

# Thoughts From the Road

EUROPE | November 2025

Over the past few weeks I've traveled through London, Edinburgh, Madrid, and Paris, visiting with government officials, policymakers, deal teams, and investors. My colleague Aidan Corcoran, who leads international macro, joined me for much of my journey across Europe. See below for details, but our bottom line is that the optimism from our trip in March has been tempered a bit, or at least it feels more measured on a *relative* basis, given how fast executive orders are being announced these days in China, the United States, and the Middle East relative to Europe. To be sure, there is no shortage of attractive investment opportunities in Europe, but political realities, regulatory considerations, and consensus thinking are acting as relative impediments in a world where the pace of change is surely accelerating.



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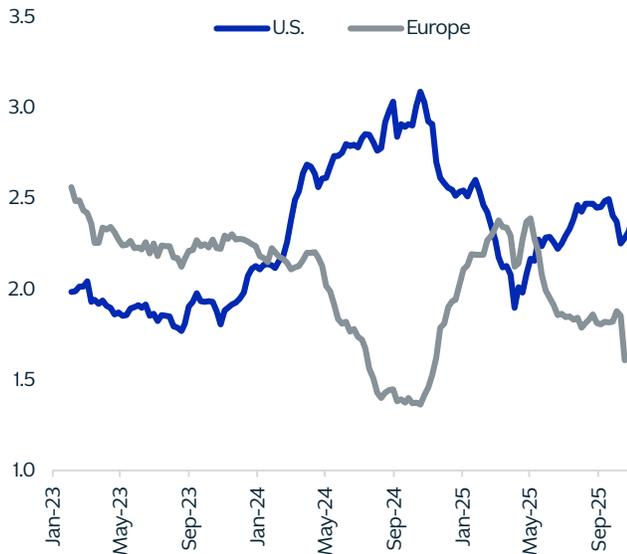
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**Exhibit 1:** European Valuations Relative to Earnings Growth Are More Attractive Than in the U.S.

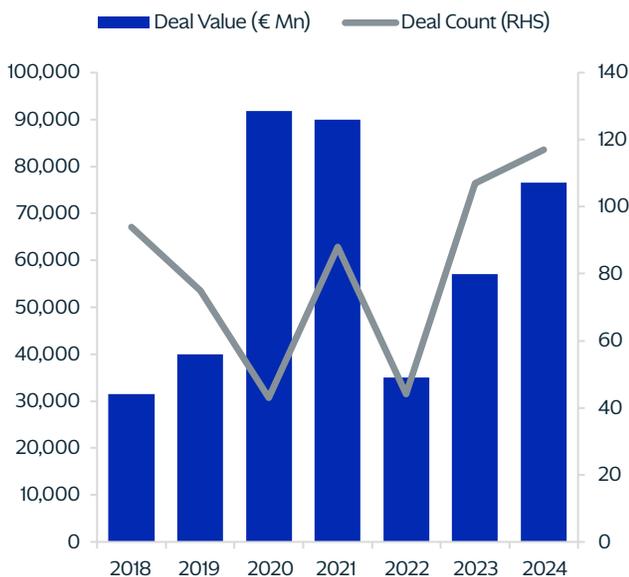
**Europe vs. U.S.: PEG Ratio, NTM PE/3-Year Forward EPS Growth**



Data as at October 31, 2025. Source: Bloomberg.

**Exhibit 2:** While European Public Market Investors Continue to Fret, Private Activity Has Been Strong

**Europe: Take Private Transactions**



Data as at January 30, 2025. Source: Sullivan & Cromwell.

That said, we still think that European risk assets are likely to continue their positive momentum in 2026, as Europe's valuation gap relative to growth (*Exhibit 1*) and underweight positioning by the investment community are creating significant opportunities, especially on the private side, while the ECB's policy impulse is now reaching the real economy, thus making financial conditions less restrictive.

Our *Thoughts From The Road* are as follows:

1

Europe's earlier sense of unbridled optimism has given way to a more pragmatic reality.

During our meetings, policymakers and corporate executives alike struck a more pragmatic, restrained tone surrounding the 'European renaissance', a contrast to the optimism we encountered earlier in the year (see *Thoughts From the Road: Europe and the Middle East*). To be sure, Germany's investment in Infrastructure and Defense should meaningfully unlock value and innovation, but messy politics in the region, especially as it relates to spending versus taxes, are adversely affecting momentum in countries such as France and the United Kingdom, and as a result, are likely deferring the growth impulse. Against this backdrop, we have revised our 2026 Euro Area GDP growth forecast to 1.1% from 1.3% (see below for details).

2

There are several key areas where European policymakers need to turn up the heat, we believe.

For starters, we learned that only about 40 of the roughly 400 recommendations in the Draghi report have — to date — been implemented. Meanwhile, AI capex is running at

around \$40 billion or so, about one tenth the pace we are seeing in the U.S. Higher energy costs — double in some European and U.K. sectors compared with the U.S. and the Middle East — are acting as a deterrent, and outside of France, we did not hear a clear rallying cry in this area. Maybe most telling, though, is that while Europe is making some progress in capital markets reform, the U.S. and other regions are moving just as quickly. As such, the gap has not narrowed in the way many had hoped.

### 3

That said, despite the slower pace of economic change, deal activity in the region has actually been quite robust.

The reality is that many of our biggest investment themes, including Security of Everything, Capital Heavy to Capital Light, and Productivity Enhancements/Worker Retraining have actually gained momentum amidst Europe's more sluggish economic recovery. A common thread as we traveled around Europe was the need for private capital as companies look to reposition for growth and governments search for partners to fill sizeable funding gaps that have existed since COVID (*Exhibit 7*). Indeed, all told, this year KKR expects to hit \$25 billion in new deployments in EMEA across our various strategies. Looking ahead, we left feeling optimistic about additional opportunities in Structured Equity deals, corporate carve-outs, family-transition opportunities, and public-to-private transactions. Finally, Infrastructure activity in both core and large opportunistic deals remains above trend again heading into 2026.

A common thread as we traveled around Europe was the need for private capital.

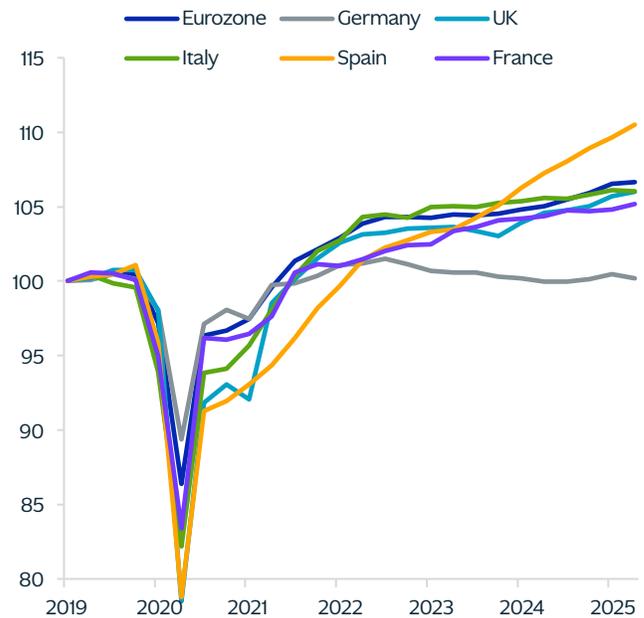
### 4

Our visit across the region again reinforced our view that the periphery continues to outperform the core.

This is a theme Aidan has been emphasizing for some time, and one stock markets have now caught up to. All told, the periphery's stocks have outpaced the core's by over 100% since 2021. That's a big number; yet, despite such strong outperformance of late, we see this trend continuing on a relative basis.

**Exhibit 3:** Europe's Periphery Has Been Outperforming Since COVID

**Real GDP: Selected Eurozone Countries, 1Q 2019=100**



Data as at June 30, 2025. Source: Eurostat.

**Exhibit 4:** Stocks With Periphery Exposure Have Outperformed Those With Core Exposure by Over 100% Since 2021

**Periphery Exposed vs. Core Exposed Stocks:  
Relative Performance, 2020=100**



Data as at November 6, 2025. Source: Bloomberg, UBS.

# 5

Unlike in the U.S. (where there is more debate about the easing cycle), there is an emerging consensus amongst policymakers and investors that the ECB's easing phase has now run its course.

The June depo rate-cut to 2% likely represents the final move this cycle, with policymakers signaling increasing comfort that the ECB's monetary transmission is functioning as intended, including financial conditions now being less restrictive. Meanwhile, inflation has normalized sharply, just above the ECB's target, although fiscal expansion in parts of the bloc could introduce modest upside risk later in 2026, we believe.

# 6

Meanwhile, in the U.K., the conversation has shifted markedly towards fiscal policy and the government's shrinking room to maneuver.

Since the Spring Statement in March, when the Chancellor, Rachel Reeves, appeared to preserve £10 billion of fiscal headroom, the outlook has deteriorated sharply. All told, a fiscal hole of roughly £20-30 billion is now expected in the fall, driven by anticipated productivity downgrades, higher gilt yields feeding through to debt-service costs, and several policy U-turns. Against this backdrop, the upcoming Budget will be a key test as the Chancellor works to deliver a credible path towards fiscal consolidation while balancing the government's pro-growth objectives and political commitments.

# 7

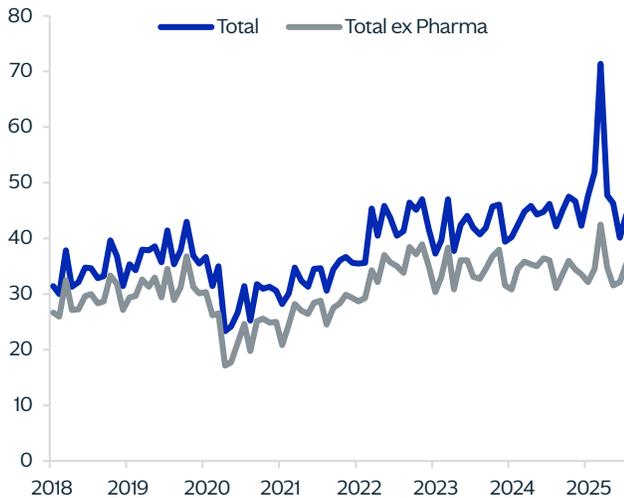
During our visit we spent time with some of the leading family offices from around the world, who met with us in Paris to discuss key investment trends.

Our roundtable discussion, which was led by Alice Bush from our Family Capital Client Solutions team, highlighted a few things to us. First, this group of investors tend to think and invest like business owners: they are willing to lean into dislocation, and they appreciate KKR's balance sheet alignment. Second, there was a lot of formal and informal discussion of upside productivity potential of AI from many, though there was a growing chorus that equity valuations as well as credit spreads linked to this thematic are now getting excessive. We remain optimistic about the future of the AI, but we stick to our view that

counter-party high-grading is required at this point in the cycle. Additionally, while family offices have not changed allocations, most want to do more in Asia. We remain highly supportive of this regional re-allocation, given our view that it will run further and faster than many think. Europe and the U.S. were also cited as key areas of interest. Meanwhile, Liquid Credit and Cash were mentioned as the primary sources of funds to make these re-allocations. In addition, family offices are generally underweight Infrastructure, and as such, have begun to increase allocations to this asset class. Finally, Buyouts and other forms of Structured Equity were cited as potential areas of interest.

**Exhibit 5:** The Earlier Surge in Exports to the U.S. Has Now Fully Retraced

#### EU Exports to the U.S., EUR Billions

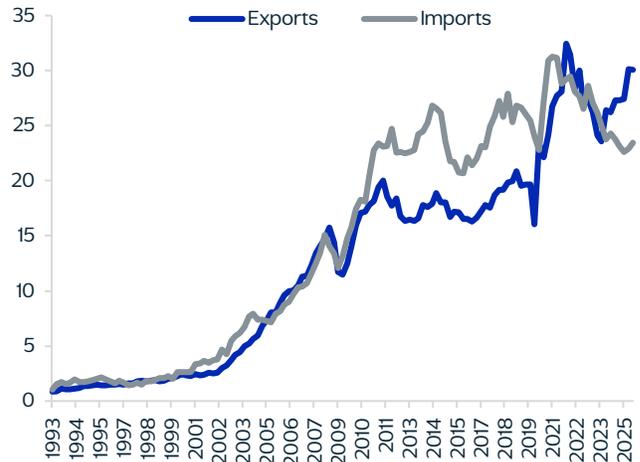


Data as at July 31, 2025. Source: Eurostat.

The upside potential is actually quite substantial, we believe, as global investors are overweight the U.S. and are actively looking for reasons to diversify net new flows.

**Exhibit 6:** At the Same Time, Germany Has Seen a Sharp Pickup in Imports From China and Continued Pullback in Exports

#### China: International Trade with Germany, 3-Month Moving Average, US\$ Billions



Data as at September 30, 2025. Source: General Administration of Customs.

Looking at the big picture, we think several things stand out about the region. First, we think the key to Europe for allocators hinges on identifying the right themes and operational improvement stories, not relying on a major macro upswing in GDP. Indeed, given that Europe appears cheap relative to its growth, especially relative to the U.S. (*Exhibit 1*), we are not surprised to see deal volume accelerating. Importantly, this is unfolding at a time when most global investors are overweight the United States by 400–600 basis points in their portfolios. As such, the combination of an extremely favorable technical picture and a reasonable, albeit unspectacular, fundamental outlook likely means the direction of travel for markets is still higher in 2026.

So, where do we go from here? Of all the meetings we had in recent weeks, our conversations with government officials, CEOs, CIOs, and private sector investors across the continent, and especially in France, reinforced our highest conviction piece of advice: ‘Carpe Diem.’ Specifically, Europe collectively (i.e., both the public and private sectors in tandem) needs to create a more united financial services system, bolster its capital markets (i.e., rebuild a securitization market that attracts foreign capital), embrace more corporate sector reform in the private

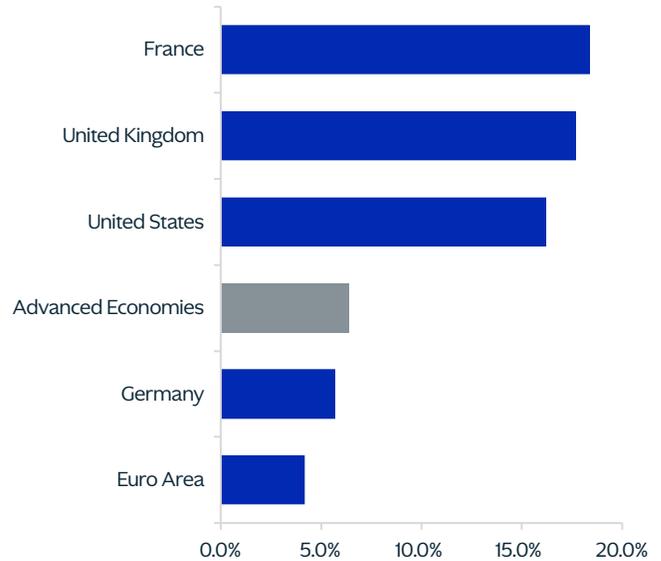
sector (e.g., take a page out of Japan's playbook), fix its debt overhang, gain more technological expertise/lower its energy costs (*Exhibit 8*) and encourage consumption over savings. It also needs to communicate its story better to investors, given the ongoing blurring we are seeing between economics and national security.

The upside potential is actually quite substantial, we believe, as global investors are overweight the U.S. and are actively looking for reasons to diversify net new flows. The reality is that China under President Xi Jinping and the U.S. under President Trump are moving at near-warp speed. The blurring that we have been discussing for some time between national security and economics is now extending in both directions: the public sector is taking more stakes in private companies (e.g., Intel), while governments around the world are simultaneously offloading certain sectors, including Infrastructure, Space, and Defense to the private sector. We think Europe will need to act decisively to seize this critical moment to reform, restore fiscal discipline, and unleash a more dynamic private sector to avoid falling further behind. This will require a focus on both policy delivery and implementation.

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**Exhibit 7:** Advanced Economies Have Seen Government Debt Ratios Swell by Around Six Percentage Points Since COVID, With the U.K., the U.S., and France Standing Out as the Most Aggressive Borrowers

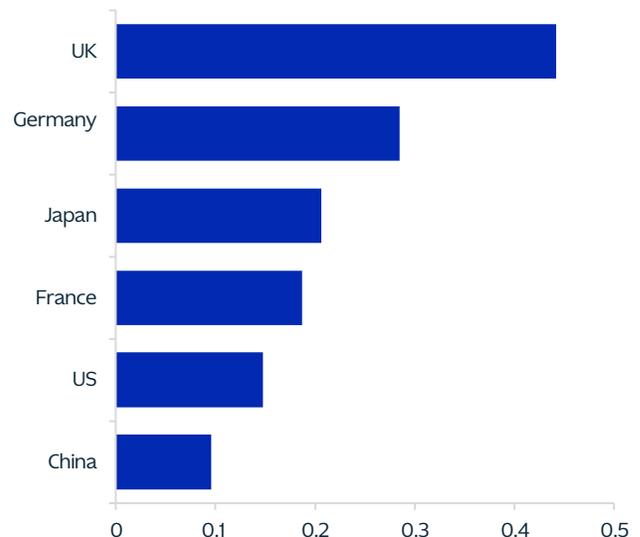
#### Government Debt to GDP %: Percentage Point Change From 2019 to 2025



Data as at October 31, 2025. Source: IMF.

**Exhibit 8:** Europe Continues to Contend With an Energy Cost Structure Far Above That of Other Major Economies

#### Business Electricity Prices, USD/kWh, 2023 - 3Q25 Average



Data as at September 30, 2025. Source: Global Petrol Prices.

Looking at the bigger picture, our European trip reinforced our structural view that we are in a *Regime Change*, where heightened geopolitics, bigger deficits, a messy energy transition, and sticky services inflation all suggest a different kind of environment for investing. Against this backdrop, we are seeing a much more asynchronous global recovery, one defined by rolling recessions and rolling recoveries. This viewpoint represents a dramatic shift from prior decades where the U.S. consumer would lever up, spend, and reward the rest of the world, including Europe, with demand for its unique goods and services. Today, by comparison, we think that investors will need to 'make their own luck' by focusing more on operational improvement stories, turnarounds, and structures that leverage relative value across geographies and capital structures. Within Europe's complex web of political and economic strains lies the opportunity, we believe.

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## Details

### Update on GDP growth: Slower on the margin in 2026.

As we noted earlier, Europe's reform agenda remains in motion, but it is far from complete. Indeed, just over a year after the release of the Draghi Report, only a fraction of its nearly 400 recommendations have been implemented. The report laid out a clear path to improving productivity, investment, and competitiveness, but momentum has been uneven and often diluted by political and institutional fragmentation. Some progress on capital markets reform has occurred, yet the gap with the U.S. is widening rather than closing. The U.S. continues to press ahead with measures to deepen its capital markets, channel private investment into long-term savings, and roll back parts of its banking regulations. Meanwhile, the EU lags the U.S. in AI funding, with spending at roughly 10% of the U.S. level.

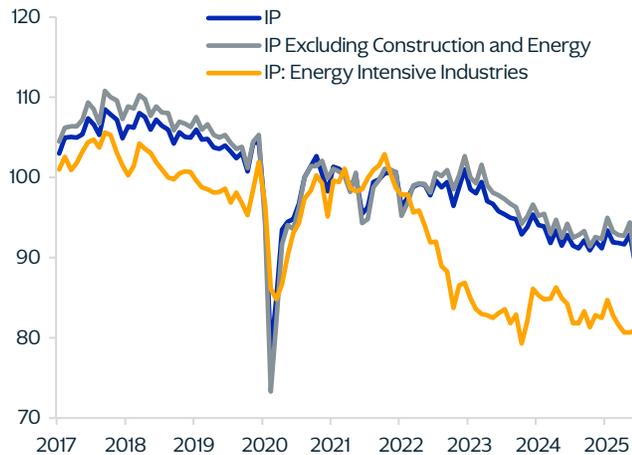
As for good news, there's little doubt that Germany's fiscal expansion will lift GDP growth domestically and across the Euro Area. However, industrial production continues to disappoint, reflecting both cyclical softness and ongoing structural challenges. Thus, while we came away from our meetings still constructive on the direction of policy, we are, as alluded to earlier, more cautious on execution, given the political headwinds. Here is what we learned:

- The €500 billion infrastructure program is notably front-loaded, with more than half of the funds expected to be deployed within the next five years, well before the halfway point of the twelve-year plan.
- Also, the composition of fiscal spending appears more domestically focused than in previous cycles. Of the €80 billion in defense contracts Germany plans to approve between late 2025 and the end of 2026, roughly €70 billion is expected to stay in Germany, compared with about half in earlier programs going to U.S. suppliers. This should help underpin near-term activity, though questions remain about administrative capacity and how efficiently funds will be spent.
- One positive to consider relative to today's sluggish domestic manufacturing trends is that low capacity utilization in the region (*Exhibit 10*) will likely give domestic firms room to scale up production as new orders emerge, particularly in Defense-related and

Infrastructure sectors. In our view, this flexibility will position German industry to respond more dynamically once fiscal spending and demand feed through.

**Exhibit 9:** Adversely Affected by Sluggish Global Demand, Industrial Production in Germany Remains Quite Weak

#### Germany: Industrial Production, 2021=100



Data as at August 31, 2025. Source: Statistisches Bundesamt.

**Exhibit 10:** Capacity Utilization Is Near GFC Levels, Signaling Significant Slack in Production

#### Germany Capacity Utilization: Manufacturing, Excluding Food, Beverages, Tobacco, %



Data as at October 31, 2025. Source: Ifo.

A stronger near-term growth impulse from Germany should support Euro Area resilience, but the risk-reward mix will hinge on the pace of structural reform, execution, and how quickly the rest of Europe translates the policy and fiscal momentum into actionable gains. **Accordingly, we've trimmed our 2026 Eurozone growth forecast to 1.1% from 1.3%, a modest adjustment that reflects timing, not a change in trajectory, with demand deferred into 2027.**

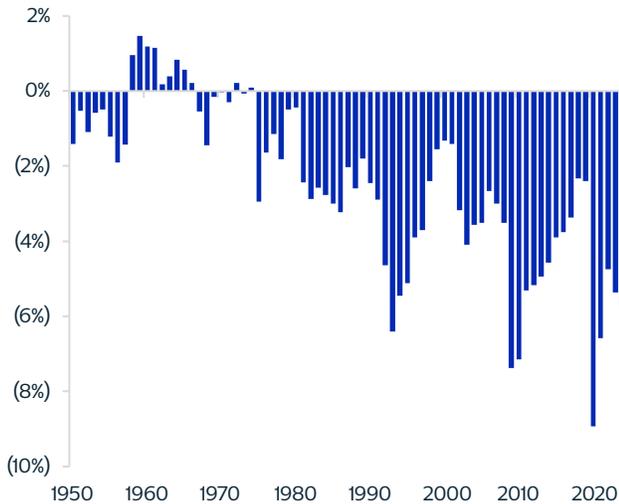
**While the direction of travel for Germany remains positive, Aidan and I left Paris thinking that France is experiencing different challenges.** To be sure, France did gain some reprieve from political uncertainty in October when Sébastien Lecornu, the country's fourth PM since last year's snap elections, succeeded in forming a new government. While this development is welcome, it doesn't alter the underlying dynamic of a fragmented political landscape with persistent fiscal pressures. To secure parliamentary support, Lecornu had to make targeted compromises, including suspending the pension reform that was set to raise the retirement age from 62 to 64. While doing so preserved social cohesion at a delicate time, it is likely to slow France's crucial path to deficit reduction.

In fact, France's fiscal deficit remains uncomfortably high (*Exhibit 11*), with the government targeting 4.7% for 2026, a figure that now looks optimistic and could exceed 5% once ongoing budget amendments are factored in, we believe. Just consider that the government targeted €25 billion in annual savings and revenue measures in 2025 just to hit a 5.1% deficit, with far deeper cuts required to return to the EU's 3% threshold by 2029. Unfortunately, our meetings in Paris reconfirmed that a splintered parliament offers little room for the kind of policy consensus needed to restore near-term fiscal discipline on a cyclical basis.

Meanwhile, structural spending needs are rising. France faces higher defense outlays as it strives to meet NATO commitments and respond to a more fragile security environment. Indeed, debt-servicing costs are also climbing as higher interest rates work through the public balance sheet, while social expenditures remain elevated due to the demands of a large welfare state. France's retirees now enjoy marginally higher incomes in retirement than the country's working age adults, on average. One can see this in *Exhibit 12*.

**Exhibit 11:** France Saw Its Last Fiscal Surplus in 1974, With a Trend Towards Increasing Deficits Over the Past 3 Years

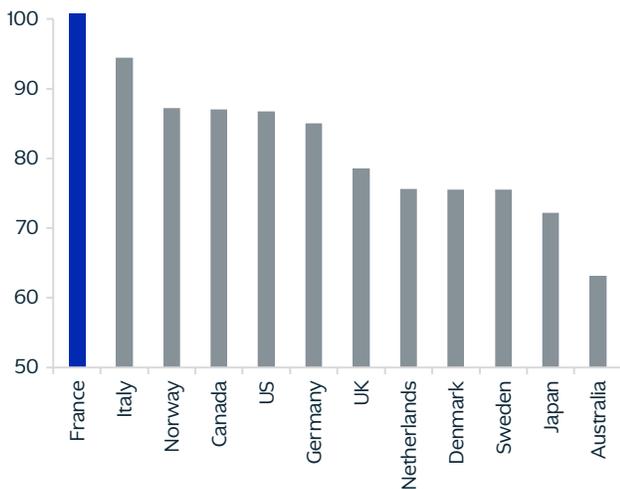
**France: General Government Balance, % of GDP**



Data as at December 31, 2024. Source: Institut National de la Statistique et des Études Économiques.

**Exhibit 12:** French Pensioners Now Have Slightly Higher Incomes Than Most Working-Age Adults, On Average

**Relative Income Level of Over 65s, Working-age Average = 100, 2021**

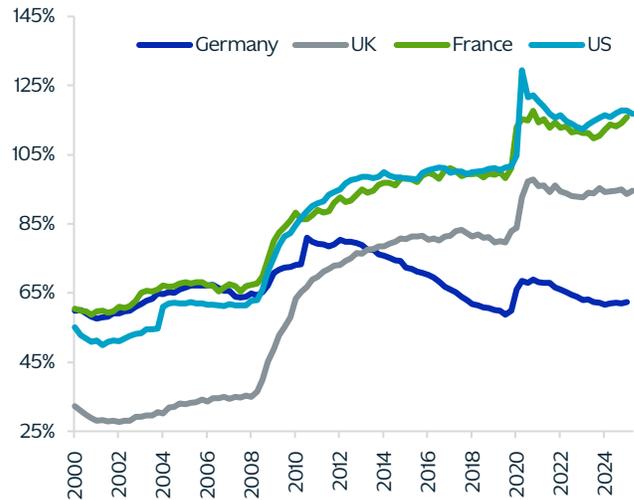


Data as at October 31, 2025. Source: OECD.

It is particularly worth noting that the yield on the benchmark 10-year French OAT (the French equivalent of the U.S. Treasury market) now trades approximately in line with its Italian counterpart, BTP, a once unthinkable situation that underscores investors' growing unease with France's fiscal trajectory. Reflecting these concerns, Fitch and S&P have downgraded France's sovereign rating in recent weeks.

**Exhibit 13:** French Government Debt-to-GDP Mirrors That of the U.S. (But It Is Without the 'Exorbitant Privilege' of a Global Reserve Currency)

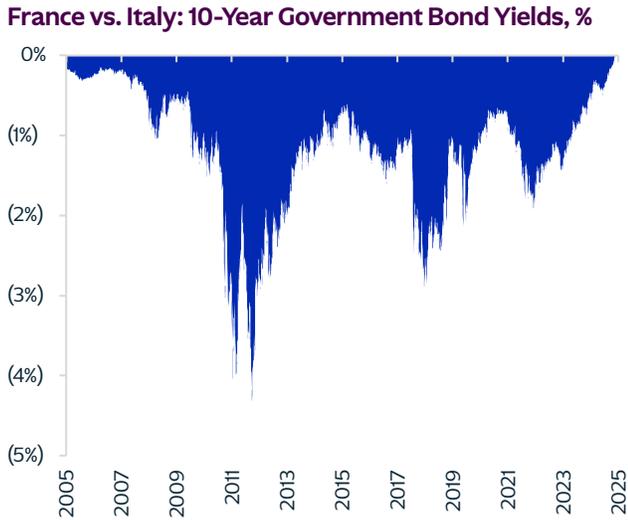
**Government Debt-to-GDP Ratio, %**



Data as at June 30, 2025. Source: Eurostat, ONS.

We think the key to Europe for allocators hinges on identifying the right themes and operational improvement stories, not relying on a major macro upswing in GDP.

**Exhibit 14:** The Spread Between Italian and French 10-Year Government Debt Has Narrowed to Zero, Having Hit Nearly 400 Basis Points at the Peak of the Eurozone Crisis

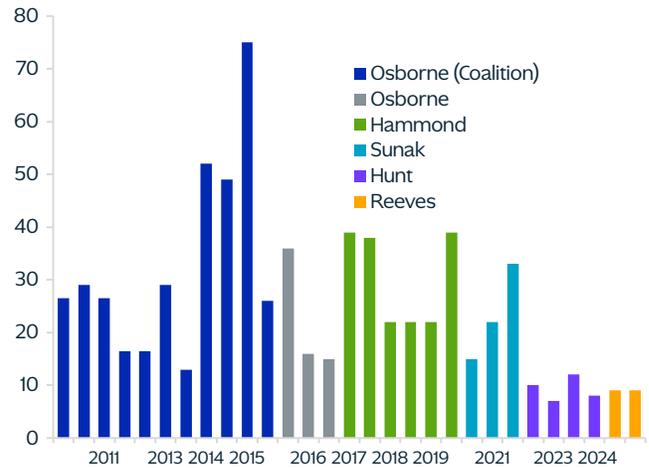


Data as at October 30, 2025. Source: Bloomberg.

**Separately, within the United Kingdom we expect growth to soften as the economy stands at a crossroads ahead of the November 26 Autumn Budget.** The narrow fiscal margin Chancellor Reeves held in March has since eroded, as weaker growth, policy U-turns, and higher yields weigh on the outlook. Productivity remains another headwind, and the gap with the U.S. is showing few signs of closing. The Office for Budget Responsibility is expected to downgrade its projections, continuing the divergence first observed during the GFC (*Exhibit 16*). Markets have taken notice, demanding clearer discipline and keeping gilt yields elevated, with spreads to U.S. Treasuries remaining unusually wide. Political promises have — until recently — prevented increases in income tax, VAT, or National Insurance contributions; however, the Chancellor appears to have likely abandoned that position based on her unusual ‘pre-budget’ speech on November 4.

**Exhibit 15:** Chancellor Reeves Has Lost the Narrow Fiscal Margin She Held in March, Leaving Less Room to Maneuver as Markets Demand Discipline

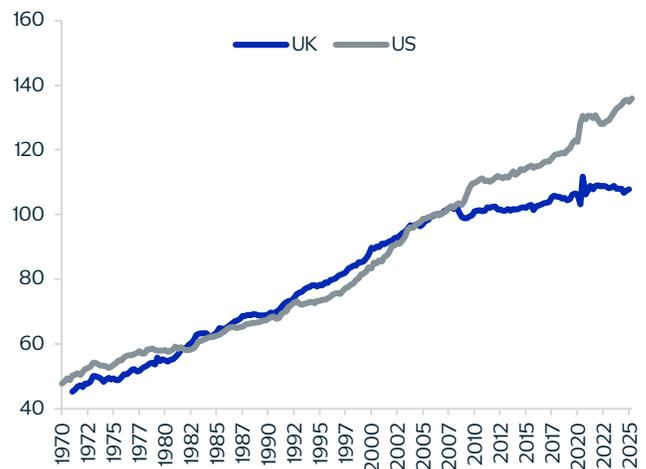
**UK: Fiscal Headroom Against Principal Budget, £ Billion**



Data as at March 31, 2025. Source: Eurostat, ONS.

**Exhibit 16:** The U.K. Has Experienced Significantly Slower Productivity Growth Than the U.S. Over the Decade and a Half Since the GFC

**Productivity, Output per Hour Worked, 2006=100**



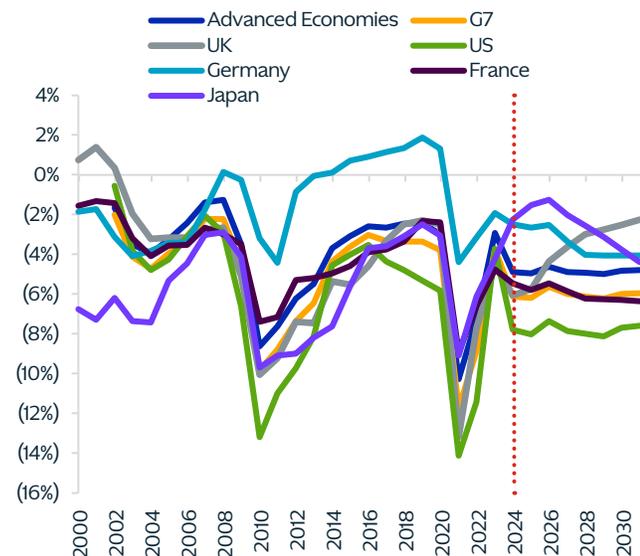
Data as at June 30, 2025. Source: ONS, U.S. Bureau of Labor Statistics.

That said, we left believing that the U.K.'s fiscal position may not be as weak as often perceived on a relative basis. While deficit and debt remain above pre-pandemic levels, the U.K. compares favorably with several key peers. In 2025, the deficit is projected at -4.3% of GDP, slightly below the IMF's advanced-economy average of -4.6%, and narrower than the U.S., France, and importantly, the G7 average (*Exhibit 17*). These comparisons suggest that, despite headline concerns, the U.K. is broadly in line with other major economies on fiscal performance.

Still, structural limits remain. The U.K. arguably lacks the fulsome monetary backstops of several of its peers — for example, the ECB for France and reserve-currency status for the U.S. — making policy credibility its main anchor. Against this backdrop, we expect a £20-30 billion fiscal adjustment moving forward, led by revenue measures and framed as a pragmatic step to steady markets and anchor gilt yields. How the Autumn Budget is received will offer an early signal of whether the U.K. can reestablish itself on a steadier policy footing heading into 2026.

**Exhibit 17:** In 2025, the U.K. Deficit Is Expected to Reach 4.3% of GDP, Coming in Just Below the IMF's Advanced-Economy Average of -4.6% and Narrower Than the U.S., France, and G7 Average

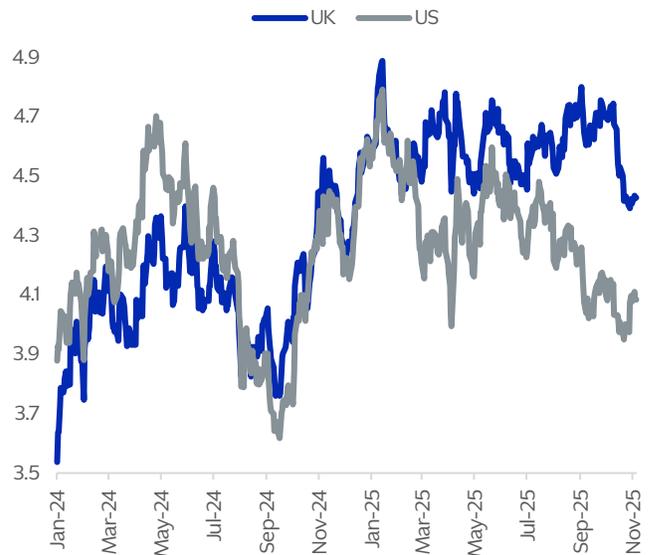
**General Government Net Lending/Borrowing, % of GDP, IMF Projections**



Data as at October 31, 2025. Source: IMF.

**Exhibit 18:** Markets Continue to Demand a Risk Premium On U.K. Gilts, Keeping Yield Spreads Versus U.S. Treasuries Unusually Wide

**10-Year Government Bond Yields, %**



Data as at November 5, 2025. Source: Bloomberg.

**During our travels we also spent time discussing monetary policy with several individuals close to the ECB. We left those meetings believing that the broader economy is starting to respond to looser ECB policy.**

Crucially, Real M1 growth finally turned positive this year, signaling that liquidity is expanding again and that the policy impulse is beginning to reach the real economy. Credit is responding, with new business loans expanding at a healthy pace after several years of contraction, and household demand for mortgages strengthening across the Eurozone. Inflation is moving back towards its 2% target and could undershoot modestly in 2026. Services prices have been the slowest to adjust along the chain, but they appear past their peak pressure. Against this backdrop, we think the ECB will hold the base rate at 2% in the coming months, before raising it to 2.25% in the second half of 2026, our view of neutral.

**Exhibit 19:** Eurozone Real M1 Growth Turned Positive This Year

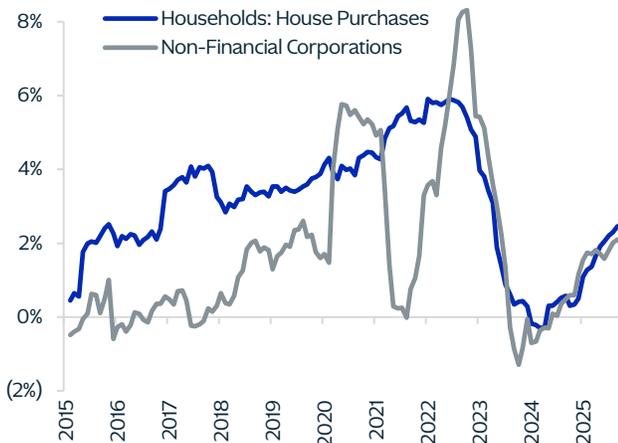
**Eurozone: Real M1 Money Supply Growth, Y/y %**



Data as at September 2025. Source: ECB.

**Exhibit 20:** Credit Demand From Households and Businesses Is Expanding at a Healthy Pace

**Eurozone: Loans to Business and Households, Y/y %**



Data as at September 2025. Source: ECB.

If we could leave the European authorities with one message, it would be ‘Carpe Diem.’

## Conclusion

While our travels took us to a variety of European capitals, a common thread throughout all our meetings stood out: the momentum for change and reform that we witnessed in the Spring has given way to pragmatism in the Fall. To be sure, Germany’s infrastructure and defense investments can still serve as meaningful positive levers to growth, but political jockeying, tariffs, and indecision are impeding the region from executing on the vision laid out in the Draghi report. Against that backdrop, we have modestly recalibrated our 2026 Euro Area GDP outlook.

Yet, despite the slower GDP growth we are forecasting, the investment outlook in Europe, especially on the private side, remains robust. Companies want help restructuring, successful family businesses are looking for global partners, and local entrepreneurs want capital to gain scale. Not surprisingly, deal activity has been reinforcing our core themes — the Security of Everything, Capital Heavy to Capital Light, and Productivity. Moreover, the reality is that governments across Europe are ‘outsourcing’ more of their infrastructure projects to private providers of capital.

If we could leave the European authorities with one message, it would be ‘Carpe Diem.’ In particular, we think the governments in Europe need to re-stimulate the securitization market, strive towards lower energy costs, and incorporate some form of a ‘corporate reform’ story within the private sector that can elevate interest in the capital markets beyond the uncertainty being currently created by fragile coalition governments.

The good news is that the backdrop for upselling the European story to global investors has never been better. Indeed, the larger pools of capital are significantly overweight the U.S., but they are looking for alternatives, especially if it involves more alpha than beta. Said differently, Europe has the opportunity to attract meaningful inflows if it translates intent into momentum. Therein lies the opportunity, we believe.

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