Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

PGG Weekly Call – Script (April 2nd 2020)

Hello, my name is Andrew Bellis. This is the third of our weekly update calls for unitholders in the Partners Group Global Income Fund.

Since our last update call, we have seen some level of stability return to global financial markets. Public equity markets, despite experiencing one of their worst quarters on record, have seen a marked rebound over the last week. This rebound and increased stability has also fed through to the Senior Secured Loan market where we have seen quoted prices start to move off their lows. Whilst we are clearly a long way off the price levels at the end of January, we are encouraged with what seems to be an end to pressured selling across risk assets by other funds due to repeated redemptions (this was selling across Senior Secured Loans but also High Yield bonds and Investment grade bonds). It should be noted that the most recent published NTA is approximately a week old from the recording of this update.

In terms of mark-to market movements, those Senior Secured loans which are viewed as less impacted by the COVID-19 outbreak have generally seen larger price increases over the past week. This is to be expected and we see this as a healthy sign as market participants slowly start to differentiate risk across companies rather than the “modus operandi” being risk off no matter what the underlying credit quality!

We have also, notably, seen a tentative re-opening of capital markets, with a slew of Investment Grade Bond offerings in particular. Whilst this will not yet feed through into a re-opening of Senior Secured Loans for companies to borrow money in the Private Debt markets, we again see this as a positive sign for the market as a whole.

The more constructive back drop has definitely been helped by the continued aggressive measures from central banks and governments to support financial markets and their economies with both liquidity and stimulus measures. Most notably, the stimulus package of over $2 Trillion that was approved in the US at the end of last week provided further confidence to the investor community. It is unclear if additional measures will be required, and this likely depends on the length of the widespread economic shutdown, but we do believe it is likely that further policy action will be taken if needed, particularly if large scale social distancing and economic shutdown persists for a number of months.

As we discussed last week, we are required to mark the portfolio to market in order to publish an NTA on an ongoing basis. Again, we emphasize that these published NTAs reflect mark to market movements in the portfolio, which continue to be reflective of overall financial market conditions. It is also worth noting that the movement in NTA of PGG is attributable to these mark to market movements, not to realized losses or impairments in the underlying loan portfolio of PGG.

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As mentioned in the last update, in order to give unitholders more up to date and regular information, we are working to move to publishing the Fund's NTA twice a week as soon as practically possible and will continue to record these podcasts to be made available to investors on our website each week.

We continue to spend our time very closely monitoring each of the companies that we lend to and understanding what the impact of the COVID-19 outbreak will be on their underlying business and liquidity position. The significant majority of the PGG portfolio is positioned in industries that we believe are less impacted by the COVID-19 outbreak (Healthcare, consumer staples, technology, software, and telecommunications as examples).

If we look at what we assess as High Risk or Highly Impacted Industries, PGG has less than 1.5% of its portfolio with direct exposure to the Oil & Gas industry. Whilst the issues facing this industry are not directly related to the COVID-19 outbreak it is probably the industry that is under the most stress. We believe our exposure to this industry is lower than its relative weighting in the Senior Secured Loan indices (approximately 3%) and significantly lower than its weighting in the high yield bond market (approximately 8%). In addition, less than 10% of the portfolio of PGG is directly in other highly Impacted industries, namely, Hotels, Restaurants, Leisure, Airlines (although we have no direct exposure to airline operators), Aerospace and Education.

It is worth noting that even within these highly impacted sectors there are no actual impairments in the PGG portfolio. What we are also seeing is that companies that are operating within highly impacted areas are moving very quickly to reduce costs (e.g. staffing, capex) and maximize available liquidity in order to be able to withstand a significant period with almost no revenue. In addition, particularly within the Restaurant area in the US, we are seeing the larger chains significantly growing take-out and delivery options which is providing an additional revenue source in an otherwise shuttered industry.

We will continue to closely monitor all of the names in our portfolio, not just within what we perceive to be highly impacted industries, but across all our portfolio. As the market continues to stabilize, to the extent opportunities present, we may look to execute some relative value sales and purchases to rotate into a better quality loan in our credit view at a similar price.

Finally, it is worth mentioning again the defensive nature of First Lien Senior Secured Loans and in particular, the value of security if a company were to default. A recent Moodys study published in February 2020 shows that the recovery rates on Senior Secured Loans in 2019 were on average nearly 68%, whereas those for senior unsecured bonds were just 18.7%. If these recovery rates were to be repeated in 2020 this would mean that a Senior Secured Loan Portfolio could withstand 2.5 times the default rate of a Senior Unsecured Bond portfolio and suffer the same overall loss. Whilst we have had no default and loss within the PGG portfolio we believe this data serves to emphasize the better recovery rates and so lower loss rates as a secured lender versus an unsecured bond holder.

We continue to remind unitholders of the key overall summary points we have stated each week.

1. Government/central bank interventions to implicitly support certain sectors of the economy - we have seen this and continue to believe these will be beneficial (although more indirectly than directly).
2. We believe that for the vast majority of companies this is about managing through a liquidity issue and we believe management teams and private equity owners will do all they can to ensure they support companies through this.
3. Fear factor remains and market volatility will continue to be high but companies continue to pay interest on their loans and we will continue to distribute that according to our distribution policy
4. There will be companies that suffer financial stress and we will look at all possible methods to protect our position as a lender in these cases however, it will still take some time for these situations to occur, if they do. As stated before, we have not seen such situations yet.
5. We will provide these updates on a regular basis to ensure our investors are aware of market and portfolio developments to the extent we are permitted to disseminate the information through these calls.

I hope everyone and their friends and family are safe in these difficult times.
Many thanks, Andrew