Lonsec

Recommended

Product Review
Partners Group Global Income Fund

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	NO
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	CASH DISTRIBUTION OF RBA CASH RATE +4% P.A. (NET)
MANAGEMENT COSTS	1.54% P.A.
PERFORMANCE FEE	10% (0.25% P.A CAP | SPECIAL SITUATIONS ONLY)
RESPONSIBLE ENTITY	EQUITY TRUSTEES LIMITED

Market data

MARKET CAPITALISATION	$458M
UNITS ON ISSUE	275M
UNIT PRICE (16-9-2020)	$1.66
52 WEEK HIGH/LOW UNIT PRICE	$2.08 / $1.10
NAV (4-9-2020)	$1.83
52 WEEK HIGH/LOW NAV	$2.03 / $1.34
UNIT PRICE PREM/(DISC) TO NAV	-9.02%

About the Fund Manager

FUND MANAGER	PARTNERS GROUP PRIVATE MARKETS (AUSTRALIA) PTY LTD
OWNERSHIP	100% OWNED BY PARTNERS GROUP HOLDING AG
ASSETS MANAGED IN THIS SECTOR	US$22BN (JUNE 2020)
YEARS MANAGING THIS ASSET CLASS	17

Investment Team

PORTFOLIO MANAGER	ANDREW BELLIS, SURYA YSEBAERT (COMMITTEE-LED)
INVESTMENT TEAM SIZE	70
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	20 OFFICES | ZUG-HEADQUARTERED (CH.)

Investment process

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

Trust rating history

SEPTEMBER 2020	RECOMMENDED
DECEMBER 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

- Access to private debt markets via a more liquid structure and at a reasonable cost.
- Highly motivated and very high calibre investment team.
- Leveraging a strong global footprint and network, Partners Group is highly experienced in executing deals across a wide spectrum of private markets, and has developed a strong track record.
- High quality credit research process.

Weaknesses

- The Trust's track record is limited as is the Manager's experience in generating monthly distributions to domestic investors.
- Wide limits around some of the riskier exposures: mezzanine debt and 'Payment-in-kind' securities.
- Exposure to an evergreen fund for first lien loans reduces the Trust's closed-end structure benefits.

ANALYST: CLINTON ALEXANDER | APPROVED BY: JAMES KIRK

Partners Group Global Income Fund

Trust Risk Characteristics

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

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY					●
ESG				●	

Fee profile

	LOW		MODERATE		HIGH
FEES VS. UNIVERSE				●	
FEES VS. ASSET CLASS	●				

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 ticker: 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 targets 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 (Partners Group or 'the Manager') which is a wholly owned subsidiary of Partners Group Holding AG. 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 is expected to 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 mostly invests in sub-investment grade or 'speculative grade' issues** (B or BB) on a public or private/equivalent basis. The Trust invests in covenant-lite issues which typically have less protection than securities issued with traditional covenants. The portfolio's covenant-lite assets was very high at 91.5% (June 2020). There are also and expected to be exposure to complex debt instruments such as Payment-in-kind ('PIK') and other Mezzanine debt type structures.
- Exposures consist primarily of US and European companies with the potential for exposure to companies in the Asia-Pacific region including Australia. Exposures to emerging markets are not expected.
- The Trust is well-diversified with exposure to 387 investments/obligors. A maximum of 1.5% of GAV to any one obligor also applies. The Company will typically hold 1-2% of GAV in Cash.
- Portfolio level financing forms part of the investment strategy, with the strategy permitted to borrow 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 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.

Partners Group Global Income Fund

- 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 Trust's NAV is calculated on a bi-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 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 aims 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 Trust has paid and/or declared a distribution for each month since December 2019.
- Given the bulk of the underlying coupons are expected to be paid quarterly, an element of smoothing is required to meet the Trust's monthly distribution objective. The Manager's track record in delivering monthly income payments to investors is however short. 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 be a continued area of interest in future reviews and particularly given the market environment following the COVID-19 pandemic.
- The Company aims to fully hedge foreign currency exposure back to Australian dollars. The Manager has made a Taxation of Financial Arrangements ('TOFA') election for the Trust although none of the voluntary TOFA elections have been made to date, meaning income from the PPN will be assessable to the Trust when paid rather than on an accruals basis. This may impact the 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.
- The Trust's distribution target of RBA Cash Rate plus 4% p.a. (net) is indicative only and is not guaranteed by the Manager. Lonsec cautions investors not to be wholly reliant on this 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 has a distribution re-investment plan ('DRP') in place with respect to distributions made by the Trust to unitholders. Importantly, the DRP takes into account the premium or discount to NAV of the Trust'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 at NAV. 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 unitholders 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 Trust.
- 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 Trust 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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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 Trust 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 Trust may exhibit high volatility and moderate-to-high correlation to global equities. Lonsec also notes that there is risk of the Trust trading to a significant discount to NAV.
- Dividends are 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 minimal 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 reached full investment during January 2020, ahead of the previously communicated schedule, and was invested across 359 obligors. The credit line was not utilised during the portfolio ramp-up phase. As at July 2020, the Trust was 94% invested in First Lien loans, 1% in Second Lien and 5% in Special Situations.
- PGG has elected into the AMIT regime.
- The Manager and RE moved to bi-weekly reporting of NAV and increased distribution strategy efforts to assist with trading volatility in response to the market dislocation from the COVID-19 pandemic.
- Alfred Ganter, Co-Founder, became Chairperson of the Investment Oversight Committee.
- Firm headcount has grown to 1,464. The investment team approximates 800 having grown by 128 over 2019CY.
- The Portfolio Management Team has grown to 18 (+3) since the previous review.
- Continued expansion of the Industry Value Creation (IVC) team now comprising 60 personnel. Two leaders for each industry vertical will be in place by December 2020.
- Fredrik Henzler, Head of IVC, will relinquish his Co-Head of Industrials position later this year. Paul Swaney will replace Henzler and join Ralph Schuck who remains Co-Head of Industrials.
- The ESG team within the IVC will be adding a further analyst bringing headcount to four.
- The six-person IVC Research Team was created in early 2019. This team is responsible for deal sourcing in line with the firm's Thematic Sourcing approach and interacting with various deal teams.
- Reto Munz, Head of Liquid Private Markets, transferred to the European Private Debt business unit on 30 January 2020. Prabal Sidana was subsequently appointed Head of Liquid Private Markets. An Investment Committee was also formalised comprising five members and is chaired by Sidana.
- Continued build-out of the in-house Restructuring Team with two further additions and likely for a further four personnel to be recruited in the near-term.
- Creation of a specific Debt Portfolio Management Team separate to the Portfolio Management Team.
- Some process enhancements for the Liquid Private Markets Team include greater ESG integration in the due diligence process and universe expansion (e.g. renewables).

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- Lonsec has not been advised of any material changes to the investment team or process since the previous review.

Lonsec Opinion of this Trust

People and resources

- Lonsec has visited some of the Manager's key offices over a number of prior reviews of its broader suite (e.g. Zug, New York and London) and has enjoyed good access with the Trust's key decision-makers. Partners Group is a large, well-resourced firm with over 1,400 employees located across 20 offices globally. The group has significant depth of investment resources and personnel to draw upon, with high levels of private markets experience embedded within the team. Lonsec notes the high degree of cohesion displayed by the team despite their obvious geographical separation to date and recently typified by their approach to navigating the COVID-19 pandemic. Further, Lonsec considers the Manager's broad, global employee network to be a key strength in being able to provide a consistent pipeline of investment opportunities.
- Lonsec notes that overall headcount has continued to expand alongside Partners Group's funds under management growth (US$93.6bn, June 2020). As an aside, Lonsec notes Partners Group's continual push into direct investments from a strategic asset allocation perspective since 2007 has been a key factor in headcount growth. Partners Group's approach to increasing headcount across all areas of the business is viewed pleasingly as direct investments require a greater level of due diligence, particularly on the operations and legal side. Despite this expansion, Lonsec notes that Partners Group has preserved a team-orientated, motivated and driven investment culture.
- The Manager's recently opened Denver campus now comprises 215 staff. This office has become Partners Group's North American hub as it seeks to build greater footprint in the region commensurate with its European markets presence. Accordingly, investment staff additions and investment activity in North America totaled c.40% and 50% of their respective totals in 2019CY. Lonsec views this expansion positively enabling greater ability for sourcing deals although is mindful of the potential challenges the Manager faces in maintaining the culture, cohesion and consistency in process that Lonsec has viewed highly to date. That said, the transfer of senior and long-tenured investors (e.g. Bill Berry, Head of Private Debt) to the Denver campus is potentially an effective mechanism to ensuring this is maintained.
- The Private Debt team has been investing in senior secured loans since 2007. Lonsec has met with various members of the team since assuming coverage of the Trust alongside coverage of the broader Partners Group suite and has found them to be of high calibre. The Private Debt team is led by Bill Berry and consists of over 70 credit professionals. This team is comprised of the Liquid Loans team (10 credit analysts plus four 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 each assigned responsibility for covering approximately 40 credits which Lonsec considers to be high 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.
- Andrew Bellis and Surya Ysebaert are the named Portfolio Managers for the Trust albeit operate within Partners Group's traditional committee based decision-making approach. Bellis and Ysebaert are both experienced investors although hold relatively short tenures at the firm (four years each).
- Partners Group operates a number of committee-based structures relative to centralising decision-making responsibilities with one individual. Whilst this may serve to limit direct accountability, Lonsec believes this is important for private debt investing in ensuring fairness and consistency in accessing and allocating opportunities across various private debt programs operated across the business. The Global Investment Committee (GIC) is the Trust's key decision-making body responsible for overseeing all recommendations and allocations although does not have veto rights to investment recommendations for any broadly syndicated loan investments. The GIC is highly experienced and holds noteworthy investment experience and tenure averages of 26 and 21 years, respectively.
- In addition, two bottom-up committees (Global Liquid Debt Investment Committee ('GLDIC') and the Global Direct Debt Investment Committee ('GDDIC')) are responsible for reviewing and approving individual credits. This structure ensures quality and consistency of credit research undertaken. A separate risk team who are supported by a robust governance and compliance process also monitors the Trust.
- Alignment of interests with investors is considered reasonably high. Employees and firm partners hold c.40% of outstanding equity in the firm albeit Partners Group's three co-founders hold c.30% of firm equity. Partners Group also generally commits 1% of total commitments in its investments alongside its investors. Partners Group has invested c.A$10m of its own capital in the Trust. All employees hold stock or options with key investment staff also participating 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 relatively low.

Research and portfolio construction

- Lonsec believes that Partners Group implements a highly logical, robust and repeatable investment process consisting of a combination of top-down and bottom-up analysis. Lonsec considers having on-the-ground resources in key regions (Europe, US and to a lesser extent Asia and Australia) provides a competitive advantage in this approach and aids in deal sourcing. This is supplemented by an equally strong external network (sponsors, fund managers, banks and intermediaries) to facilitate leads and generate deal flow. Partners Group, on average, sources over 450 deals annually.

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- Partners Group's edge is considered to be somewhat stronger in the European market given its heritage. Expanding the firm's US footprint has however been of strong strategic focus in recent years with this region likely becoming a greater source of future deal flow. That said, Lonsec highlights that the US has generally been considered a more competitive and established market and as such, will continue to closely monitor Partners Group's ability to consistently and successfully implement their value creation philosophy in this region.
- The top-down process is designed to provide direction as to which market segments the investment team should focus their efforts and sets the Trust's long-term target allocations. Recognising that different market segments perform better during different stages of the economic cycle, the Trust is tilted towards investment/debt strategies, geographic regions, industries that offer the best relative value opportunities. Lonsec considers Partners Group to be well-positioned to determine the Trust's allocations, leveraging off insights gathered from the extensive investment teams and committees.
- Lonsec considers the credit and loan research undertaken to be 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 cash flow 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. Processes are also in place to ensure the fair and equitable distribution of approved loans across Partners Group's eligible portfolios.
- Partners Group's general presence across the spectrum of private market investments is believed to place the firm in a strong position to view a range of investment opportunities. The firm's long heritage in private markets brings a significant degree of accumulated information systematically captured in its proprietary database 'PRIMERA'. PRIMERA contains data on approximately 34,000 private companies allowing for detailed assessments on potential investments aiding in investment due diligence and relativities. Lonsec considers this a powerful tool providing both a strong read on private debt markets while promoting a disciplined and repeatable investment process for investment selection. The ability to expedite deal executions is also a further benefit.
- Partners Group has the necessary resources in place to manage non-performing assets, with a dedicated five-person in-house Restructuring Team. The firm 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 (0.35% p.a. for First Lien and 0.19% for Second Lien and Subordinated loans). This compares favorably to publicly available loan indices such as the S&P/LSTA Index where loss rates of 0.68% have been recorded on average since 2007. These may however experience an uptick given the impacts from the COVID-19 pandemic.
- The Trust benefits from the presence of the Industry Value Creation (IVC) team comprising over 60 highly experienced members with industry and functional backgrounds that typically sit on the board of direct investments. The IVC is integrated into the 'Deal Teams' (small working groups comprised of professionals from across the business) ensuring industry and operational expertise is embedded throughout the entire investment process from sourcing to exit. The recent creation of an internal research function within the IVC is also considered to ingrain consistency in deal sourcing and deal team collaboration. Lonsec highlights that the IVC has grown strongly alongside Partners Group's push into direct investments and considers the integration of the IVC within the specialist market teams to be a key competitive advantage of the strategy.
- Portfolio construction is committee-based and reflects more an allocation decision (i.e. exposure to market segment and investment/debt strategies). Lonsec has observed the GIC in operation as part of reviews of Partners Group's broader suite and considers this committee to be highly diligent and to demonstrate a high level of investment skill. Whilst committee-based structures have the potential for reduced nimbleness and individual accountability, Lonsec considers this approach to be particularly well-suited to the Partners Group model and this strategy.
- Lonsec believes that the Manager has ample tools available and sufficient flexibility to reach the Trust's RBA +4% p.a. objective. Since the first distribution in December 2019, the average monthly distribution has been the equivalent of RBA cash rate +4.6% p.a. to July 2020. The Trust invests across three buckets; First Lien, Second Lien & Subordinated and Special Situations, each with its' own risk and return expectations. Leverage is employed over the lowest risk bucket (First Lien) only as advised by the Manager. 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 Global Portfolio Strategy Committee. Partners Group has a solid track record in each of the underlying buckets.
- Whilst the Trust has reached full investment, the onset of the COVID-19 pandemic has impacted the build out of the portfolio which remains heavily skewed towards First Lien loans (94%, July 2020) with Second Lien and Subordinated Loans and Special Situations comprising the minor residual. Whilst Lonsec considers this prudent in the current climate given First Lien loans' capital structure position, the reduced exposure to Second Lien/Subordinated Loans alongside the Special Situations strategy has impacted portfolio yield generation. This has necessitated the need to be employ elevated levels of leverage 38% (July 2020), albeit within the mandated limit, to achieve the monthly distribution target. Lonsec will continue to monitor the Manager's ability

to adjust between these buckets as a longer track record develops.

- The ability to employ leverage over the First Lien strategy is however a useful tool in boosting expected income returns albeit 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 although notes that the current market conditions may necessitate such use and will continue to monitor this in future reviews.
- As part of the First Lien Loan Strategy, the Trust invests in the open-ended Partners Group Global Senior Loan Master Fund SICAV (PGGSLMF) to maintain a balance of liquidity and portfolio exposure. This is generally no more than 20% of GAV and has approximated that currently, but has been significantly above this limit, as permitted during the ramp-up phase. By virtue of the Trust's exposure to the open-ended structure of the PGGSLMF which features a semi-monthly redemption facility, Lonsec believes the benefits of PGG's closed-ended structure are potentially reduced. This has been particularly evident during Q1 2020 whereby the need to liquidate assets within PGGSLMF was required to satisfy redemption requests and indirectly impacting PGG's exposure to assets within PGGSLMF.
- 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. Lending to profitable companies may however be impacted by the current market conditions which remains an evolving situation (e.g. waivers expiring going forward). That said, the portfolio has remained default free to date and has been relatively defensively positioned with exposure to impacted sectors from the COVID-19 pandemic remaining below 10%. Lonsec expects this conservative approach to be continually applied to the management of the Trust although will monitor this as the portfolio develops and the current economic environment evolves.
- The Special Situations bucket remains somewhat of an unknown, with very few constraints around the type of securities and structures that can be invested in and risk contained therein. This allocation comprised 4% of the Trust's portfolio and remains concentrated amongst 13 companies and 17 assets. 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 (e.g. Senior Secured Loans in the secondary market and junior capital investments). Nonetheless, Lonsec would prefer to see more defined limits on some of the higher risk opportunities (PIKs and Mezzanine debt).

ESG integration

- The Manager has articulated a commitment to the integration of ESG within their investment process with evidence of a policy framework and public positioning. The ESG policy is freely available on the firm's website. Overall, Lonsec views the strength of this commitment to be above other private market peers. The level of disclosure with respect to the Manager's engagement policies and reporting is seen as industry best practice.
- Evidence of ESG integration within the investment process for the Trust was above that of broader private market peers with structured use of ESG data evident. Investment personnel also demonstrated an ability to engage on broad ESG topics, and the Manager could demonstrate clear ESG based engagement outcomes. Lonsec considers the overall level of ESG integration to be moderate-to-high.

Risk management

- The Portfolio and Risk Management Team of 45 is primarily responsible for measuring and managing portfolio risks for a range of funds. 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 an additional source of market insight.
- As with most Alternative strategies, the Trust has few formal risk limits, and where evident, limits are '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 Trust's overall risk management.

Funds under management

- Partners Group managed US$96bn, of which US $22bn comprised private debt assets. Private debt assets consisted of US$14.6bn and US$7.8bn across Direct Private Debt and Syndicated Debt, respectively (June 2020). Partners Group manages approximately A$8.4bn on behalf of Australian clients across its private market capabilities.
- Lonsec notes Partners Group has significantly grown its funds under management (FUM) since 2006 at a compounded annual growth rate (CAGR) of c.20% since 2006. Since 2013, FUM has grown from US $43.5bn (Dec. 2013) to US$96bn (June 2020). Lonsec notes that c.25% of firm FUM comprises semi-liquid (retail) money with this having increased from 15% year-on-year. Lonsec is however conscious that larger managers will need to conduct a higher volume of deals (requiring a larger team and potentially lowering the quality of investment hurdle) and/or participating in larger deal sizes. Lonsec notes both are unfavourable, particularly moving into the larger deal space where valuations are typically higher and competition more intense with firms such as KKR (US$207bn), The Blackstone Group (US$564bn) and The Carlyle Group (US$221bn). This will remain a continued watchpoint in future reviews.

Fees

- The Manager has not provided updated fee disclosures since the PDS dated 29 July 2019 prior to listing. As per the date of this PDS, the fee disclosure for the Trust is as follows: management costs (est.) of 1.54% p.a. comprising a management fee of 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). Borrowing costs have been estimated at 2.98% p.a. of the NAV. During the period ending 31 December 2019, net transaction and operational costs (est.) were expected to amount to 0.02% p.a. of the Trust's NAV. Please refer to the Trust's PDS for further details.

- Lonsec notes that a performance fee of 10% p.a. on the Special Situations strategy applies which is assessed over a three-year rolling period. This is subject to a dual hurdle mechanism for performance fees to be earned: the Special Situations bucket must achieve its RBA +6% p.a. objective and at the Trust level, the RBA +4%p.a. objective must also be satisfied. Finally, a 0.25% p.a. cap on the overall performance fee also applies.
- 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.

Performance

- Lonsec notes that PGG was listed on the ASX on 26 September 2019 and as such, has limited trading history and a track record inhibiting analysis. PGG has a relatively diversified client base with over 6,000 underlying investors. Average daily volume for PGG has been approximately 266,928 shares since listing to 4 September 2020. Lonsec notes that the offering was well supported by several brokers and wealth management groups which is likely to assist secondary market trading. The Trust targets a cash distribution of RBA Cash Rate +4% p.a. (net of fees, costs and taxes) paid monthly. Since inception to July 2020, the Trust has generated a distribution of 3.3%.
- Market volatility induced by the COVID-19 pandemic has led to high share price volatility as denoted by the 52-week high/low: $2.08 and $1.00. Equally, PGG's discount/premium volatility has been high, particularly over Q1 2020, given the market dislocation. The Trust had broadly traded at a premium to NAV (Feb. 2020: 1.5%) until March 2020. As at 31 July 2020, the discount to NAV was -12.8% with this having reduced marginally over the prior months. Lonsec views positively the steps taken by the Manager to assist in trading during the midst of the Q1 2020 market dislocation (e.g. bi-weekly reporting of NAV, enhanced market communications) but will seek to assess the trading performance of the Trust more closely as it continues to develop its track record.

Overall

- Lonsec has maintained the Trust's **'Recommended'** rating. The Trust provides access to private debt markets in a more liquid investment structure and at a reasonable price point. Partners Group is staffed by high calibre investors experienced in implementing a relative value and franchise quality style. The credit research process is high quality benefiting from the firm's proprietary database and strong networks cultivated. Decision making and governance frameworks are considered strong.
- Partners Group has a good pedigree in private debt investing albeit the Trust itself has limited operating history. Lonsec will therefore seek to build conviction in Partners Group's ability to adjust exposures and manage risks as a longer track record develops, particularly given the changed market environment. The ability to distribute a consistent and reliable income stream will be a continued watchpoint although Lonsec acknowledges the Manager has achieved this to date. Further, the sizeable exposure to an evergreen fund for first lien loans reduces the Trust's closed-end structure benefits in Lonsec's view.

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 US$96bn (June 2020) 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 Trust is Equity Trustees Limited ('EQT'). EQT is a publicly listed company on the Australian Securities Exchange.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
GLOBAL INVESTMENT COMMITTEE (N=9)	AVERAGE	26 / 21
GLOBAL LIQUID DEBT INVESTMENT COMMITTEE (N=7)	AVERAGE	19 / 6
GLOBAL DIRECT DEBT INVESTMENT COMMITTEE (N=8)	AVERAGE	20 / 8
BILL BERRY	PARTNER, HEAD OF PRIVATE DEBT	24 / 4
SCOTT ESSEX	PARTNER, HEAD OF PRIVATE DEBT, AMERICAS	20 / 12
CHRISTOPER BONE	PARTNER, HEAD OF PRIVATE DEBT, EUROPE	20 / 9
EDWARD TONG	MANAGING DIRECTOR, HEAD OF PRIVATE DEBT, ASIA	16 / 7
ANDREW BELLIS	MANAGING DIRECTOR, HEAD OF LIQUID LOANS	20 / 3
SURYA YSEBAERT	MANAGING DIRECTOR, LIQUID LOANS	21 / 3
MARK HANSLIN	SENIOR VICE PRESIDENT, LIQUID LOANS	35 / 2

Partners Group employs over 1,400 staff, of which approximately 800 are private market investment professionals.

The Private Debt team is led by Bill Berry and consists of over 70 credit professionals. This team is comprised of the Liquid Loans team (10 credit analysts plus four junior financial analysts) and the Direct Loans team (35 analysts).

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Andrew Bellis is Head of Liquid Loans and a named Portfolio Manager for the Trust holding over 17 years' investment experience gained at a number of firms. Bellis is a member of the Global Liquid Debt Investment Committee.

Surya Ysebaert is also a named Portfolio Manager for the Trust and member of the Liquid Loans team and Chairman of the Global Liquid Debt Investment Committee. Ysebaert holds over 21 years' industry experience built across various asset managers and investment banks.

Bellis and Ysebaert both operate within Partners Group's traditional committee based decision-making approach.

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) although deals can sit across multiple sectors.

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 around 60 operating specialists with both functional expertise (sales, pricing, eCommerce, Procurement, Lean Production and restructuring) and industry experience. The IVC is integrated into the 'Deal Teams' and members work across equity and debt. Fredrik Henzler leads the IVC, and is a member of the Global Executive Board, the GIC, the Private Equity Directs Investment Committee and the Global Direct Debt Investment Committee. IVC members work across equity and debt. On the debt side, IVC members assist by conducting loan benchmarking and industry analysis for each deal.

The Private Debt team also leverages the broad resources of the Partners Group platform, including seven loan closing/execution resources, over 100 investment monitoring & analytics, 45 portfolio & risk management, more than 60 tax, legal and structuring personnel.

Decision making

The key decision-making body for the Trust is the GIC. The committee consists of nine senior members of the firm and is ultimately responsible for the Trust's performance. Members of the group possess an average of 26 and 21 years' industry experience and firm tenure, respectively. The GIC governs the investment approach and process, including top-down relative value analysis, portfolio management and final investment decision-making.

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.

The purpose of the Global Portfolio Strategy Committee (GPSC) is to provide asset allocation advice for primary markets and specifically for this Trust, private debt. The GPSC is also responsible for translating the Private Markets Relative Value Committee's (PMRVC) relative value outlook into the individual products managed and to ensure adherence of portfolio construction with investment goals of the various clients. The PMRVC committee convenes semi-annually.

Remuneration/Alignment of interests

Partners Group operates a four-tiered compensation structure comprising a base salary, annual bonus, equity and/or options (typically vested over five years) and finally, for key investment staff, a share in the carried interest bonus pool (annual allocation from performance fees earned across the business).

The majority of employees own shares or options in Partners Group Holding AG. Firm partners and employees hold over 40% of the total share capital outstanding in Partners Group Holding AG.

Research Approach

Overview

Deal Sourcing

Partners Group leverages its internal platform of over 800 private market professionals to source debt funding opportunities alongside its private markets network and other professional relationships to provide a consistent pipeline of deals. Deals may also be identified via the firm's proprietary 'PRIMERA' database which tracks around 34,000 private market assets. 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 annually since 2015.

Credit Analysis

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

For Liquid Loans, this is a two stage process. Information is drawn from PRIMERA, the IVC team, the Direct team, as well meetings with company management. A standardised initial credit paper is produced covering both quantitative & qualitative factors including the sponsor's rationale, financial modelling and value score. This is presented to the GLDIC for initial approval.

For first lien investments under US$20m, if approved, the credit is added to an approved list. For first lien investments greater than US$20m and all second lien investments, the deal proceeds to a second credit review. Credits that are not approved in the first credit review are tracked. The second review involves more detailed scrutiny on various deal aspects including the business, financial, legal and ESG considerations. 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 and monitoring the credit for the duration of the loan. The approved list of credits is then updated to reflect increased hold risk limit based on a final positive decision from the investment committee of first lien investments up to US $50m and second lien investments up to US$25m.

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.

Partners Group Global Income Fund

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 progress to the allocation sheet and an approval limit is 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 portfolios. In situations of a high quantum of eligible portfolios for a given deal, allocations are pro-rated.

Portfolio Construction

Overview

TYPICAL NUMBER OF HOLDINGS	300-400 (387, JULY 2020)
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

Portfolio construction is focused on loss minimisation and downside protection while capitalising on market inefficiencies and relative value opportunities. The Trust invests across three types; First Lien, Second Lien & Subordinated and Special Situations. Leverage is employed over the First Lien (the lowest risk) type only. The Manager will shift these allocations according to bottom-up opportunities, as loans mature as well as top-down considerations per the GPSC.

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 obligors stand at 387 (July 2020). Typical position sizes are 75bps.

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 invests in loans which are generally syndicated (financed by a group of lenders). Being syndicated, there is expected to be a secondary market for these loans, enhancing liquidity relative to direct loans. First Lien loans are senior secured and rank first in terms of priority of payment and security on assets and cash flows 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; and
- 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. Exposures are mostly to US and European companies mostly, but may also include 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 US$1.3bn in assets. This accessed without charge by the Trust.

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

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

The Second Lien & Subordinated Loan Strategy is a higher risk strategy that invests 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. These loans have substantially the same maturities, collateral and covenant structures as First Lien Loans. Subordinated loans are typically unsecured in nature. "Unitranche" are 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 A$ 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; and
- 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 is predominantly 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 +1.40% p.a. The credit line is utilised where it is needed to achieve the Trust's objective (i.e if spreads expand extensively). This has been evident throughout the operating history of the Trust given the broader market conditions.

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

Non-performing assets

Partners Group has a dedicated in-house Restructuring Team of five senior personnel. This team's role is to amass appropriate firm-wide resources (e.g. legal, structuring or industry specialists) for recovery of value from non-performing loans. The original deal team remains 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

SEPARATE RISK MONITORING	YES
MAXIMUM COMMITMENT TO ANY SINGLE OBLIGOR LIMIT	1.5% OF GAV
COUNTRY/REGION LIMIT	UNCONSTRAINED
INDUSTRY LIMIT	MAX 15% OF GAV (SOFT)
CASH LIMIT	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.

Cash is expected to comprise 1-2% of GAV. 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.

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 semi-annually for review.

The Portfolio and Risk Management Team ensures adherence to investment guidelines and portfolio strategies, as well as limiting portfolio risks.

A range of detailed regular reports have been designed to monitor and evaluate risks within the Trust. These include reports for quantitative risk management, portfolio management (asset allocation, exposures, performance, cash flows, and valuations), risk consideration (liquidity, currency exposures) and direct investment monitoring.

Partners Group Quantitative Model (PGQM) is a proprietary tool used to forecast cash flows and manage the absolute allocation risks. Product Tracking Solution (PTS), eFront and Abacus are additional tools used to provide a range of data (e.g. regional allocations, currency exposures and manager diversification) assisting in adherence to portfolio limits.

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 A$, 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.

Partners Group Global Income Fund

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.

Partners Group Global Income Fund

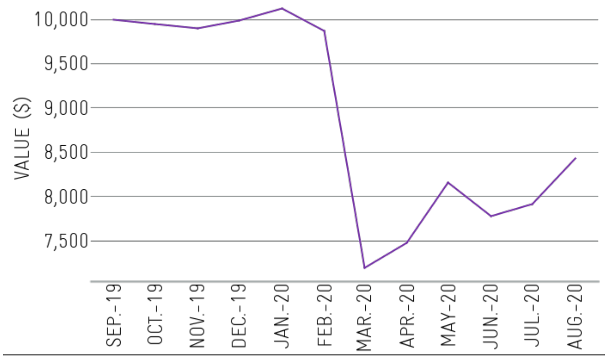
Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2020)

Performance metrics

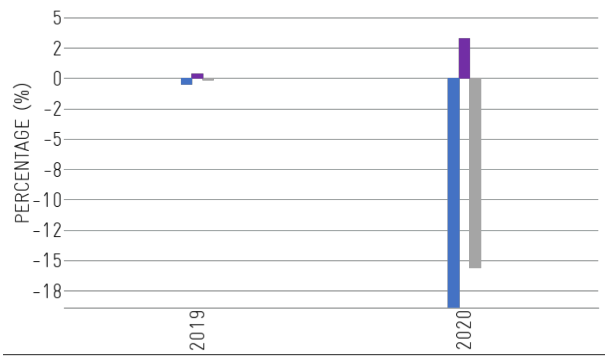
	3 MTH	6 MTH	9 MTH	12 MTH
TOTAL RETURN (% PA)	3.34	-14.58	-14.86	-
STANDARD DEVIATION (% PA) *	-	-	-	-
EXCESS RETURN (% PA)	2.29	-16.70	-18.17	-
WORST DRAWDOWN (%)	-4.69	-27.13	-28.98	-
TIME TO RECOVERY (MTHS)	2	NR	NR	-
TRACKING ERROR (% PA) *	-	-	-	-

FUND: PARTNERS GROUP GLOBAL INCOME FUND
BENCHMARK USED: RBA CASH RATE + 4.00%
* PERIODS LESS THAN 12 MONTHS ARE NOT CALCULATED
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

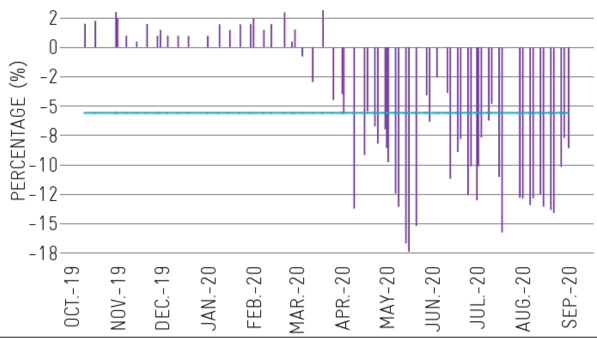
Growth of $10,000 over 11 months



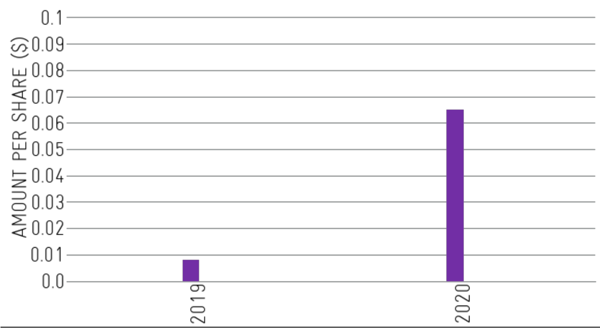
Calendar Year Returns over two years



Unit Price Premium/Discount to NAV over 11 months



Dividend Record over two years



ISSUE DATE 17-09-2020

ANALYST: CLINTON ALEXANDER | APPROVED BY: JAMES KIRK

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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ANALYST: CLINTON ALEXANDER | APPROVED BY: JAMES KIRK