Recommended

Product Review
Partners Group Global Income Fund

ISSUE DATE 19-12-2019

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About this Review

ASSET CLASS REVIEWED	ALTERNATIVES
SECTOR REVIEWED	GROWTH ALTERNATIVES (MODERATE)
SUB SECTOR REVIEWED	PRIVATE DEBT
TOTAL COMPANIES RATED	1

About this Trust

ASIC RG240 CLASSIFIED	YES
LIT REVIEWED	PARTNERS GROUP GLOBAL INCOME FUND
ASX CODE	PGG
PDS OBJECTIVE	PROVIDE MONTHLY INCOME THROUGH EXPOSURE TO A DIVERSIFIED POOL OF GLOBAL PRIVATE DEBT INVESTMENTS.
INTERNAL OBJECTIVE	AS PER PDS OBJECTIVE
DISTRIBUTION POLICY	TARGETS CASH DISTRIBUTION OF RBA CASH RATE +4% P.A. (NET OF FEES, COSTS AND TAXES).
MANAGEMENT COSTS	1.56% P.A.
PERFORMANCE FEE	10% (CAPPED AT 0.25% P.A CHARGED ON THE SPECIAL SITUATIONS ALLOCATION ONLY)
RESPONSIBLE ENTITY	EQUITY TRUSTEES LIMITED

Market data

MARKET CAPITALISATION	$554M
UNITS ON ISSUE	270M
UNIT PRICE (19-12-2019)	$2.05
52 WEEK HIGH/LOW UNIT PRICE	$2.06 / $2.00
NAV (11-12-2019)	$2.01
52 WEEK HIGH/LOW NAV	$2.01 / $1.99
UNIT PRICE PREM/(DISC) TO NAV	1.99%

About the Fund Manager

FUND MANAGER	PARTNERS GROUP PRIVATE MARKETS (AUSTRALIA) PTY LTD
OWNERSHIP	PARTNERS GROUP HOLDING AG
ASSETS MANAGED IN THIS SECTOR	$24BN
YEARS MANAGING THIS ASSET CLASS	14

Investment Team

PORTFOLIO MANAGER	ANDREW BELLIS, SURYA YSEBAERT
INVESTMENT TEAM SIZE	50
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	GLOBAL

Investment process

STYLE	BOTTOM-UP, RELATIVE VALUE
MARKET CAPITALISATION BIAS	MID-MARKET
BENCHMARK	RBA CASH +4% P.A.
CREDIT QUALITY	SUB-INVESTMENT GRADE EQUIVALENT
USE OF LEVERAGE	YES

Trust rating history

DECEMBER 2019	RECOMMENDED
AUGUST 2019	RECOMMENDED

What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Scope of this rating

- Lonsec has used its Managed Funds research process in forming an opinion on this Listed Investment Trust's (LIT or Trust) ability to meet its stated investment objectives. The extent of any 'point-in-time' divergence between PGG's unit price and its underlying Net Asset Value (NAV) per unit is not part of the ratings consideration.
- Lonsec does consider whether structural or management issues could potentially lead to a LIT trading at a significant discount to its NAV over an extended period of time without any recourse for unitholders. This aspect forms part of the wider qualitative and quantitative assessment that Lonsec undertakes when assessing the relative investment merits of a LIT.

Strengths

- The LIT provides access to private debt markets in a more liquid investment structure (ASX Listed).
- The investment team is highly motivated and of very high calibre.
- The Manager is able to leverage off a strong global network and impressive internal database to source potential investment opportunities.
- The credit research process is of high quality.

Weaknesses

- It may take up to 12 months to reach the target portfolio allocations albeit expected to be completed by 31 December 2019. During this 'ramp-up' period, Lonsec considers risk (concentration, leverage, complex legal structuring) to be elevated.
- The Trust has a limited performance track record.
- Wide limits around some of the riskier exposures (mezzanine debt and 'Payment-in Kind' securities) within the strategy.
- The Manager does not have a demonstrable track record in delivering monthly income payments to Australian investors.

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Trust Risk Characteristics

	LOW		MODERATE		HIGH
BUSINESS SUSTAINABILITY RISK	●				
CAPITAL VOLATILITY			●		
CREDIT RISK					●
INTEREST RATE RISK	●				
FOREIGN CURRENCY EXPOSURE		●			
LEVERAGE RISK					●
REDEMPTION RISK			●		
SECURITY LIQUIDITY RISK					●
SECURITY CONCENTRATION RISK			●		

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE					●		

A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW		MODERATE		HIGH
RISK TO INCOME					●
RISK TO ACCESS			●		

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY					●
ESG AWARENESS			●		
CAPITAL POTENTIAL		●			
INCOME POTENTIAL					●
LIQUIDITY (ACCESS)			●		
CAP. GAINS AWARENESS	●				
FRANKING AWARENESS	●				
FRANKING BENEFIT	●				

Fee profile

	LOW		MODERATE		HIGH
FEES VS. UNIVERSE					●
FEES VS. ASSET CLASS				●	
FEES VS. SUB-SECTOR			●		

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

What is this Trust?

- The Partners Group Global Income Fund ('the Trust' or ASX code:'PGG') is a Listed Investment Trust ('LIT') trading on the ASX following listing on 26 September 2019. The LIT seeks to provide unitholders with monthly income through exposure to a diversified pool of global private debt instruments. The Trust will target a cash distribution of RBA Cash Rate +4% p.a. (net of fees, costs and taxes) paid monthly.
- PGG is managed by Partners Group Private Markets (Australia) Pty Ltd which is a wholly owned subsidiary of Partners Group Holding AG ('Partners Group' or 'the Manager'). The Responsible Entity ('RE') is Equity Trustees Limited ('EQT').
- The investment strategy allocates across three private debt strategies;
  - 1. First Lien Loans (60-100% of Gross Asset Value (GAV))
  - 2. Second Lien and Subordinated Loans (0-20% of GAV)
  - 3. Special Situations (0-25% of GAV)
- The Trust gains its exposures by investing directly in debt securities, via syndicates and through investments in existing Partners Group funds. The Trust will be approximately 95% invested in floating rate debt securities, consequently duration risk is considered to be low. While the Trust is expected to consist predominantly of loans, it may at times be exposed to equity risk (where a loan includes an equity component or in circumstances where a borrower defaults on its obligations).
- Private debt is typically not rated by a third-party credit rating agency, however **the portfolio will mostly invest in sub-investment grade or 'speculative grade' issues** (B or BB) on a public or private/equivalent basis. The Trust will invest in covenant-lite issues which typically have less protection than securities issued with traditional covenants. The Trust will also be exposed to complex debt instruments such as Payment-in-Kind ('PIK') and other Mezzanine debt type structures.
- The exposure will consist primarily of US and European companies with the potential for exposure to companies in the Asia-Pacific region including Australia. There will be no exposure to emerging markets.
- Once fully built out, the Trust is expected to be well diversified investing in 150 – 200 debt securities with a maximum of 1.5% of GAV to any one obligor. The Company will typically hold 1-2% of GAV in Cash.
- Portfolio level financing will form part of the investment strategy, with the strategy permitted to borrow of up to a maximum level of 50% of GAV of the First Lien Loan Strategy. The maximum level of leverage for every $1 of the Trust's NAV is therefore $1 (noting that this is only possible where 100% of the Portfolio is allocated to the First Lien Loan Strategy). Borrowing will not be utilised in either the Second Lien and Subordinated Loan Strategy or Special Situations Strategy.

Structure

- The LIT gains its economic exposure to private debt via a complex investment structure. An Irish domiciled company (PG Global Income Investments Loan Strategy DAC or 'the Company') has been established to facilitate the investment strategy. The Company has a single shareholder being TMF Management (Ireland) Limited ('TMF') which holds legal ownership of shares in the company as nominee only. TMF is a third party corporate administrator.
- The Company will hold the private debt assets and distribute the income generated from those assets via a 'profit participating note ('PPN'). The PPN is essentially a debt security (or debenture) issued by the Company. The PPN is unsecured, meaning other creditors of the Company (including the leverage provider) will rank ahead of unitholders in the Trust in the event the Company becomes subject to an insolvency proceedings. **Lonsec highlights that**

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LIT investors will rank behind other creditors of the Company irrespective of the credit quality or security of the underlying securities in the LIT. Lonsec considers this structure to have a higher degree of legal structuring risk than a traditional Managed Investment Trust.

- While noting its inherent complexity, Lonsec has gained sufficient comfort in the structure taking into account the following factors;
  - This is a familiar structure for Partners Group having been employed for a number of years for another client here in Australia and several offshore clients.
  - The offshore service provider (administrator) is well known to Partners Group and experienced in valuing private debt securities.
  - This structure makes the Australian vehicle quite simple for the local custodian with only one asset (the PPN) to oversee.
  - Relatively tax effective from a withholding tax perspective.

Valuation of Assets

- Lonsec considers the accurate valuation of assets to be particularly important for hard-to-value assets such as private debt. The NAV of the Trust is calculated on a weekly basis. The bulk of assets are priced off either daily market quotations (for syndicated loans) or valued by third party providers on a monthly basis (for direct loans) using widely recognised valuation methodologies. A small portion of the Trust does rely on internal valuations to be performed by Partners Group itself. While this does present a risk in terms of accuracy of the NAV calculation and the potential for conflicts of interest to arise, Lonsec takes comfort from the involvement of Partners Group's Valuation Committee and external auditor Pricewaterhouse Coopers. Overall, Lonsec considers Partners Group's valuation policies and procedures to be in line with regulatory requirements and common industry practices.

Distributions

- The Trust intends to pay distributions to unitholders on a monthly basis however, there is no guarantee. Distributions are expected to match the cash income generated by the Company, less fees, costs and taxes incurred, including the costs associated with the Company Debt Facility. The first distribution is expected to be paid on the 31 December 2019.
- Given the bulk of the underlying coupons are expected to be paid quarterly, an element of smoothing will be required to meet the Trust's monthly distribution objective. The Manager does not have a demonstrable track record in delivering monthly income payments to investors. While Lonsec believes the Manager is capable of generating sufficient income (in aggregate) given the tools at its disposal, the consistency and frequency of distribution payments will nonetheless be an area of interest at future reviews.
- The Company aims to fully hedge foreign currency exposure back to Australian dollars. The Manager has not made a Taxation of Financial Arrangements ('TOFA') election for the Trust, meaning income from the PPN will be assessable to the Trust when paid rather than on an accruals basis. This may impact on Trust's ability to distribute income if the profit and losses from rolling currency forwards outweigh the underlying coupon income generated.
- The Trust's ability to distribute income may also be impacted in the case of rising defaults and/or equity conversions.
- As noted above, the Trust's initial distribution target of RBA Cash Rate plus 4.0% p.a. (net) is indicative only and is not guaranteed by the Manager. Lonsec cautions investors not to be wholly reliant on this initial target which may be subject to revision as market conditions change. Lonsec highlights the Trust may not be suitable for investors (e.g. retirees) whose cash flow needs are wholly reliant on the actual distributions given the potential fluctuation in the distribution level subject to market conditions.

DRP

- The RE will seek to have a distribution re-investment plan ('DRP') in place with respect to distributions made by the Fund to unit-holders. Importantly, the DRP will take into account the premium or discount to NAV of the Fund's unit price at the time a distribution is paid. Where the unit price is higher than NAV, then the DRP proceeds will be re-invested in newly issued units. However, where the units are trading at a discount to NAV, then the proceeds will be reinvested in existing units purchased on-market. This is critical as it will act to ensure that existing unit-holders that cannot participate in the DRP will not be diluted on an NAV basis. Lonsec notes that where new units are issued, these will not attract brokerage. However, brokerage will be incurred for on-market acquisitions which will be passed on to the participating unit-holders only.
- When trading at a discount to NAV, Lonsec notes that the RE will only issue a DRP where the quantum of this discount is quite small, i.e. below 5%. In circumstances where the Fund's trades at a significant discount to NAV for an extended period of time, then the RE in consultation with the Manager may consider either an on-market or an off-market buy back of its units, with those units subsequently being cancelled. Such a buy-back will take into account all relevant ASX-listing rules and applicable laws. Further, any buy-back entered into will not exceed 10% of the smallest number of units on issue for the Trust during the 12-month's prior to its commencement. Lonsec considers this dual approach that is sensitive to the quantum of any discount in terms of the resolution adopted to be both conservative and in-line with sound capital management principles.
- Lonsec cautions that the RE for the Trust, EQT, is an external RE that receives compensation for its external RE services. Lonsec highlights that this has the potential to create conflicts of interest with respect to capital management decisions. This may be particularly the case when evaluating capital management options (e.g. buy backs) for dealing with the circumstance where the units are trading at a discount to NAV. Lonsec believes that the RE has appropriate policies and procedures in place to manage this risk. Lonsec also highlights the size and scale of EQT's RE business, with no single product being material to the broader enterprise's profitability.

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Ramp up phase

- It may take up to 12 months to reach the target portfolio allocations albeit the Manager expects the capital to be fully invested by 31 December 2019. As of 18th October 2019 the Trust had committed over 60% of the initial capital raised. Lonsec will conduct another full review of the Trust as part of the Alternatives review cycle in May 2020.
- During the ramp up phase a substantial portion of the Company will be allocated to the First Lien Strategy. The Trust invested almost 40% immediately in the Partners Group Global Senior Loan Master Fund SICAV ('PGGSLMF'). Additionally, Partners Group had sourced a number of predominantly First Lien Loans that have been warehoused prior to the Trust launch.
- Leverage is expected to be high and close to the maximum allowable of 50% during the initial ramp up phase. Given the allocation to First Lien Loans will also be at its highest in the early stage (up to 100%), Lonsec considers risks to be elevated during this period with more concentrated holdings and higher leverage, albeit on higher quality loans. The trade-off for accepting this higher leverage risk is that the Company will be in a position to generate income within a relatively short period of time compared to some other private asset strategies rated by Lonsec.

Using this Trust

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- **Lonsec considers this Trust to be suitable for investors with a high tolerance for risk associated with complex structuring, leverage and sub-investment grade credit risk.** It is suitable for high net worth, family office or private bank clients with large account balances. Investors should be aware that the Fund may experience periods of negative returns and that there is a risk of capital loss being incurred on their investment. Lonsec considers a maximum 5% allocation to Private Debt, best funded from the Growth or Alternative Growth portion of a well-diversified portfolio. It is suited for investors with an investment time horizon of at least five years.
- The Trust is subject to equity market risk and movements (positive and negative) in the prices of the underlying investments in the portfolio. As such, the Fund may exhibit high volatility and moderate-to-high correlation to global equities. Lonsec also notes that there is risk of the Fund trading to a significant discount to NAV.
- Dividends will be unfranked.
- Credit sectors have historically been more correlated to economic growth than interest rate sectors. Lower-quality credit sectors, in particular, have exhibited low or negative correlation to interest rate sensitive sectors (e.g. US Treasuries, global bonds) and some correlation with growth assets. As such, credit sectors may provide attractive performance in a rising interest rate environment when bond prices tend to fall. However, these higher yielding sub-investment grade assets are exposed to a greater risk of default and loss of principal compared to those in higher-quality credit sectors.
- Investments in floating-rate syndicated and direct loans may provide diversification benefits to a traditional fixed income portfolio. Floating rate senior loans can provide low correlation to traditional fixed income portfolios having very little duration or interest rate sensitivity compared to traditional fixed income.
- First Lien Loans are the most senior obligations in the capital structure. Interest is paid before bondholders and equity holders of the borrower. Secured loans have historically resulted in higher recovery rates compared to speculative-grade corporate debt (high yield bonds). The use of leverage over the First Lien Loan strategy can magnify gains but can also magnify losses within the Trust.
- Investments in unsecured subordinated debt, mezzanine debt and PIK structures carry a higher default risk and lower recovery rates. The Trust may also be exposed to equity risk (where a loan includes an equity component or in circumstances where a borrower defaults on its obligations). In addition, the nature of credit products exposes investors to downside risk with limited room for upside gains. There is a risk that income generation deteriorates in the case of defaults and/or equity conversions and the Trust may fail to achieve its monthly distribution target.
- Private Debt as an asset class tends to have an intermediate or long-term liquidity profile. It offers the potential for excess returns relative to traditional credit by accessing the 'illiquidity premium'.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
		●	●	●	

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- PGG was listed on the ASX on 26 September 2019 having raised $550m.
- PGG has been progressively built-out following listing in line with allocation guidance provided by the Manager. As of 18th October 2019 the Trust had committed over 60% of the opening NAV of the Trust with the vast majority of initial investments consisting of First Lien Loans through an investment into the Partners Group Global Senior Loan Master Fund as well as a number of direct investments into First Lien Loans. Additional investment have also been made which amount to approximately 5% of the NAV in Second Lien and Subordinated Loan Strategy and Special Situations Strategy. As a result, the Fund has direct exposure to over 70 different companies. The Manager expects the Fund to be fully invested by the end of December 2019. Additionally, the Manager has confirmed they are on track to pay the first monthly distribution at the end of December 2019 which is consistent with the guidance provided in the PDS.

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- Lonsec has not been advised for any changes to the investment team or process since the initial review (August 2019).

Lonsec Opinion of this Trust

People and resources

- Partners Group is a large, well-resourced firm with over 1,200 employees located in 20 offices across the world. The group has significant depth of investment resources and personnel from which to draw on, with high levels of private market experience embedded within the team. Lonsec considers the Manager's broad, global employee network to be a key positive in being able to provide a consistent pipeline of investment opportunities. Lonsec's contact with the Manager dates back to 2008. During that time we have continued to observe a team-orientated, motivated and driven culture.
- Lonsec has observed a significant expansion in resources across all areas of the firm, and in particular a concerted push into the US in recent years. Lonsec views this expansion positively, providing greater ability to source deals, however is mindful of the potential challenges the Manager may face in maintaining the culture, cohesion and consistency in process we have admired to-date.
- The Private Debt team has been investing in senior secured loans since 2007. Lonsec has met with various members of the team during the course of the initial review (and in prior dealings) and has found them to be of high calibre. The Private Debt team is led by Bill Berry and consists of 50+ credit professionals. It is comprised of the Liquid Loans team (10 credit analysts plus 4 junior financial analysts) and the Direct Loans team (35 analysts). The Liquid Loans team is a relatively new addition to the Partners Group stable and consequently has low tenure. Analysts are assigned responsibility for covering approximately 40 credits each which Lonsec considers light on given the complexity of some of the deals, but acknowledges Partners Group has proven committed to expanding resources as required. The Direct Loans team has a longer track record of working together, having been established in 2009.
- Partners Group operates a number of committee-based structures rather than having decision making responsibilities reside with one individual. While this may serve to limit direct accountability, Lonsec believes it is important with regard to private debt investing, in ensuring fairness and consistency in accessing and allocating opportunities across the private debt programs operated across the business.
- The Global Investment Committee ('GIC'), the key decision making body for the Fund, is highly experienced, with an average of 24 years' industry experience, whilst its constituents possess noteworthy co-tenure at Partners Group, averaging 19 years. In addition, two bottom-up Committees (Global Liquid Debt Investment Committee ('GLDIC') and the Global Direct Debt Investment Committee ('GDDIC')) are charged with reviewing and approving individual credits. This structure ensures the quality and consistency of the credit research undertaken.
- The Trust is monitored by a separate risk team and rigid compliance framework supports a robust governance process.
- Lonsec considers Partners Group to have a high alignment of interests with investors and combined, employees remain the largest shareholders of the firm. Furthermore, Partners Group generally commits 1% of total commitments in its investments alongside its investors. For this LIT, Partners Group will invest \$10m of its own capital in the Priority Offer. All employees hold stock or options, with key investment staff also sharing in an allocation from performance fees earned across the business.
- Given the size and depth of experience in the investment team, coupled with the committee-based decision-making structure, Lonsec considers key person risk to be low.

Research and portfolio construction

- Partners Group has an impressive internal platform of 850 private market professionals, each with deal sourcing responsibilities. Lonsec considers having on-the-ground resources in the key regions (US, Europe and to a lesser extent Asia and Australia) to present a key competitive advantage of the Manager in sourcing deals. This is supplemented by an equally strong external network of contacts (sponsors, fund managers, banks and intermediaries) to facilitate leads and generate deal flow. Given Partners Group's European heritage, Lonsec considers its edge to be somewhat stronger in this market, however acknowledges the firm's US footprint continues to expand rapidly. On average, Partners Group sources over 450 deals per annum.
- Partners Group has been investing in private markets for more than 20 years and and has accumulated a wealth of information in its proprietary database 'PRIMERA'. PRIMERA contains financial information and insights on more than 36,000+ private companies, allowing for a detailed assessment of a company's borrowing levels, profitability, growth and equity contributions as well as peer group comparisons. Lonsec considers this a powerful tool, giving the Manager a clear information advantage in deciding which companies to lend to.
- Lonsec considers the credit and loan research undertaken to be of high quality. Partners Group will only lend to companies that are profitable, operate in non-cyclical industries with leading market positions, stable EBITDA margins and strong cashflow generation. The Manager considers a range of qualitative and quantitative factors in its assessment, including detailed financial modelling, valuation metrics and competitor analysis.
- Standardised templates and a dual Investment Committee structure for credit approval ensures a robust and consistent decision making framework. The Manager is highly selective, with an average annual decline rate of 90% for direct loans, meaning approximately 45 of the 450 deals brought to them are approved for investment each year. Processes are also in place to ensure the fair and equitable distribution of approved loans across Partners Group's eligible portfolios.

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- Partners Group has the necessary resources in place to manage non-performing assets, including a dedicated three person (soon to be five) Workout team. Partners Group has proven active in defending the interests of investors and has an established framework and tools at its disposal for handling non-performing loans in a consistent manner. Consequently, Partners Group has more than a ten year history of low capital loss rates (0.43% p.a. for First Lien and 0.20% for Second Lien and Subordinated loans). This compares favorably to publicly available loan indices such as the S&P/LTSA Index where loss rates of 0.68% have been recorded on average since 2007.
- In Lonsec's assessment, the Portfolio Manager has ample tools available and sufficient flexibility in order to reach the Trust's RBA +4% p.a. objective. The Trust will invest across three buckets; First Lien, Second Lien & Subordinated and Special Situations, each with its' own risk and return expectations. Leverage will be employed over the lowest risk bucket (First Lien) only. Outside of the syndicated First Lien loans (which will generally have a small market in which to trade), other loans are typically held to maturity. The Manager will shift allocations according to bottom-up opportunities, maturing loans as well as top-down considerations set out by the PGPSC. Partners Group has a solid track record in each of the underlying buckets, however, being a new portfolio, Lonsec will look to build further conviction in the Portfolio Manager's ability to adjust between these buckets over time.
- Lonsec considers Partners Group to be risk aware and generally conservative in its approach to investing in private markets. This is highlighted by the Manager's preference for lending only to profitable companies in non-cyclical industries. Lonsec expects this conservative approach to be applied to the management of this Trust, however acknowledges that this is an area that will need to be assessed as the portfolio is built out and monitored over time.
- The Special Situations bucket is somewhat of an unknown, with very few constraints around the type of securities and structures that can be invested in and risk contained therein. Lonsec takes some comfort from the Manager's previous track record (default and loss rates) in this space, and understands this bucket will be used opportunistically when high conviction opportunities arise. Nonetheless, Lonsec would prefer to see more defined limits on some of the higher risk opportunities (PIKs and Mezzanine debt).
- The ability to employ leverage over the First Lien strategy is a useful tool in boosting expected income returns, however Lonsec is less comfortable with the Manager's ability to use this facility to pay out distributions. Lonsec understands that this is not expected to be a regular feature however.

Risk management

- As with most Alternative strategies, the Trust has few formal risk limits, and where there are limits, they tend to be 'soft' and relatively wide. Risk is therefore primarily controlled through bottom up credit research and diversification. Lonsec believes Partners Group's investment philosophy, which is considered to skew towards conservatism and quality, contributes to the overall risk management of the Fund.
- The Portfolio and Risk Management Team of 35 is primarily responsible for measuring and managing portfolio risks. Importantly, this team is separate to the investment teams. Further, Partners Group has a monitoring committee, comprised of senior management members of the firm to oversee and review the performance of its investments. Lonsec considers Partners Group's multi-layered risk monitoring process to be thorough and aid with consistency.

Funds under management

- Partners Group is a global private markets investment manager with assets under management (AUM) of $118.4bn as at December 2018, $24bn of which is in private debt assets. Partners Group employs more than 1,200 employees across 20 offices worldwide. It manages approximately $12bn on behalf of Australian clients across its private market capabilities.

Fees

- Management costs are estimated to be 1.56% p.a. which includes the management fee (1.00% p.a.), estimated recoverable expenses (0.20% p.a.) and estimated indirect costs (0.34% p.a. assuming full performance fee is earned) and 0.02% p.a in estimated transaction and operational costs. Borrowing costs are estimated to be 2.98% p.a. of the NAV.
- There is also a performance fee of 10% p.a. on the Special Situations strategy which is assessed over a three-year rolling period. Two hurdles must be achieved for Partners Group to get paid; the Special Situations bucket must achieve its' RBA+ 6% objective and at the Trust level, the RBA +4%p.a. objective must also be met. Finally, there is also a cap on the overall performance fee of 0.25% p.a.
- Lonsec considers the overall fee structure to be well structured and offers reasonable value in accessing private debt securities, an asset class that is typically difficult for retail investors to access.
- In addition, Lonsec is pleased to note that all deal arrangement fees will be passed through to investors. Some deals will have arrangement fees as high as 3.5% so this represents a significant cost saving to investors. Lonsec was pleased to note that Partners Group paid all offer costs as well as any applicable stamping fees associated with the IPO of this Trust.

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Performance

- Lonsec notes PGG was listed on the ASX on 26 September 2019 having raised $550m. This listing date, however, means the Fund has insufficient trading history and a track record to warrant analysis. Nonetheless, in forming its view, Lonsec has taken into account the Manager's prior track record in managing similar strategies within the Private Debt space.
- Lonsec notes that the initial public offering of PGG was met with strong demand with the offering well oversubscribed. PGG has a relatively diversified client base with over 6,000 underlying investors. Average daily volume for PGG has been approximately 657,514 shares over the past four weeks to end of November 2019. Lonsec notes that the offering was well supported by several brokers and wealth management groups which is likely to assist secondary market trading.
- As at 27 November 2019, PGG was trading at a premium of 1.0% to its NAV with a closing unit price of $2.02 versus the published monthly NAV of $2.00. During PGG's short trading history the Trust has predominately traded at a slight premium to NAV, ranging between 3.0% (September 2019) and 1.0% (December 2019).
- Lonsec notes the PGG underlying investments have been progressively built-out following listing in line with allocation guidance provided by the Manager. As of 18th October 2019 the Trust had committed over 60% of the opening NAV of the Trust with the vast majority of initial investments consisting of First Lien Loans through an investment into the Partners Group Global Senior Loan Master Fund as well as a number of direct investments into First Lien Loans. Additional investments have also been made which amount to approximately 5% of the NAV in Second Lien and Subordinated Loan Strategies and the Special Situations Strategy. As a result, the Fund has direct exposure to over 70 different companies. The Manager expects the Fund to be fully invested by the end of December 2019. Additionally, the Manager has confirmed they are on track to pay the first monthly distribution at the end of December 2019 which is consistent with the guidance provided in the PDS.

Overall

- Lonsec has retained the **'Recommended'** rating following the most recent review. Lonsec has high regard for Partners Group and considers the investment team to be highly motivated and of very high calibre. The credit research process is of high quality, and the decision making and governance frameworks strong.
- While the Manager has a good pedigree in private debt investing, the Trust itself has a very limited performance track record. Consequently, Lonsec will look to build conviction in the Portfolio Manager's ability to adjust the strategy and manage risks over time. Furthermore, the Manager's ability to distribute a consistent and reliable income stream will be a further area of interest to Lonsec at future reviews.

People and Resources

Corporate overview

Partners Group Holding AG ('Partners Group') is a global private market asset management firm specialising in private equity, private debt, private infrastructure and private real estate assets. The firm managed $118bn as at 31 December 2018 across a broad range of funds, structured products and customised portfolios.

Partners Group is headquartered in Zug, Switzerland and has offices in Europe, the United States of America, Asia and Australia. The firm is listed on the SIX Swiss Exchange and is majority owned by its partners and employees.

The Responsible Entity of the Fund is Equity Trustees Limited ('EQT'). EQT is a publicly listed company on the Australian Securities Exchange. EQT provides estate management services, trustee services, will preparation, financial and taxation advice, personal investment advice (including superannuation) and responsible entity services for external fund managers.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
BILL BERRY	PARTNER, HEAD OF PRIVATE DEBT	23 / 3
SCOTT ESSEX	PARTNER, HEAD OF PRIVATE DEBT, AMERICAS	19 / 12
CHRISTOPER BONE	PARTNER, HEAD OF PRIVATE DEBT, EUROPE	19 / 9
EDWARD TONG	SENIOR VICE PRESIDENT, HEAD OF PRIVATE DEBT, ASIA	15 / 6
ANDREW BELLIS	MANAGING DIRECTOR, HEAD OF LIQUID LOANS	20 / 3
SURYA YSEBAERT	SENIOR VICE PRESIDENT, LIQUID LOANS	20 / 3
MARK HANSLIN	SENIOR VICE PRESIDENT, LIQUID LOANS	34 / 2

Partners Group employs 1,200 staff including 850 private market investment professionals. The Private Debt team is led by Bill Berry and consists of 50+ credit professionals. It is comprised of the Liquid Loans team (10 credit analysts plus 4 junior financial analysts) and the Direct Loans team (35 analysts).

Andrew Bellis is Head of Liquid Loans and a named Portfolio Manager for the Trust. He sits on the Global Liquid Debt Investment Committee. He has 16 years' experience and prior to PG worked at Merrill Lynch, Credit Suisse and 3i Group. The Liquid loans team focuses on syndicated deals (i.e non-control positions) where Partners Group typically takes no more than 10% of a tranche. There is some specialisation among analysts in the larger sectors (healthcare, technology, industrials) however it is not always the case as some deals sit across more than one sector.

Surya Ysebaert is the other named Portfolio Manager for the Trust. Ysebaert is also a member of the Liquid

Loans team and is Chairman of the Global Liquid Debt Investment

Committee. He has 20 years of industry experience. Prior to joining Partners Group, he worked at Aberdeen Asset Management, Goldentree Asset Management, Bank of America Merrill Lynch and ING.

The Direct Loans team focuses on loans where Partners Group has a controlling position; that is they drive the terms of the deal. Unitranche deals (a combination of first lien and second lien loans) will also usually sit with the Direct Loans team. This team is led by Christopher Bone (Partner, Head Private Debt Europe) and Scott Essex (Partner, Head Private Debt Americas).

The Private Debt team leverages the Industry Value Creation team (IVC). The IVC is a team of 30 operating specialists with both functional expertise (sales, pricing, eCommerce, Procurement, Lean Production and restructuring) and industry experience across healthcare, media/telecommunications, financials, industrials, consumer, infrastructure and real estate. The IVC is integrated into the 'Deal teams' (small working groups comprised of professionals from across the business) to ensure industry and operational expertise is embedded throughout the entire investment process from sourcing to exit. IVC members work across equity and debt. On the debt side, IVC members assist by conducting loan benchmarking and industry analysis for each deal. Fredrik Henzler leads the IVC, he is a member of the Global Executive Board, the GIC, the Private Equity Directs Investment Committee and the Global Direct Debt Investment Committee.

The Private Debt team also leverages the broad resources of the Partners Group platform, including seven loan closing/execution resources, 60 investment monitoring & analytics, 35 portfolio & risk management, 50 tax, legal and structuring personnel.

Decision making

The key decision making body for the Fund is the GIC. The committee consists of eight senior members of the firm and is ultimately responsible for the Trust's performance. Members of the group possess an average of 24 years' industry experience and an average of 19 years at Partners Group. The GIC governs the investment approach and process, including 'top-down' relative value analysis, portfolio management and final investment decision making.

The purpose of the Global Portfolio Strategy Committee ('GPSC') is to provide asset allocation advice for discretionary private equity, private debt, private real estate and private infrastructure investment programs managed by Partners Group. In addition, the Global Portfolio Strategy Committee is responsible for translating the Private Markets Relative Value Committee's ('PMRVC') relative value outlook into the individual products managed by Partners Group and to ensure adherence of portfolio construction with investment goals of the various clients. The PMRVC committee convenes on a semi-annual basis (usually June and November).

The GIC is supported by two specialised investment committees; the Global Liquid Debt Investment Committee ('GLDIC') and the Global Direct Debt Investment Committee ('GDDIC'). These Committees are responsible for approving individual credits.

Research Approach

Overview

Deal Sourcing

Partners Group leverages its internal platform of over 850 private market professionals to source debt funding opportunities. Located in all the major centers, each member of the team is responsible for actively sourcing deals. In addition, Partners Group also has an extensive network of private equity sponsors, advisory firms, accountants, banks and brokers who provide them with new private debt funding opportunities. Approximately 75% of all private equity sponsored loans syndicated in the US and Europe in 2018 were from sponsors where Partners Group has an existing relationship. On average, Partners Group has screened approximately 450 private debt investments each year since 2015.

Credit Analysis

Once a deal has been identified, a credit analyst is assigned to conduct bottom-up credit research.

For Liquid Loans, it is a two stage process. Information is drawn from PRIMERA, the IVC team, the Direct team, as well meetings with company management. An initial credit paper is produced in a standard format, covering both quantitative & qualitative factors including the sponsors rationale, financial modelling and value score. This is presented to the GLDIC for initial approval.

If approved, the credit will move on to full due diligence stage which involves more comprehensive due diligence on the business, financial, legal and ESG aspects of the deal. A 'Deal Team' is formed leveraging the expertise from across the Partners Group platform (originator, assigned credit analyst, legal, structuring etc) which is responsible for undertaking the full due diligence as well as monitoring the credit for the duration of the loan.

For direct deals, it is a longer credit approval process, but ultimately sits within the same overall architecture (origination, credit research, Deal Team, Investment Committee approval). Typically, direct loans will go to the GDDIC at least 4 times for a junior debt deal.

The output in either case is an 'Investment Recommendation' where the analyst will assign a short-term and long-term credit view (stable, positive, negative) and final recommendation (overweight or underweight). If approved by either the GLDIC or GDDIC, a credit will go on the allocation sheet and an approval limit will be set.

Approved credits are allocated to all eligible portfolios across the firm. Partners Group has allocation policies in place to ensure fair and equitable allocations across all their portfolios. Where there are too many portfolios that are eligible to participate in a deal, allocations will be scaled back on a pro-rata basis.

Partners Group Global Income Fund

Portfolio Construction

Overview

TYPICAL NUMBER OF HOLDINGS	150+
EMERGING MARKETS EXPOSURE	NIL
FLOATING RATE EXPOSURE	MIN. 95%
AVERAGE LOAN DURATION	3-4 YEARS
TYPICAL ALLOCATION TO SUB-INVESTMENT GRADE	100%
LEVERAGE	MAX. 50% OF THE FIRST LIEN STRATEGY ONLY
CASH HOLDINGS ON A LOOK-THROUGH BASIS	1-2%

Overview

In constructing the portfolio, the Manager's focus is on minimizing losses and downside protection while capitalising on market inefficiencies and relative value opportunities. The Trust invests across three buckets; First Lien, Second Lien & Subordinated and Special Situations. Leverage will be employed over the First Lien (the lowest risk) bucket only. The Manager will shift these allocations according to bottom-up opportunities, as loans mature as well as top-down considerations set out by the PGPSC.

The Trust aims to be well diversified by loan type, credit quality, loan maturity, geography, industry and borrower. There is no minimum or maximum number of investments, however Partners Group expects 150+ expected obligors once fully invested, with a typical position size of 75 basis points.

While the Trust is expected to consist predominantly of floating rate loans, it may at times be exposed to equity risk (where a loan includes an equity component or in circumstances where a borrower defaults on its obligations).

First Lien Loan Strategy (60-100%)

The First Lien Senior Secured Loans Strategy will invest in loans which are generally syndicated (financed by a group of lenders). Being syndicated, there is expected to be secondary market for these loans, making them more liquid than direct loans. First Lien loans are senior secured and rank first in terms of priority of payment and security on assets and cashflows of the borrower (ahead of both bonds and equity). First Lien loans have the highest expected recovery rate in the capital structure. Loans in the First Lien Strategy will typically have the following attributes:

- Typically either sub-investment grade or unrated;
- The total size of the loan is greater than US$200m
- The borrower is generating a minimum level of earnings (EBITDA of US$50m).

The First Lien Strategy is highly diversified with no single borrower expected to consist of more than 1.5% of the GAV and no single industry consisting of more than 15% of the GAV. Exposure will be mostly to US and European companies mostly, but may also include exposure to Asia Pacific or Australian borrowers.

0-20% of the First Lien strategy will be invested in the PG Senior Loan Master Fund ('PGGSLMF'). PGGSLMF is an open-ended fund registered in Luxembourg. It targets LIBOR/Euribor +3-5% p.a. by investing in Senior Secured First Lien Loans. It has approximately $1.1bn in FUM. There will be no fees and costs charged by PGGSLMF to the Company.

The total return expectation for the First lien Loan Strategy is 4-7% p.a. (inclusive of leverage see below).

Second Lien & Subordinated Loan Strategy (0-20%)

The Second Lien & Subordinated Loan Strategy is higher risk strategy that will invest in Second Lien Loans, Unitranche Loans and Mezzanine Loans. Second Lien loans are junior to First Lien loans and are secured by the assets of the company. They have substantially the same maturities, collateral and covenant structures as First Lien Loans. Subordinated loans are typically unsecured in nature. "Unitranche", a combination of both First lien and Second lien loans in a single facility. Mezzanine Loans usually rank junior in priority of payment to secured debt. These loans will typically be held to maturity.

It is expected that no single investment that forms part of this strategy will be more than 1.5% of the NAV. The total return expectation for the Second lien Loan Strategy is 7-12% p.a.

Special Situations Investment Strategy (0-25%)

The Special Situations Investment Strategy is a higher risk, opportunistic strategy that invests in a range of different asset types including loans that fall within both the First Lien or Second Lien & Subordinated Loan Strategy.

Examples of such investments include:

- Local 'direct lend' opportunities where a loan denominated in AUD can be made to an Australian borrower
- Investments into Senior Secured Loans in the secondary market that are trading at a discount to par but on which Partners Group has strong credit conviction
- Investments with equity components (such as equity options, equity warrants, preferred equity;
- Select junior capital investments such as PIK or mezzanine debt.

It is expected that no single investment that forms part of this strategy will be more than 1.5% of the NAV. The total return expectation for the Second lien Loan Strategy is 9-16% p.a.

Leverage

Leverage will predominantly be used for financing the loans which comprise the First Lien Loan Strategy, however, it may also be used for short term cash needs, including hedging, payment of distributions and cash balances. The Company can borrow up to a maximum of 50% of GAV of the First Lien Loan Strategy. Company Debt Facilities have been established with Wells Fargo and Citibank at a cost of Libor +1.75% p.a. If the credit line is not required to achieve the Trust's objective (i.e If spreads expand extensively) it will not be used.

Key features of the financing:

- Long term in nature (5+ years);
- Cannot get 'called away' by the lender if market conditions deteriorate;
- Is limited recourse in nature (has security over the senior secured loans subject to the financing but no other assets of the LIT).

Non-performing assets

Partners Group has a dedicated Workout team of three senior resources and four junior support analysts. The role of this team is to pull in the appropriate resources from across the firm; whether that be legal, structuring or industry specialists to recover what value they can from non-performing loans. The original deal team will remain involved given their understanding of the credit and existing relationships.

Partners Group has a number of tools at its disposal for handling non-performing loans including;

- selling the loan in the secondary market;
- restructuring the loan;
- refinancing the loan; and
- taking ownership of firms.

Risk Management

Risk limits

RISK MONITORING	SEPARATE RISK TEAM
MAXIMUM COMMITMENT TO ANY SINGLE OBLIGOR LIMIT	1.5% OF GAV
INDUSTRY LIMIT (SOFT LIMIT)	MAX 15% OF GAV
CASH	1-2% OF GAV
BORROWING POLICY	UP TO 50% OF FIRST LIEN STRATEGY ONLY

Portfolio risk is primarily controlled through diversification with no single borrower expected to consist of more than 1.5% of the GAV and no single industry consisting of more than 15% of the GAV. Aside from these 'soft' limits, there are few formal risk limits in place.

The Company expects to hold between 1 – 2% of GAV in cash. This is for the purposes of managing short term cash needs, including payment of settlement amounts in respect of hedges, loans and any expenses incurred by the Company.

Risk monitoring

Credit analysts are responsible for monitoring credit changes and updating the PRIMERA database for new information. Every credit must be re-submitted to the Investment Committee on a 6 monthly basis for credit review.

The Portfolio and Risk Management Team of 35 is primarily responsible for measuring and managing portfolio risks. Importantly, this team is separate to the investment teams. The team actively monitor the Trust for price movements, concentration and risk limits using proprietary and external analytical tools. Further, Partners Group has a monitoring committee, comprised of senior management members of the firm to oversee and review the performance of its investments.

Valuation of Assets

Third party pricing is available for the syndicated loans. For these assets, Partners Group receives daily feeds, and produces portfolio valuations on a weekly basis. IHS Markit (a third party valuation services provider) assists in valuing the direct loans. IHS Markit employs a range of valuation models, (including DCF models, earnings and multiple analysis) which are reviewed monthly and signed off by Partners Group's Valuation Committee. These loans are generally re-valued monthly.

Not all assets can be externally valued, particularly more complex structures such as those with equity stapled to debt. In those cases, Partners Group employs internal valuation models to these assets based on the impairment method. These assets are generally valued quarterly.

Currency management

Foreign currency exposures are fully hedged back to AUD, limiting currency risk.

Risks

An investment in the Trust carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Credit risk

Investing in non-sovereign debt securities, such as corporate loans, typically carries with it an increased level of credit risk. Credit risk generally refers to the extent of a borrower's willingness or ability to repay their debt. Higher credit risk generally infers a greater risk of capital loss. Credit investments are typically split between investment grade (AAA to BBB-) and sub-investment grade (BB+ to C). The Trust invests primarily in higher yielding lower rated sub-investment grade debt securities.

Equity market risk

The Trust can hold equity securities resulting from debt restructures. Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Leverage Risk

The strategy requires that the First Lien Strategy is leveraged. Where leverage is used, there is increased risk to the Trust as any defaults in the Portfolio may impact the ability of the Company to repay its credit facility. If the Company defaults on the credit facility this may result in the creditor forcing the sale of other assets in order to repay the credit facility, any forced sale of this nature may cause loss to the value of the Portfolio.

The use of borrowings by the Company may affect its ability to deliver returns to the Trust and may magnify the Trust's gains and losses.

ASX Related Market risk

Given that the Trust's units are traded on the ASX, investors may be exposed to risks including, but not limited to, unit trading price risk, volatility of units risk, ASX liquidity risk, and ASX counterparty risk.

The trading price of any listed security may change, related to performance and matters inherent to the investment performance of the securities, but also due to external factors such as market sentiment, or a range of other factors including the presence of larger buying or selling interest in the units.

Volatility risk may arise when units in the Trust are 'thinly' or 'heavily' traded, which could make the unit prices very volatile, irrespective of any changes in the underlying value of the investments held by the Trust.

Although liquidity is generally expected to exist in this secondary market for units in the Trust, there are **no guarantees that an active trading market** with sufficient liquidity will exist nor sustain a price representative of the NAV per unit.

Liquidity Risk

Liquidity risk is the risk that an underlying investment may be difficult or impossible to sell in a timely fashion when required, or that the price at which such a sale may be made differs substantially from what Partners Group considers to be fair market value. While liquidity is a result of listing on ASX, it should be remembered that private debt by its nature is highly illiquid and investors wishing to redeem may have to do so at a discount to NAV. The Manager has policies in place for managing discounts should they arise.

Risk to Income

Distributions will be paid at the discretion of the Responsible Entity in accordance with its Distribution Policy and may depend on a number of factors including future earnings, capital requirements, financial conditions, future prospects and other factors that the Responsible Entity deems relevant. The use of currency hedging and leverage may also impact the Trust's ability to distribute income.

Valuation risk

Investing in the LIT exposes investors to the possibility that an asset is over or undervalued and it is worth more or less when it matures or is sold. Factors contributing to valuation risk can include but are not limited to, data issues, market liquidity, market instability or volatility, and financial modelling assumptions. There may also be conflicts of interest arising from the fact that Partners Group internally value assets within the Trust.

Legal Structuring Risk

The investments are held by the Company and not directly by the Trust, as such the Responsible Entity only has control over the assets on a contractual basis through the PPN rather than directly holding the assets within the Trust.

Quantitative Performance Analysis

The Product commenced on -. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.

Partners Group Global Income Fund

Glossary

Click here for the glossary of terms.

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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