39% | 4.16% |
| France | 0.60% | 3.70% |
| Germany | 1.73% | 8.63% |
| Average | 0.91% | 5.50% |
| United States | 16.5% | 42.7% |

Data as at December 31, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**China's Industrial Push Is Accelerating Europe's Response.** During our visit, we heard noticeably more concern from policymakers and executives about China's export strategy than on prior visits. We do not view this pressure solely as a headwind. It is also becoming a catalyst for restructuring, automation, portfolio simplification, and investment. Few economists today would advocate a return to the unrestricted trade openness that characterized the peak era of globalization, but neither are copious new trade barriers the solution, we believe. As Europe moves to confront the threat from Chinese export competitiveness, we think there needs to be a middle path that combines targeted trade protections with faster permitting, more flexible labor markets, worker retraining, increased capital formation, and incentives for companies to invest in productivity and strategic capacity.

**Exhibit 10:** China Is Undoubtedly Moving Up the Value Curve and Now Competes Directly With Germany

**Germany: Investment Goods Trade Balance with China (€Millions, 12-Month Moving Average)**

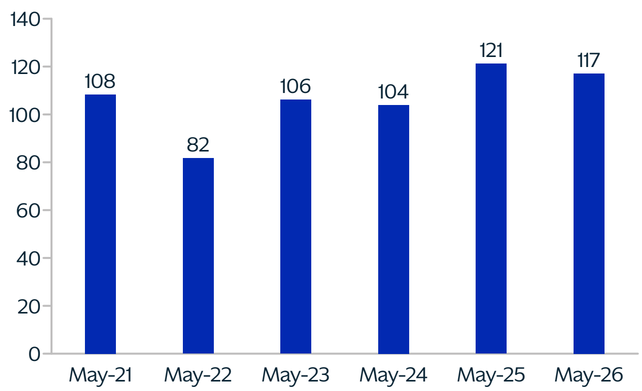



Data as at April 30, 2026. Source: Statistisches Bundesamt.

**While we expect France to strengthen its anti-dumping policy towards China, Germany will likely emerge as ground zero.** One can see the growing magnitude of its trade imbalance with China in *Exhibit 10*. Beyond restricting imports, we think the country may need to look inward and improve its own menu of growth offerings. Meanwhile, the German government has changed direction on defense and infrastructure, announcing spending plans of upwards of one trillion euros. However, deployment of capital has yet to catch up with the ambition of the announcements. In fact, aggregate government investment declined in 2025 even as markets became increasingly optimistic about the fiscal outlook. One can see this in *Exhibit 11*.

**Exhibit 11:** German Government Spending On Investment Is Actually Down From the Prior Year...

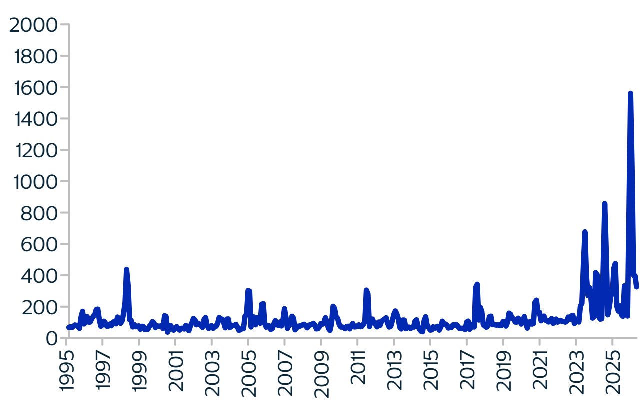
**Germany Trailing 12-Month Government Investment Spending, € Billions**




Data as at May 31, 2026. Source: Bundesministerium der Finanzen.

**Exhibit 12:** ...But the Defense Supply Chain Has Taken Off

**Germany Domestic Manufacturing Orders Volume: Weapons and Ammunition, 2 Month Moving Average, Pre-2022 Average = 100**




Data as at April 30, 2026. Source: Statistisches Bundesamt.

As part of this move, Germany announced a €500 billion infrastructure fund and €500+ billion of new spending allocated to defense. The importance is less the amounts and more the decision to permanently relax the fiscal framework governing defense and strategic investment by removing the debt brake constraints. In our view, Germany is finally trying to move from a philosophy of fiscal restraint to one of strategic investment, a shift that could reshape capital formation across Europe for years to come.

There are also early signs that the private sector is responding as well. As my colleague Philipp Freise recently highlighted, Germany has announced one of its most comprehensive reform packages in decades, while investment continues to accelerate across semiconductors, AI infrastructure, and venture capital. If Germany can successfully execute on this agenda, we believe the benefits will extend well beyond its own borders, supporting investment, productivity, and capital formation across much of Europe.

In our view, Germany is finally trying to move from a philosophy of fiscal restraint to one of strategic investment, a shift that could reshape capital formation across Europe for years to come.

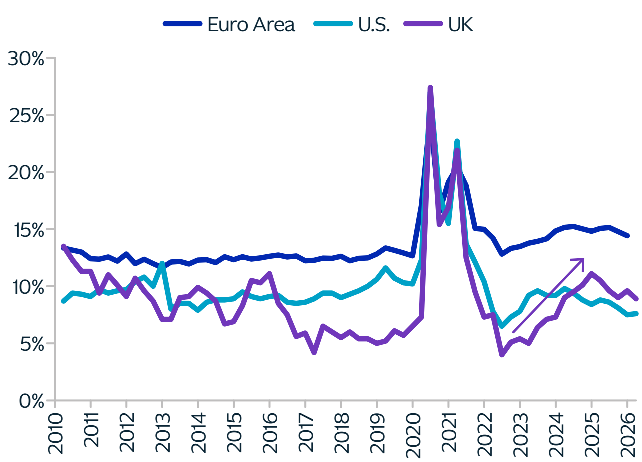
# Key Themes

Beneath the surface, rising dispersion is creating a broader and more differentiated opportunity set in Europe. Against that backdrop, several structural areas of the regional economy stood out. They are as follows:

**Mobilizing European Savings:** While in the U.S., many Americans continue to drain their savings accounts, Europeans are not following a similar pattern. As *Exhibits 13* and 14 show, European households not only are saving at more elevated rates, but they are also embracing an asset mix that is less productive. All told, European households are now sitting on €33 trillion of savings including €10 trillion in deposits. Therein lies the opportunity, we believe.

**Exhibit 13:** European Consumers Are Saving Even More Than Usual. We See This As a Substantial Opportunity for Wealth Advisors to Channel These Assets Towards a More Productive Asset Allocation Mix

**Savings Rates, %**

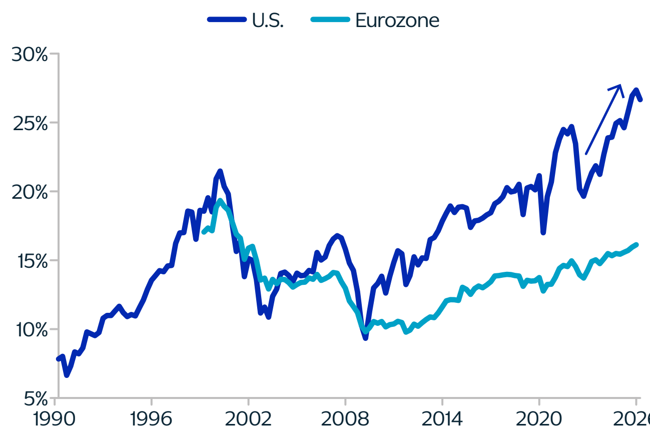



Data as at March 31, 2026. Source: U.S. Bureau of Economic Analysis, Eurostat, Office for National Statistics.

Beneath the surface, rising dispersion is creating a broader and more differentiated opportunity set in Europe.

**Exhibit 14:** Household Savings in Europe Are Largely Sitting in Deposits, With Only Modest Equity Allocations

**Equities as a Share of Household Assets, %**



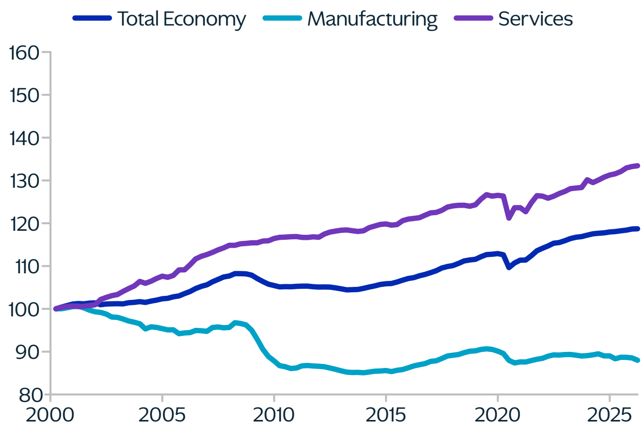

Data as at March 31, 2026. Source: Federal Reserve, European Central Bank.

European savers' over-commitment to deposits as well as the sheer size of the savings pool should serve, we think, as a catalyst for the region to embrace policies that utilize these assets in more productive ways. Moreover, in a world where tax laws and retirement security are growing in importance, the wealth management industry, including investment advice, is likely to see accelerating growth trends. In particular, a higher resting heart rate for inflation this cycle will likely increase the need for savers to migrate towards products with higher real returns.

**Europeans are Leaning Into Experience-Led Consumption and Wellness**. Watching both France and England win World Cup matches alongside local supporters certainly reinforced our 'Experiences Over Things' thesis. More seriously, our conversations across Italy, France, and the U.K. increased our conviction that middle- and upper-income consumers continue to prioritize travel, live entertainment, healthcare, wellness, and other services over traditional goods consumption. Indeed, as we show in *Exhibit 15*, services have accounted for an increasing share of employment growth over the past two decades, reflecting the region's broader transition towards an experience-led economy. At the same time, consumers continue to prioritize health and wellness, with the European wellness economy expanding at an approximately eight percent annual rate between 2019 and 2024 *(Exhibit 16)*. In our view, these trends support a more durable consumption backdrop and reinforce attractive long-term opportunities across travel, leisure, wellness, healthcare, and other experience-oriented sectors.

**Exhibit 15:** Services Have Absorbed an Increasing Share of European Growth, Underscoring the Economy's Shift Toward Experience-Led Consumption

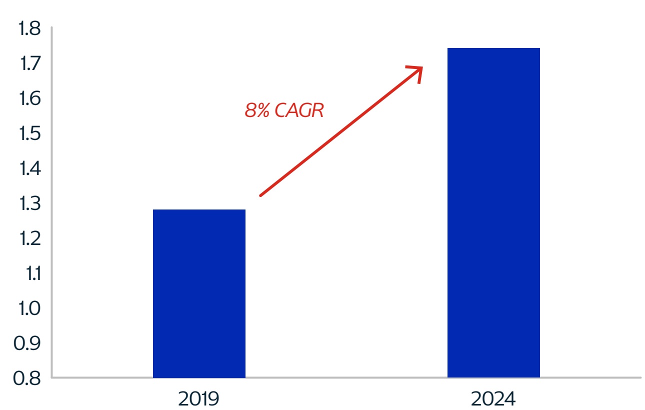
**Eurozone Employment, 1Q 2000=100**




Data as at 1Q 2026. Source: Eurostat.

**Exhibit 16:** European Consumers Are Allocating More Towards Wellness, With the Market Growing at an 8% CAGR Between 2019 and 2024

**Europe: Size of the Wellness Economy (USD Trillion)**

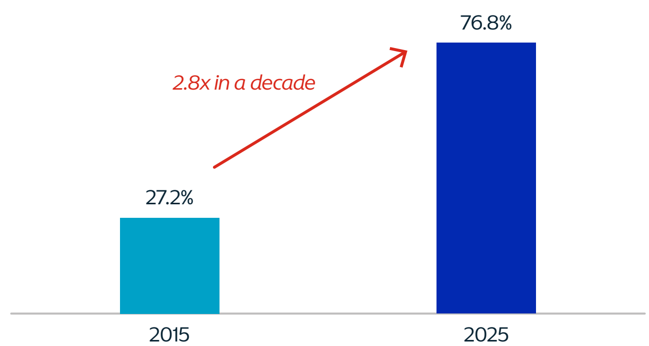



Data as at January 31, 2026. Source: The Global Wellness Institute.

**Digital Infrastructure.** Europe has largely solved the supply side of digital infrastructure, with fiber coverage approaching 80% of households after nearly tripling over the past decade *(Exhibit 17)*. With penetration still only around 42%, however *(Exhibit 18)*, there remains, despite a tripling of European fiber coverage, significant scope for higher adoption as consumers and businesses continue to digitize. As such, we think there continues to be an opportunity in improving utilization of existing assets rather than simply deploying more capital.

**Exhibit 17:** European Fiber Coverage Has Nearly Tripled in the Last Decade…

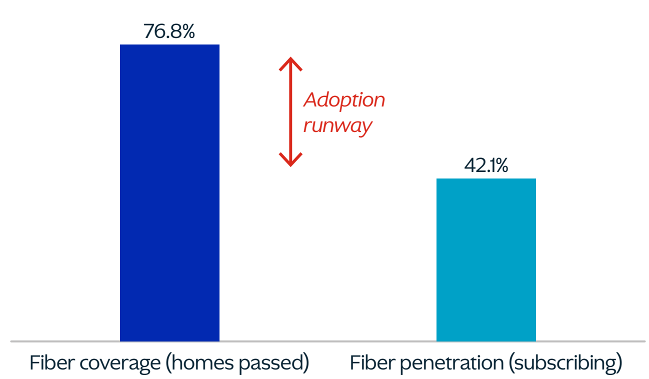
**EU 27+UK: Fiber Coverage, as a % of Households**




Data as at September 30, 2025. Source: FTTH Council Europe, Market Panorama.

**Exhibit 18:** …But With Penetration at Just 42%, There Is Still Durable Upside From Increasing Adoption

**EU27+UK: Fiber Coverage vs. Penetration, as a % of Households**

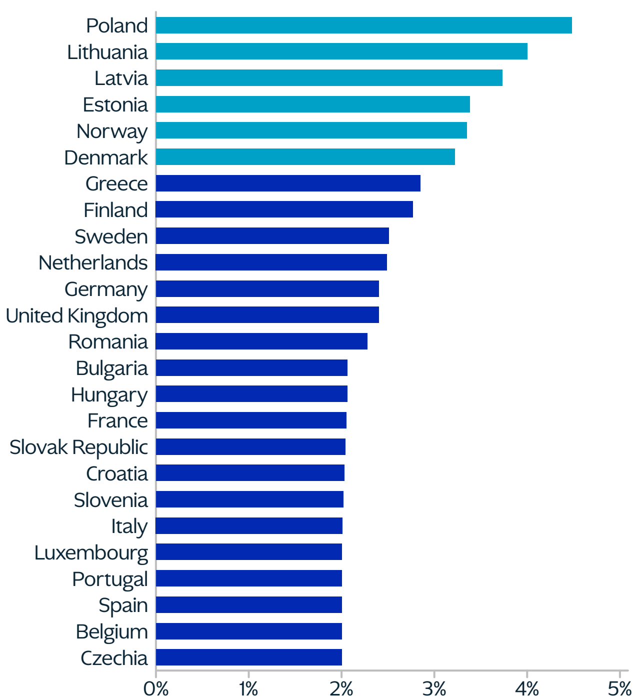



Data as at September 30, 2025. Source: FTTH Council Europe, Market Panorama.

**Security of Everything.** If there were one theme that consistently ran through our discussions, it was resilience. Today, 'security' is no longer limited to defense spending but increasingly encompasses energy independence, digital infrastructure, cybersecurity, communications, and supply chain security. Most European countries remain well below their long-term defense spending ambitions *(Exhibit 19)*, while cyber attacks continue to accelerate *(Exhibit 20)*. Together, these trends reinforce our view that the 'Security of Everything' is evolving into one of Europe's most durable long-term investment themes.

**Exhibit 19:** Most Countries Have a Large Gap to Close as Only Six European Countries Spent More Than 3% of Their GDP On Defense in 2025

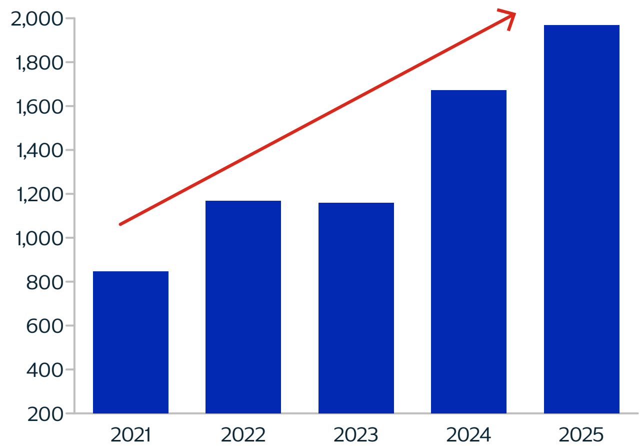
**2025e Defense Spending as a % of GDP, NATO Definition**




Data as at September 30, 2025. Source: North Atlantic Treaty Organization.

**Exhibit 20:** European Organizations Are Facing a Step-Change in Cyber Pressure as Average Weekly Attacks Have More Than Doubled Since 2021

**Europe: Average Weekly Cyber Attacks per Organization, 2021-2025**



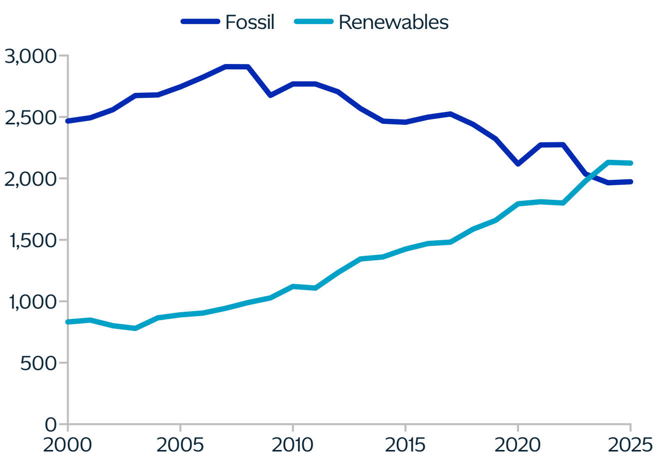

Data as at December 31, 2025. Source: Check Point Software Technologies.

As part of this overall theme, the energy transition has become a strategic imperative rather than simply an environmental one. Europe has already made significant progress reducing its reliance on imported fossil fuels, with renewable generation now exceeding fossil fuel generation *(Exhibit 21)*. The next challenge is execution. Grid infrastructure has not kept pace with renewable deployment, leaving more than 120 GW of planned capacity awaiting transmission upgrades *(Exhibit 22)*. In our view, this creates one of Europe's most compelling long-duration infrastructure opportunities as governments and private capital increasingly work together to modernize the region's energy system.

Europe has already made significant progress reducing its reliance on imported fossil fuels, with renewable generation now exceeding fossil fuel generation.

**Exhibit 21:** The Shift Towards Energy Independence Continues: Europe Now Produces More Energy From Renewables Than Fossil Fuels

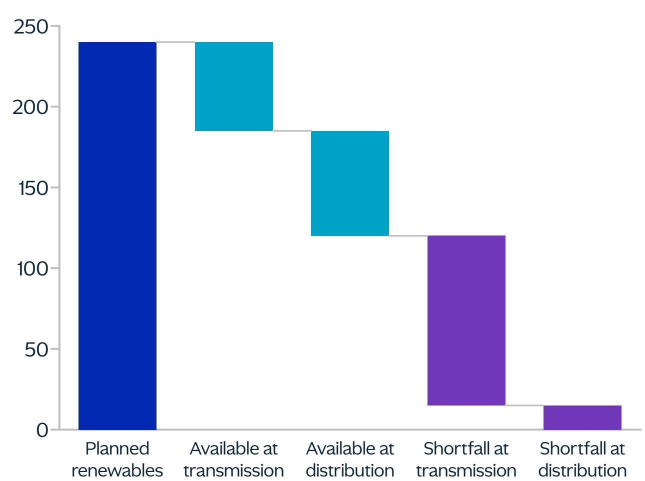
**Europe: Electricity Generation from Renewables vs. Fossil, TWh**




Data as at December 31, 2025. Source: Ember, KKR Global Macro & Asset Allocation analysis.

**Exhibit 22:** Successful Integration of Renewables Into the Grid Is Becoming Increasingly Critical, With at Least 120GW of Planned Capacity Now at Risk Due to Insufficient EU Grid Infrastructure

**EU: Expected Renewable Additions by 2030 Compared to Available Grid Capacity, GW**




Data as at December 31, 2025. Source: Ember.

# Conclusion

As we argued in our *Mid-Year Outlook for 2026, The Divergence Conundrum*, we are increasingly living in a world where dispersion, not direction, determines investment outcomes. Without question, Europe is becoming another manifestation of that thesis.

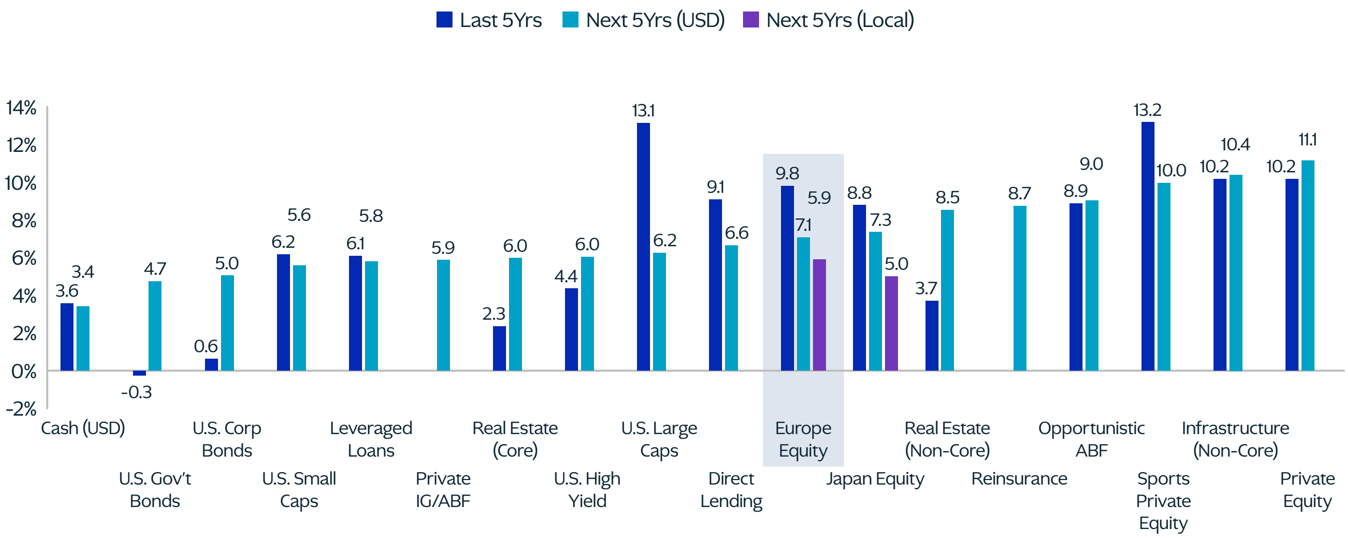
Across the region, we continue to see compelling opportunities where structural tailwinds intersect with operational execution. Corporate simplification is creating new avenues for Private Equity, Infrastructure, and Structured Capital. Governments increasingly need private capital to finance Defense, Energy Security, and Digital Infrastructure. Household savings remain abundant but underutilized. The periphery continues to strengthen, while Germany appears to be moving from fiscal announcements towards implementation.

Notably, none of these opportunities require Europe to become a high-growth economy. They require capital to be allocated more efficiently, private investment to complement public investment, and companies to execute on long-term structural change. In our view, this is precisely the type of environment where active management, operational expertise, and flexible capital should outperform.

In a world where expected returns are becoming increasingly compressed and broad beta is likely to become less reliable, Europe offers something increasingly valuable: a diverse set of structural opportunities where disciplined investors can still generate differentiated returns. This argument is particularly relevant as U.S. market leadership and investor positioning have become increasingly concentrated in a 'market of one' (*Exhibit 24*). The ratio of momentum to low volatility stocks is approaching levels last seen around the Tech bubble, underscoring the need for greater style, sector, geographic, and asset-class diversification. Further, European Equities are screening highly attractively from a valuation perspective compared to the U.S. *(Exhibit 25)*. Ultimately, we continue to think Europe will reward investors who focus less on the region's headline GDP growth and more on where capital, productivity, and structural reform are creating differentiated opportunities beneath the surface.

**Exhibit 23:** We Continue to Think Expected Returns Over the Next Five Years Will Look Quite Different From the Past Five Years

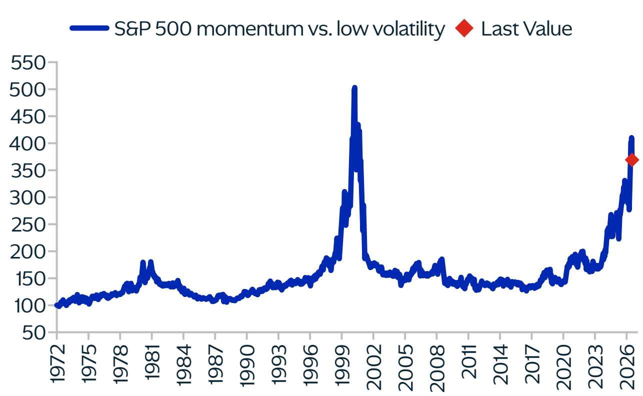
### Expected vs. Historical Returns, %




Last 5 Year return from April 30, 2021 to April 30, 2026 for consistency across asset classes (Private markets as at Q4 '25). **Past performance is no guarantee of future results.** Source: Bloomberg, PitchBook, NCREIF, Ross Arctos Sports Index, BofA, Burgiss, JPM, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

**Exhibit 24:** The Ratio of S&P 500 Momentum vs. Low Volatility Stocks Is Nearing Tech Bubble Peak. As This Trend Continues, We Are Increasingly Looking for Diversification Across Regions and Asset Classes

### Relative Performance S&P 500 Momentum vs. Low Volatility Stocks




Data as at July 9, 2026. Source: Bloomberg, Goldman Sachs Global Investment Research.

**Exhibit 25:** More Compelling Entry Points Are Emerging in European Equities

### Global Equity Valuations and Implied Growth Expectations

| | NTM P/E | LTM Dividend Yield | Embedded EPS Growth* | % Value From Future Growth^ |
|---|---|---|---|---|
| **S&P 500 (Large-Cap)** | 20.2x | 1.1% | 13.9% | 51% |
| **S&P 600 (Small-Cap)** | 15.8x | 1.5% | 14.9% | 37% |
| **STOXX Europe 600** | 15.0x | 3.0% | 4.4% | 34% |
| **MSCI EM** | 10.5x | 2.0% | 12.0% | 5% |

*Based on a 2-stage dividend discount model that backs out the long-run earnings growth rate that would justify today's valuations. ^We estimate the value of a company's current business using a zero-growth perpetuity (EPS ÷ 10% required rate of return) and treat the remainder of the stock price as the market's implied value of future growth. Data as at July 15, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation.

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**Kohlberg Kravis Roberts & Co. L.P.**
30 Hudson Yards
New York, New York 10001
+ 1 (212) 750.8300
**www.kkr.com**