Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

PGG Weekly Update – Script (July 2nd 2020)

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

This weekly update, written on 30th June, represents the last of our weekly updates for the first half of the year. Halfway through the year it's worth reflecting on what has been an unprecedented period of time for financial markets with levels of volatility that we have not seen since the GFC.

If we look at the past week in isolation, we saw a continuation of the themes we have discussed over the past couple of weeks. An increase in overall market volatility as investors fret over a resurgence in COVID-19 cases tempered with optimism over a gradual economic reopening with financial markets being supported by unprecedented government and central bank stimulus measures.

If we look at COVID-19, the rise in cases in parts of the US, Texas and Florida for example, is alarming and we are now starting to see these states reverse re-openings by closing down in person dining for example. However, in Europe the gradual re-opening has continued. There are however signs of increasing infection rates in certain areas, Leicester for example, a city in the UK has now gone back into a local lockdown. It's also notable that travel both between European countries and from certain countries outside of Europe is now more practical again. This is clearly a positive for many European countries whose economies are heavily dependent on summer tourism as well as for many European businesses in the travel and leisure sectors, however it is likely that most Europeans will take domestic vacations this summer rather than traveling overseas.

Despite some positive developments in Europe, the alarming rise in COVID-19 cases in parts of the US has meant that investor sentiment has remained somewhat negative. In that respect we have seen asset prices in the First Lien Senior Secured Loan market come off their post COVID-19 highs to some extent. If we look at the loan index in the US, it closed the month almost 1.5% below its post COVID-19 peak of 91.25% that it reached on 10th June. To put that into context, that's still almost 14% above the lows reached in late March!

Looking at these numbers it's very important to highlight two key points which we think are very relevant for PGG unitholders.

1. Firstly, as we have frequently commented, the movement of index prices and the mark to market of the NTA are indicative of market sentiment and the perception of risk rather than a fundamental change in the credit quality of the portfolio of PGG
2. Secondly, it is very important to see how far off the lows of late March we are. Whilst the market has not fully recovered from a mark to market perspective, it has made a meaningful recovery and most importantly, the levels of extreme volatility we saw in late March has not returned.

We are also seeing very strong demand for new transactions that are coming to market. We mentioned in the last update call the First Lien Senior Secured Loan that will back the EUR 17.2bn takeover of ThyssenKrupp Elevator by Advent International, Cinven and RAG that was agreed and underwritten by a number of banks in March. The financing is sizeable with over EUR3bn of First Lien Senior Secured Loans alongside a similar sized secured and unsecured high yield bond offering. This transaction, similar to a number of recent new transactions is seeing a significant level of investor demand and it's likely that the banks that are syndicating the transaction will be able to do so at slightly better levels than they originally expected. The fee (or discount to par) for lenders will be around 2-2.5% alongside a margin above the base rate of 4.25%. These levels are still significantly more attractive than those that would have been on offer pre-COVID-19 for a transaction of this nature.

Whilst we have seen somewhat of a flurry of new syndications over the past few weeks, as banks have looked to syndicate loans that they underwrote pre-COVID-19, it is likely that July and August will be quiet when it comes to larger, more syndicated loans. The outbreak of COVID-19 in March meant that capital markets activity such as Leveraged Buyouts and M&A transactions ground to a halt. As the volume of transactions in the loan and private debt markets is driven by this, it will take some time for financing activity to return to pre-COVID levels. The positive side to this is that absent new transactions, investors will tend to focus more on the secondary market to put money to work and thus, we may start to see prices in the secondary market resume their upwards trajectory.

We also continue to work on an increasing number of more private lending opportunities which we believe will provide a number of attractive investment opportunities in the coming months.

Whilst we are obviously not “out of the woods” yet when it comes to COVID-19 and its impact, we do believe that the market has substantially recovered from its lows of late March. We continue to believe that companies that we lend to that are impacted by COVID-19, can navigate through this period of reduced revenue and that the backdrop of continued government and central bank support provides further positive momentum.

Our focus in the second half of the year is to continue to carefully monitor and manage the existing portfolio and to take advantage of new transactions (both syndicated and more private transactions) to seek to continue to add value to the PGG portfolio. Whilst mark to market movements may be beyond our control, we have a clear goal to further improve the positive NTA development of recent weeks, as well as a continued focus on achieving a consistent and stable distribution level for our Unitholders, given the attractive level of income being generated by the PGG portfolio.

Thank you, Andrew