Product Assessment

Report as at 07 Mar 2024

Zenith

RECOMMENDED

Partners Group Global Income Fund - Class A

Rating issued on 07 Mar 2024 | APIR: ETL4037AU

Investment objective

To provide investors with monthly income, targeting a cash distribution of RBA Cash Rate plus 4% p.a. (net of fees, costs and taxes).

Manager	Partners Group
Distributor	Partners Group
Sector	International Fixed Interest \ High Income
Investment Style	Active
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Opportunistic Credit
Investment Timeframe	5-6 Years
Benchmark	Bloomberg AusBond Bank Bill Index
Min Investment Amount	$20,000
Redemption Frequency	Monthly
Income Distribution	Monthly
Fund Size (31 Jan 2024)	$94.90M
Management Cost	1.21% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.15% / 0.15%
Inception Date	01 Mar 2022

Fund facts

- Diversified portfolio of sub-investment grade Corporate Loans
- Investors subject to monthly applications and withdrawals
- Large and experienced team with diverse range of specialist skill sets

Viewpoint

The Fund, managed by Swiss-based Partners Group Holding AG (Partners Group), provides exposure to a diversified portfolio of sub-investment grade Corporate Loans, including Direct Lending. In Zenith's opinion, the Fund is an attractive offering, highlighting the breadth of Partners Group's Private Debt platform and the team's ability to underwrite high quality loans and minimise the incidences of corporate defaults.

Partners Group is a global private markets investment management firm with capabilities across Private Equity, Private Debt and Real Assets. The firm manages a broad range of limited partnerships and customised portfolios for institutional and high net worth investors.

The Global Investment Committee (GIC) governs the firm’s overall investment approach and oversees the final decisions for all private market deals. Zenith highlights the depth and experience of the GIC, noting its diverse composition and experience across a range of private market verticals. Furthermore, the GIC's understanding of debt funding structures and how they are utilised by General Partners is considered a key competitive advantage.

The GIC is supported by the Syndicated Debt and Direct Debt Investment Committees, both of which are responsible for investment pre-selection, deal development and approving investments, subject to the type and size of the transaction. Both committees comprise the most senior investors across the Private Debt segments.

The investment process commences with a top-down allocation strategy, which is then followed by a bottom-up, credit selection process. The relative attractiveness of Private Debt investment types (i.e. Broadly Syndicated Loans, Direct Loans and secondary market Syndicated Loans) are analysed based on criteria such as availability, pricing and lending opportunities within each segment. The output of the analysis is then implemented through the investment selection and due diligence process which aims to identify Loans within each segment that have sufficient quality and value.

The investable universe comprises sub-investment grade Loans, typically issued by Private Equity-backed companies. The universe contains Senior Secured Loans, which rank higher in the borrower's capital structure and has claims over assets and cashflows. While lower-ranking, Second Lien and Subordinated Loans are also permitted, however they are expected to account for a smaller portion of the portfolio.

Consistent with the investable universe, the underlying borrowers have lower-quality credit ratings with indicative ratings of BB, B and below based on S&P's ratings methodology. Zenith highlights that the underlying portfolio is managed with limited constraints in respect of credit ratings or minimum overall credit quality. Zenith notes that this cohort of securities can be subject to high levels of mark-to-market volatility and potential default risk, particularly during stressed Equity periods or cyclical downturns. Accordingly, investment outcomes will be closely tied to the quality and depth of the firm's bottom-up due diligence process.

Zenith views the portfolio construction process to be well structured and consistent with the investment objectives, highlighting Partners Group's proven track record in managing sub-investment grade portfolios including Direct Debt. Furthermore, we consider the application of leverage to be sound and appropriate considering the Fund's monthly liquidity profile.

Fund analysis

Fund characteristics

Constraint	Value
Industry Exposure - GICS Level III	Max: 15%
Single Issuer	Max: 1.5%
Leverage - Senior Secured Loans	Max: 50%
Leverage - Portfolio	Max: 50%

Investment objective and philosophy

The Fund's investment objective is to provide monthly income through exposure to a diversified pool of global Private Debt investments. More specifically, Partners Group targets a Cash distribution of RBA Cash Rate plus 4% p.a. (net of fees, costs and taxes), paid monthly.

The Fund invests across global sub-investment grade Loans with moderate leverage employed to enhance returns. This primarily consists of Broadly Syndicated Loans and to a lesser extent, Direct Loans, both of which are floating rate in nature.

The investment process commences with a top-down allocation strategy, which is then followed by a bottom-up Credit selection process.

The first stage is a relative value assessment of potential investment opportunities based on the global economic outlook. This includes the attractiveness of different geographic regions, industry sectors and issuer sizes (i.e. large or small/mid caps). This process is undertaken on a semi-annual basis and assists in identifying the opportunity set for the firm's various private market segments.

The relative attractiveness of Private Debt investment types (i.e. Broadly Syndicated Loans, Direct Loans and secondary market Syndicated Loans) are analysed based on criteria such as availability, pricing and the lending opportunities within each segment.

The output of the relative value analysis is then implemented through the investment selection and due diligence process. The bottom-up process aims to identify investments within each segment that have sufficient quality and value to be included in the Fund’s portfolio.

Overall, Zenith believes that Partners Group employs a robust and repeatable investment process that combines top-down and bottom-up inputs to produce a well-diversified portfolio of high-quality investments.

Portfolio applications

The Fund offers investors exposure to a diversified portfolio of global sub-investment grade Corporate Loans with moderate leverage employed to enhance returns. The Fund is primarily invested in Broadly Syndicated Loans and to a lesser extent, Direct Loans, both of which are floating rate in nature.

Given the Fund targets a cash distribution of RBA Cash Rate plus 4% p.a. (net of fees), paid monthly, Zenith believes it may be suitable for investors seeking exposure to a higher-yielding portfolio, which provides a regular income.

From an allocation perspective, the Fund may be suitable as a component in the income-producing portion of a well-diversified portfolio. The Fund is considered appropriate as a component of a defensive allocation; however, given the higher return and volatility profile of the strategy, Zenith believes that investors may partly fund the allocation from the growth portion of a portfolio.

The Fund operates with monthly application and redemption terms, with monthly withdrawals capped at 5% of the net asset value (NAV) of the Fund. Withdrawal proceeds are confirmed and paid approximately 35 days after the redemption date. Furthermore, under the Fund's constitution, the payment of a withdrawal request can be delayed by up to an additional 180 days at the discretion of the Responsible Entity (Equity Trustees).

To access the underlying investment strategy, Partners Group employs a master/feeder structure with the Australian Fund investing via an Ireland-based company (the master fund). The Fund gains its exposure to the underlying investment strategy via a Profit Participating Note (PPN), which is issued by the Ireland-based entity. The PPN is a debt instrument paying a variable investment return based on the underlying performance of the Loan portfolio.

Zenith highlights that the investment structure is complex, including the use of an interposed entity to manage potential foreign tax obligations. While our preference is for a more simplified approach, in our opinion, the structure effectively creates the same investment and tax outcomes as a direct investment.

The tax legislation surrounding the use of interposed entities is highly complex and Zenith recommends for investors to seek their own personal tax advice with respect to the suitability of the structure.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	**Full/Partial**
Alcohol	Partial
Armaments	Full
Fossil fuels	Partial
Gaming	Partial
Adult Entertainment	Full
Tobacco	Full
Nuclear Power	Partial
Human rights abuse	Full
Animal cruelty	Partial
Environmental Degradation	Full
PRI Status	

Key Information	Description
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*

Absolute performance

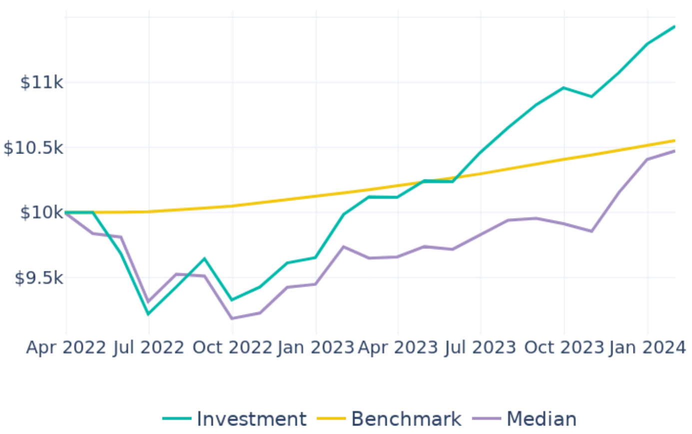
Performance as at 31 Jan 2024

Monthly performance history (%, net of fees)

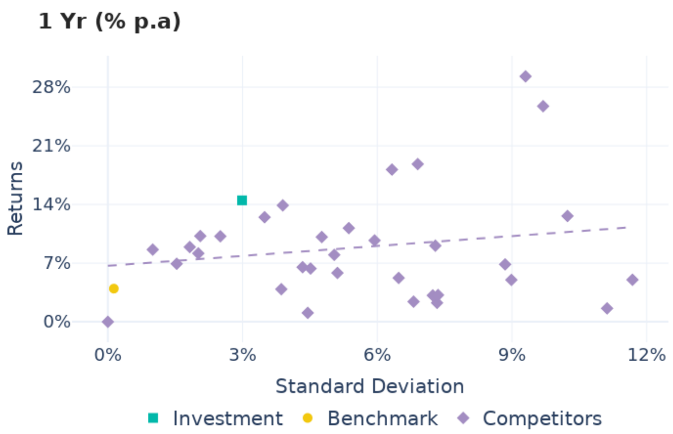
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	1.21%												1.21%	0.37%
2023	3.43%	1.37%	-0.05%	1.27%	-0.08%	2.17%	1.84%	1.66%	1.20%	-0.62%	1.70%	1.98%	17.00%	3.85%
2022				0.01%	-3.17%	-4.79%	2.27%	2.29%	-3.29%	1.07%	1.96%	0.42%	-3.47%	1.24%

**Bloomberg AusBond Bank Bill Index*

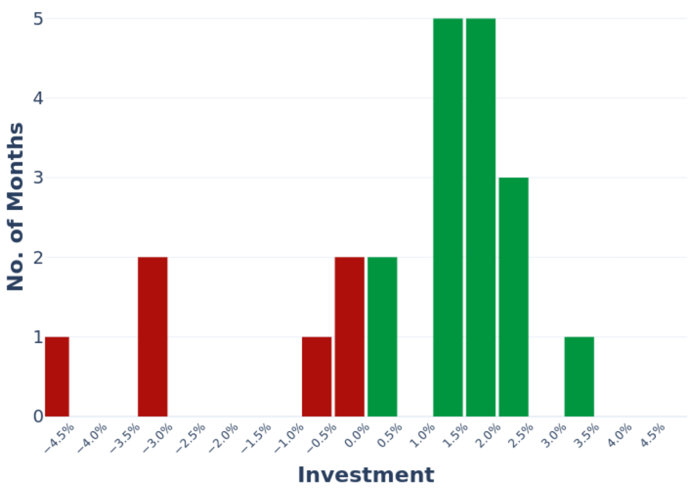
Growth of $10,000



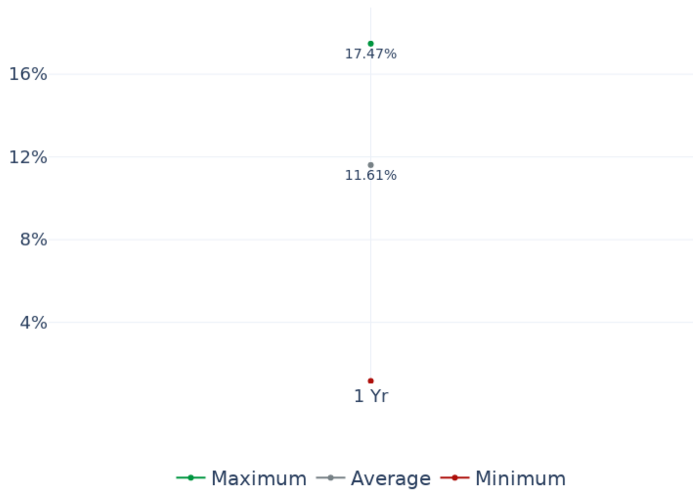
Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)



Absolute performance analysis

Instrument	1 Mth	3 Mths	6 Mths	1 Yr	Inception
Investment	1.21%	4.98%	7.32%	14.49%	7.57%
Benchmark	0.37%	1.06%	2.11%	3.96%	2.98%
Median	0.63%	6.27%	5.36%	7.57%	2.56%
Cash	0.37%	1.06%	2.11%	3.96%	2.98%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	Inception
Fund Ranking	6 / 34	4 / 32
Quartile	1st	1st

Absolute risk

Instrument	1 Yr	Inception
Standard Deviation (% p.a.)		
Investment	2.99%	6.88%
Benchmark	0.13%	0.39%
Median	3.99%	6.55%
Downside Deviation (% p.a.)		
Investment	0.63%	4.91%
Benchmark	0.00%	0.01%
Median	1.17%	4.75%

Absolute risk/return ratios

Instrument	1 Yr	Inception
Sharpe Ratio (p.a.)		
Investment	3.53	0.67
Benchmark	0.00	0.00
Median	0.91	-0.06
Sortino Ratio (p.a.)		
Investment	16.77	0.94
Benchmark	NaN	0.00
Median	3.10	-0.09

Zenith benchmarks funds in the 'International Fixed Interest - High Income' peer group against the Bloomberg AusBond Bank Bill Index. While this benchmark may not be consistent with the one adhered to by all rated participants, it has been adopted to provide investors with a common reference point against which similarly structured strategies may be assessed.

The following commentary is effective as at 31 January 2024.

The Fund's investment objective is to provide monthly income through exposure to a diversified pool of global Private Debt investments. More specifically, Partners Group targets a cash distribution of RBA Cash Rate plus 4% p.a. (net of fees, costs and taxes), paid monthly.

Given the Fund's March 2022 inception, it has an insufficient track record to draw any meaningful conclusions as to its performance. Notwithstanding this, Partners Group has a long track record investing in Corporate Loans with comparable strategies meeting with Zenith's expectations.

Relative performance

Excess returns

Statistic	1 Mth	3 Mths	6 Mths	1 Yr	Inception
Excess Return	0.84%	3.92%	5.22%	10.53%	4.59%
Monthly Excess (All Mkts)	100.00%	100.00%	83.33%	75.00%	72.73%
Monthly Excess (Up Mkts)	100.00%	100.00%	83.33%	75.00%	71.43%
Monthly Excess (Down Mkts)	0.00%	0.00%	0.00%	0.00%	100.00%

Capture ratios (% p.a.)

Statistic	1 Mth	3 Mths	6 Mths	1 Yr	Inception
Downside Capture	0.00%	0.00%	0.00%	0.00%	-40.69%
Upside Capture	328.29%	464.97%	340.18%	350.07%	248.35%

Tracking error (% p.a.)

Instrument	1 Yr	Inception
Investment	2.96%	6.68%
Median	3.94%	6.36%

Information ratio

Instrument	1 Yr	Inception
Investment	3.56	0.69
Median	0.92	-0.07

Beta statistics

Statistic	1 Yr	Inception
Beta	5.69	9.78
R-Squared	0.06	0.30
Correlation	0.25	0.55

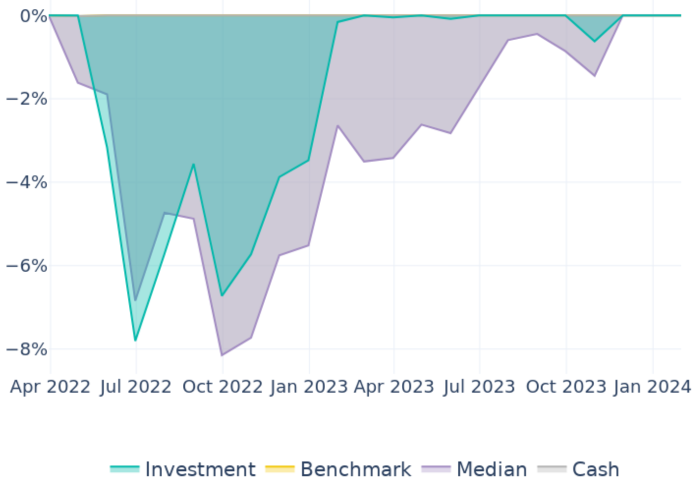
The following commentary is effective as at 31 January 2024.

Zenith typically seeks to identify funds which can outperform their index in greater than 50% of months in all market conditions, as we believe this represents a persistence of manager skill.

Given the Fund's March 2022 inception, it has an insufficient track record to draw any meaningful conclusions as to its relative performance.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



The following commentary is effective as at 31 January 2024.

Given the Fund's March 2022 inception, it has an insufficient track record to draw any meaningful conclusions as to its potential drawdown profile. However, Zenith notes that sub-investment grade Corporate Loans can be subject to periods of high volatility and sharp drawdowns.

Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: Given the committee-based decision-making approach, Zenith believes key person risk is largely mitigated. However, if Andrew Bellis, Global Head of Private Debt, were to depart, this may warrant a reassessment of our rating.

Limited withdrawal/gating risk: Zenith notes that the Fund offers monthly withdrawals, which is capped at 5% of NAV per month. This may be restrictive for investors seeking to liquidate their holding or reallocate capital within a portfolio.

Delayed withdrawal payment risk: Given Corporate Loans, as an over-the-counter 'private market', liquidity can vary significantly through different market conditions. As such, the Fund is managed with a range of liquidity provisions, which are there to ensure the Fund remains liquid. While Zenith is supportive of these provisions, we highlight that under the Fund's constitution, payment of redemptions can be delayed by up to 180 days.

Leverage risk: The underlying investment strategy that the Fund invests in employs leverage to increase the gross investment exposure and ultimately achieve the investment objectives. The maximum permitted leverage is 50%, resulting in an investment exposure of up to 200%. This leverage may magnify gains and losses on underlying holdings.

Drawdown risk: Although the strategy achieves diversification across regions, sectors, issuers, securities and maturities, the Fund is significantly exposed to the performance of global Loan markets. This segment can be subject to periods of high volatility and sharp drawdowns during periods of market extremes.

Sub-investment grade risk: By its nature and as reflected by its rating, sub-investment grade debt has a higher potential of default. Although investors have historically been compensated, in the form of excess returns, there is the potential for the strategy to experience more defaults than the broader market. Additionally, defaults tend to cluster in certain years and therefore investors should expect periodic episodes of higher defaults. Nevertheless, given the Fund holds a significant proportion of sub-investment grade debt, investors should be aware of the increased risk involved in this allocation.

Relative performance risk: The Fund may underperform traditional Bond funds and those benchmarked against Bond indices in a falling interest rate environment, or in an environment where Credit performs poorly relative to Government Bonds.

Structuring risk: The Fund invests in a Profit Participating Note (PPN) structure, which is issued by a separate Partners Group entity and effectively provides the Fund with an economic interest in the underlying Loan portfolio. The use of interposed entities introduces additional structuring risks including complexity, regulatory risk and the inability of the Responsible Entity to effectively monitor the underlying investment portfolio.

Liquidity risk: For Corporate Loans, liquidity can vary significantly through different market conditions. While the Fund's withdrawal provisions reduce this risk, illiquidity can have an effect on market pricing and the mark-to-market of specific assets.

Security/asset selection

The investable universe comprises sub-investment grade Corporate Loans, typically issued by Private Equity-backed companies. The universe contains Senior Secured Loans, which rank higher in the borrower's capital structure and has claims over assets and cashflows. While lower-ranking, Second Lien and Subordinated Loans are also permitted, however they are expected to account for a smaller portion of the portfolio.

The strategy typically targets companies with an Enterprise Value (EV) of over $US 1 billion or with an annual EBITDA of $US 50 million or greater. Companies from less cyclical industries and those that operate in preferred industries, identified through the relative value process, are targeted. Typically, these companies maintain sub-investment grade credit ratings of BB to B, based on S&P's ratings methodology, although lower-rated and unrated securities are permitted.

The opportunity set includes Broadly Syndicated and Direct Loans, with the former typically having 20 or more syndicate members. Under a Syndicated Loan arrangement, Partners Group will typically hold less than 10% of the total loan amount, and therefore, will have limited flexibility to negotiate loan terms. For a Direct Loan, Partners Group may be the sole/leading lender, or participate with small groups of lenders, where terms are negotiated directly with the borrowers.

Zenith highlights that in practice, many lending opportunities fall between Broadly Syndicated and Direct Loans, or can change in structure through the due diligence process. As such, we consider the Private Debt team's capability across both segments to be an advantage in identifying opportunities, whereby they can provide borrowers flexibility and work across any type of structure.

Zenith notes that investing in Loans is a highly specialised skill set, which extends well beyond traditional Credit investing. For example, this includes a detailed understanding of the origination process, funding structures (i.e. revolving facilities, term loans with different amortisation features), and the ability to manage distressed assets. This can extend to working with and influencing 'lending syndicates' or assuming equity stakes to maximise investment outcomes. To this end, with the Private Debt team possessing these skills sets, Zenith considers Partners Group to be well-positioned to identify attractive investment opportunities.

The firm's investment teams all follow a broadly consistent investment selection process that includes multiple steps, some of which can occur concurrently.

Investment identification

To identify opportunities, Partners Group maintains relationships through an external network of banks, advisors, Private Equity sponsors, brokers and other market participants. New deals can be sourced from reverse enquiries or internally from the firm's integrated platform of over 550 private markets professionals.

Investing in Broadly Syndicated and Direct Corporate Loans is considered highly relationship-based, with Zenith highlighting the prevalence of Private Equity-backed companies as borrowers. Given the concentrated number of market participants, the Private Equity investment managers (known as sponsors) and their portfolio company borrowers are often well known to Partners Group and vice versa. To this end, Zenith considers the Private Debt team's ability to leverage the firm's reputation and scale to be an advantage in accessing investment opportunities.

Pre-selection

The screening of potential opportunities by the Private Debt team occurs during the bi-weekly deal source/screening meeting. This process draws on a proprietary Credit database, PRIMERA, which is a central repository for storing company financial data and the credit history of prospective firms.

Investing across Syndicated and Direct Loans, the firm is well placed to gather and combine information on companies and their Private Equity sponsors. This is stored in the PRIMERA database where credit analysis on more than 36,000 borrowers is held. Zenith believes that PRIMERA is a competitive advantage as this proprietary information is not generally available in the public domain.

First credit review

The credit analyst responsible for the industry is assigned to conduct a comprehensive credit review, which includes the following:

- Business, financial and legal due diligence
- Reference calls with parties related and unrelated to the investment target (such as independent industry experts)
- Meetings with company management and Private Equity sponsors
- ESG check

The credit analysts complete a detailed credit paper that includes transaction pricing and a credit score, as well as address any questions raised in the pre-selection phase. A comprehensive review of the credit paper is conducted in the GIC. Investments that are not approved in the pre-selection and first credit review stages are tracked for credit performance and price movements.

Second credit review

If the first review is accepted by the GIC, the credit paper is typically updated with additional granularity on the company's financial model, downside scenario analysis and a detailed review of the credit documentation. The paper also addresses any outstanding questions with the updated aspects reviewed by the GIC.

Once a credit is added to the approved list, ongoing monitoring is an extension of the due diligence phase. Monitoring is carried out informally through market newsflow and price changes. The relevant analyst is responsible for updating the IC on any changes including updating financials in the PRIMERA database. Any developments are presented in the following forums: bi-weekly earnings meetings, weekly portfolio management meetings, and quarterly credit and industry reviews.

In Zenith's opinion, the bottom-up research is detailed and of high quality. Furthermore, we consider the two-stage due diligence process to be rigorous, ensuring all aspects of potential deals are thoroughly examined by the GIC.

Responsible investment approach

Partners Group has been a signatory to the Principles for Responsible Investment (PRI) since 2008 and has an established Responsible Investment Policy (RIP) that was last updated in March 2022. Compliance with the RIP is monitored by the Investment Oversight Committee, which advises the Board of Directors and oversees processes and decisions relating to investment activities, including ESG integration.

The firm believes that integrating ESG is important to enhance investment returns by mitigating risks posed by ESG factors, as well as identifying opportunities that can enhance returns. ESG is primarily integrated within the due diligence section of the process. Investment teams will assess various ESG factors through a wide range of sources, including in-house knowledge as well as external ESG consultants.

For Direct Loans, active ownership and engagement are implemented by the operating professionals and through the governance structures.

The Fund screens out activities relating to armaments, environmental degradation, tobacco, adult entertainment and human rights abuse. In addition, companies engaged in alcohol, fossil fuels, animal cruelty, gaming or nuclear power are escalated for further ESG due diligence.

Zenith has assigned the Fund a Responsible Investment Classification of Integrated.

Portfolio construction

Portfolio construction is closely tied to the credit selection process, subject to top-down views and relative value considerations. Bellis, along with Surya Ysebaert, Global Head of Private Debt Liquid Loans, are responsible for constructing the portfolio from approved investments across the Private Debt platform.

The credit papers include an assessment of relative value, ESG, credit performance (i.e. improving/stable/deteriorating) and an analyst recommendation of over, under or market weight. These recommendations aid with position sizing, subject to a range of considerations including the type of Loan, the composition and the capacity of the underlying portfolio.

The long-term target allocation weights for the Fund are:

- Senior Secured Loans: 60% to 100%
- Second Lien and Subordinated Loans: 0% to 20%
- Special Situations: 0% to 25%

The portfolio is expected to be diversified by industry and geography. While there is a single position limit of 1.5%, in practice the underlying portfolio has been more diversified, holding exposure to approximately 300 borrowers, with a minority of Loans exceeding 1% in size.

Consistent with the investable universe, the underlying borrowers have lower-quality credit ratings, with indicative ratings of BB, B and below based on S&P's ratings methodology. Zenith highlights that the underlying portfolio is managed with limited constraints in respect of credit ratings or minimum overall credit quality.

Zenith notes that this cohort of securities can be subject to high levels of mark-to-market volatility and potential default risk, particularly during stressed Equity periods or cyclical downturns. Accordingly, investment outcomes will be closely tied to the quality and depth of the bottom-up due diligence process.

The portfolio is expected to consist of a high allocation to Broadly Syndicated Loans, which are supplemented by Direct Loan opportunities. Broadly Syndicated Loans are typically tradeable in the secondary market, albeit with significantly reduced liquidity relative to Corporate Bonds. In contrast, Direct Loans, which are typically customised on a case-by-case basis, may not be readily realisable at fair value and are considered illiquid.

While there are structural challenges with managing Loans of differing liquidity profiles, Partners Group has a long and proven track record in managing portfolios across a range of liquidity profiles. Furthermore, we consider the liquidity provisions of the Fund to obviate most of the liquidity risk.

The underlying portfolio is managed with a borrowing facility, permitting the Syndicated Loan allocation to be geared by up to 50% of the portfolio's gross asset value (GAV), resulting in a potential investment exposure of 200%. In our opinion, the use of leverage is a sustainable form of yield enhancement, particularly given the quality of the firm's underwriting process and the stability of managing a fixed pool of assets. As at 31 December 2023, the overall portfolio gearing is 37%.

Zenith highlights that the debt facility has no loan-to-value ratio covenants. This means in the event of mark-to-market drawdowns or deterioration in credit markets, Partners Group is provided flexibility to manage leverage (i.e. it is not forced to post collateral or sell assets to preserve the facility). Overall, Zenith considers the use of leverage to be sensible and appropriate.

The Fund's currency exposure is expected to be fully hedged back to Australian Dollars, which is implemented at the underlying portfolio level by using currency forwards.

Overall, Zenith views the portfolio construction process to be well structured and consistent with the investment objectives, highlighting Partners Group's proven track record in managing sub-investment grade Corporate Loan portfolios including Direct Debt. Furthermore, Zenith considers the application of leverage to be sound and appropriate considering the Fund's monthly liquidity profile.

Risk management

Risk management is an integral part of the investment process and is addressed in a number of ways.

At the investment selection stage, the detailed level of research and due diligence undertaken by the Private Debt team prior to investment serves to manage investment-specific risk. The multi-committee decision-making process also ensures that a wide range of issues are addressed and debated prior to any investment decision. Post-execution, each investment is closely and regularly monitored.

The Portfolio and Risk Management team, independent of the Private Debt team, is responsible for the quantitative measurement of portfolio risks and ensuring the Fund is managed in accordance with its investment guidelines. Partners Group's investment risk control activities are based on proprietary quantitative models and stringent control processes.

There are regular risk reports generated that are designed to monitor and evaluate risks associated with the underlying investments and the portfolio in general. Such reports include views on regional allocations and concentration limit breaches.

Overall, Zenith views Partners Group's risk management practices as comprehensive, supported by appropriate systems in place to monitor exposures at both the portfolio and underlying investment level. Zenith is also supportive of the independence of the Portfolio and Risk Management team and their integration within the overall investment process.

Valuation

The Fund and the underlying portfolio are managed under a clearly defined valuation policy. Loans are primarily valued using observed market prices or third-party market quotations. Where these are not available, internal valuations will be used, which include discounted cash flow methods.

External valuations are available frequently and in line with the weekly NAV calculation of the underlying portfolio. Internal valuations are typically conducted monthly with cash accruals valued weekly.

Overall, Zenith believes the combined external and internal valuation approach to be appropriate for the Fund.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.36% p.a.	0.89% p.a.
Management Fees and Costs	1.36% p.a.	0.82% p.a.
Transaction Costs	0.00% p.a.	0.10% p.a.
Performance fees	N/A	0.00%
Performance fees description	N/A	
Management Cost	1.21% p.a.	0.85% p.a.
Buy / Sell spread	0.15% / 0.15%	0.16% / 0.17%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average fee (in the table above) is based on the average management fee of all flagship 'International Fixed Interest - High Income' funds surveyed by Zenith.

The management cost of the Fund is 1.21% p.a. There are no performance fees payable by the Fund, however, there are performance fees of 10% payable by the underlying fund on Special Situation strategies, where these investments have returned RBA Cash Rate plus 6% p.a. over rolling three-year periods. An additional hurdle exists where the overall Fund has to meet RBA Cash Rate plus 4% p.a. for the performance fees to be paid. These performance fees are capped at 0.25% p.a.

While the cost structure is higher than the peer group average, Zenith considers it broadly comparable to other Corporate Loan funds, given the embedded leverage results in higher gross market exposure for the Fund.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

Partners Group Holding AG (Partners Group) was founded in 1996 in Switzerland and is headquartered in Zug. It was founded by ex-Goldman Sachs bankers Alfred Gantner, Marcel Erni, and Urs Wietlisbach. The firm was floated on the Swiss stock exchange in 2006 (PGHN:SIX). In September 2020, the firm was added to the Swiss Market Index (SMI).

Partners Group is a global private markets investment management firm with investment programs across Private Equity, Private Debt, Private Real Estate and Private Infrastructure. The firm manages a broad range of limited partnerships and customised portfolios for institutional and high-net-worth investors.

In addition to its headquarters in Zug, Partners Group has offices in most of the major regional centres.

As at 31 December 2023, the firm manages approximately $US 147 billion. Partners Group’s employees are the largest shareholder and effectively control the firm. Partners Group’s third-party shareholders are predominantly large institutions.

Partners Group's Private Debt platform manages approximately $US 29.3 billion in assets under management (AUM) as at 31 December 2023. Of this, approximately $US 15.1 billion is managed within Syndicated Debt and $US 14.2 billion in Direct Private Debt.

As at the same date, the Fund had a FUM of $A 84.1 million.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
René Biner	Chairman - Global Investment Committee	30	25	Zug, Switzerland
Bill Berry	Partner, Chairman of Private Debt	27	7	Denver, USA
Andrew Bellis	Partner, Head of Private Debt	25	6	New York, USA
Surya Ysebaert	Head of Private Debt Liquid Loans	22	6	London, UK

Partners Group's investment team comprises separate groups, each responsible for discrete parts of the investment process, with decision making across the platform managed through a collection of committees.

The Global Investment Committee (GIC) governs the firm’s overall investment approach. The GIC is informed of all opportunities from an early stage and oversees the final decisions for all private markets deals. The GIC comprises the firm's most senior investment personnel and is chaired by René Biner. Zenith holds the members of the GIC in high regard owing to their extensive experience and track record in private market investing.

Consisting of over 90 investment professionals located across the firm's Americas, European and Asia Pacific offices, the Private Debt team is led by the New York-based Andrew Bellis, Global Head of Private Debt. Bellis is supported in the management of the platform by a highly experienced Debt leadership team of 25 members, comprising specialists with responsibilities across US and European Direct Loans, Syndicated Loans, Special Situations and portfolio management.

The leadership team most relevant for the Fund is led by Bellis and the London-based Surya Ysebaert, Global Head of Private Debt Liquid Loans. Both Bellis and Ysebaert have long industry tenure, which includes extensive experience investing in sub-investment grade Corporate Debt.

In the management of the Fund, the GIC is supported by the Syndicated Debt Investment Committee and the Direct Debt Investment Committee, both of which are responsible for investment pre-selection, deal development and approvals, subject to the type and size of the deal. Both committees comprise the most senior investors across the Private Debt segments.

There are over 20 Credit professionals responsible for the sourcing and assessment of Broadly Syndicated Loans, with the more senior members organised as industry specialists covering corporate issuers in a traditional sectoral model. For Direct Loans, there are over 40 investment professionals working along regional lines. Typically, the regional teams comprise generalists with skills more focused on the origination process, including the negotiation and structuring of Bilateral or Club Loans.

Zenith highlights the high levels of collaboration and information sharing across the Private Debt team. For example, for any Direct Loan, the Syndicated sector specialist will join the deal team working on the transaction. Conversely, any new issuers of Broadly Syndicated Loans are often known to Direct Credit professionals, where any prior due diligence with the issuer can be shared.

The Private Debt team includes five dedicated restructuring specialists who manage any Distressed Loans across the platform. Depending on the nature of the Loan and the underlying company, this could result in a debt restructure, distressed sale or debt for equity swap to assume control of the company. In the case of the latter, Zenith highlights Partners

Group's ability to call on the broader resources of the Private Equity team.

Supporting the management of the Private Debt platform are five portfolio managers. In addition, Zenith highlights that the Private Debt team are supported by the broader resourcing of the firm, which includes access to the Private Equity team's operating professionals and specialists.

Zenith is supportive of the depth and the geographical reach of the Private Debt team, as we believe that it is advantageous to maintain close relationships with borrowers. Furthermore, Zenith believes that combining Credit specialists with differing skill sets provide the firm with the flexibility to pursue a broader set of investment opportunities.

Zenith notes that Partners Group has in place a strong succession planning framework. This is demonstrated through widely dispersed management responsibilities (mitigating key person risk), long-term equity participation initiatives (designed to align the interests of the investment team and the investors), and a dedicated recruitment and staff retention program. All investment staff have significant lock-in through vesting equity participation, which is tied into the success of the business. This also provides for an alignment of interests between the investment staff and investors.

Overall, Zenith considers the Private Debt team to be strongly resourced and comprises high-quality Credit investors. Furthermore, Zenith views the ability for team members to work collaboratively, leveraging the specialist skill sets across the Private Debt team and the broader platform, to be a competitive advantage.

About the sector

Sector characteristics

The Zenith 'International Fixed Interest – High Income' sub-sector consists of all funds that invest predominantly in the higher-yielding sectors of the Global Fixed Interest market. These sectors typically include High Yield, Securitised Loans and Emerging Market Debt. The category includes funds that invest in specific underlying markets or a combination of each. Given the idiosyncratic nature of the sectors, managers commonly add value through security selection and/or sector rotation.

Zenith benchmarks all funds in this space against the Bloomberg AusBond Bank Bill Index. However, Zenith only uses this benchmark as a common reference point and it may not be reflective of the underlying benchmark used by many managers in this category.

It should be noted that the Bloomberg AusBond Bank Bill Index is typically used as a benchmark to measure the investment performance of a passively managed Short-Term Cash portfolio. The Index has an average term to maturity of approximately 45 days. It comprises 13 domestic bank bills of equal face value, each with a maturity seven days apart.

Given the funds in the 'International Fixed Interest – High Income' sector invest in longer dated, higher default risk securities, they will potentially display higher downside volatility relative to the Zenith assigned Index (i.e. while the Index is used as a performance benchmark, it should not be used as an indication of the risk involved in investing in the sector).

Sector risks

Funds within the 'International Fixed Interest – High Income' sub-sector are exposed to the following broad risks:

Market risk: Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Interest rate risk: Fixed Interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

Credit spread risk: In addition to being sensitive to general interest rate changes, non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a Government Bond and a Corporate Bond). A widening of spreads results in a fall in the value of these securities.

Default risk: Given Fixed Interest securities represent loans to borrowers (including governments, banks and companies) there is a risk that these borrowers may default on interest or principal repayments. Default risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

Currency risk: In addition to being exposed to general market risk, investments in international markets are exposed to changes in the value of the Australian Dollar relative to other foreign currencies. This may lead to increased volatility, independent of market moves. While Fixed Interest funds typically hedge their foreign investments back into Australian Dollars, there can be no guarantee that the funds will be hedged at all times or that a manager will be successful in employing the hedge.

Liquidity risk: Fixed Interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

Derivative risk: Derivatives are commonly employed by Fixed Interest managers to hedge Currency and other risks and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

Leverage risk: Many derivatives have a leverage component. While leverage offers the opportunity to magnify gains, it may additionally magnify losses. An associated risk with leverage and magnification of gains/losses is that the portfolio's volatility may increase as a result. Investors need to be cognisant that the Fund may exhibit more volatility than one that is unlevered.

Zenith rating

Report certification

Date of issue: 07 Mar 2024

Role	Analyst	Title
Analyst	Darryl Ding	Investment Analyst
Sector Lead	Rodney Sebire	Head of Alternatives & Global Fixed Interest
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
07 Mar 2024	Recommended
09 Mar 2023	Recommended
02 Mar 2022	Recommended
01 Mar 2022	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

Zenith has charged Partners Group a fee to produce this report.