Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

PGG Weekly Call – Script (March 19th 2020)

Hello, my name is Andrew Bellis. I am a Managing Director at Partners Group in New York and I am responsible for overseeing the portfolio of the Partners Group Global Income Fund.

Given the elevated level of volatility in the global financial markets due, in a large part, to the spread of the Coronavirus, COVID-19, this call aims to provide a brief update on current market conditions and the relative position of the Partners Group Global Income Fund.

Whilst this elevated level of market volatility continues, we will seek to provide similar pre-recorded calls on a weekly basis. In advance of next week's call, we will also invite questions from unitholders [or investors] to be submitted in advance via the website and seek to answer those where possible in the context of market regulations.

I would like to first address overall market conditions and provide some context and background for investors into Partners Group Global Income Fund and how to think about the impact of overall market conditions on the Fund and its NTA.

We will then dig into the positioning of the Fund and the current portfolio exposures. As a reminder, the Fund is focused on the Private Debt market and in particular, has the vast majority of its portfolio invested into First Lien Senior Secured Loans. A First Lien Senior Secured Loan typically comprises 50% of the Enterprise Value of a business, so put simply, we would need the enterprise value of the business to deteriorate by 50% for our loan to be impaired.

Since the middle of February when the S&P 500 reached an all-time high (on February 19th) at 3386, we have seen a material correction in global stock markets. Initially these falls were driven by the rapid growth in cases of COVID-19 in China and concerns that the resulting shutdowns in China would have a material impact on Chinese GDP and more importantly on global supply chains. As well as material falls in major stock indices, this also started to feed through more broadly into other risk assets where we started to see broader price declines.

As a point of context, when we talk about other risk assets, I refer to credit assets, to a certain extent investment grade bonds but more particularly high yield bonds and first lien senior secured loans.
By the end of February global stock markets had fallen significantly, with the S&P 500 closing at 2954 (down approximately 10%). In addition, year to date returns for both high yield bonds and senior secured loans turned lower with both asset classes showing modestly negative returns on a year to date basis.

However, during March, whilst the cases of COVID-19 began to tail off in China, we started to see more notable increases in South Korea and more importantly in continental Europe, particularly Italy. Most recently we have seen an increased spread in North America. We are now at a stage where this has been named a global pandemic, wide-spread border controls are in place and lock downs are

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in effect in a number of countries. The economic impact of this was also compounded by the breakdown of recent OPEC led talks which in effect has led to an oil price war and a dramatic fall in the price of Oil.

Clearly these most recent developments have led to much more severe price movements in global markets. By the end of last week the S&P 500 had fallen to 2700 and we had seen further steep falls in other risk assets, in particular, by the end of last week year to date returns for Senior Secured loans were approximately –ve 4%.

When we talk about Senior Secured Loans and measure their returns, we generally look to a broad market index, namely the S&P LSTA Index, and its Equivalent in Europe, the S&P ELLI (European leveraged loan index). These indices track a broad portfolio of senior secured loans that trade (to varying degrees) in the secondary market, and have well over 1500 different loans. There will be a significant amount of overlap between the names held by PGG in its First Lien Senior Secured allocation and some of the names in the Index.

The important take-away here is that there is a "market" component to the portfolio of PGG, by this I mean that the part of the portfolio that is the First Lien Senior Secured Loan Strategy, will move in price related to where quotes on those individual names are.

It should be noted that price moves in the Senior Secured Loan market have generally been driven by certain funds which are open-ended and are required to sell loans in order to meet those redemptions, this is similar to many other asset classes including high yield bonds and public equities. This creates price falls as most other loan fund investors tend not to be investing from funds which provide liquidity i.e. they continue to hold these loans despite the price moves.

Importantly, whilst we are required to mark the portfolio to market, prices are generally reflecting the overall fear factor in the market currently and heightened levels of volatility across all risk assets and not something that is specific to the PGG portfolio.

Now let us look in more detail at the positioning of the PGG portfolio and how we think about this in the context of the current market environment and in particular, the ongoing price volatility.
Firstly, from a portfolio positioning perspective:

1. The vast majority of the PGG portfolio (approximately 95%) consists of First Lien Senior Secured Loans. As mentioned at the start of this call, a First Lien Senior Secured Loan typically comprises 50% of the enterprise value of a business. This is an important consideration in the event that the onset of the COVID-19 pandemic and the broader economic slowdown starts to lead to increased default rates. As we discussed many times during the roadshow for PGG, First Lien Senior Secured Loans, as a result of their security, and position in the corporate capital structure, have historically benefitted from higher recovery rates than their unsecured equivalents, namely high yield bonds. It is also important to note that we do not have any defaulted positions currently within the Fund

2. A significant majority of the companies we lend to are owned by Private Equity Sponsors. From a lending perspective we like this. The key point here being that the owner typically has deep pockets to support a business and in many instances, may have only recently purchased the company.

   Again, as a generic example, if a large global Private Equity sponsor has purchased a company 6 months ago for USD 2bn they might have financed that with a USD 1bn First Lien Senior Secured Loan and a USD 1bn investment. The company in question may need some additional capital on a shorter term basis to help it through this crisis period. We think it's highly unlikely a sponsor would then not provide additional support having just invested USD 1bn of capital into the business

3. Our portfolio focusses on the developed markets and in particular, North America and developed Europe. Whilst the virus is a global event and is materially impacting companies in both Europe and the US, we still feel the developed economies and companies will fair better overall. This will be helped by what is likely wide-scale governmental support and stimulus in developed markets. Importantly, these companies are better able to access USD funding than Emerging market borrowers which is critical in times of market stress.

4. We focus on more defensive sectors with larger exposures to sectors such as healthcare, business services and software/technology sectors. In particular, we believe we have little exposure to the Oil and Gas, Airline, Gaming and Leisure sectors.

Finally, and perhaps the most important point is our focus on each individual company and the impact of the COVID-19 on its business and financial position (either positive or negative). We are spending almost all of our time focusing on this.

The initial considerations of risks to our portfolio from COVID-19 are to assess and understand which sectors would immediately be most vulnerable to this spreading contagion (in the U.S. and globally). We identified sectors such as: Lodging, Airlines, Entertainment/Events, Gaming, and Oil & Gas. As mentioned before, we are fortunate that our exposures to these sectors are low. Where we do have exposures in these sectors or where we have identified certain names which are more immediately vulnerable to disruption caused by the large scale shutdown of sectors of the economy, we are then assessing each of these companies to determine their ability to withstand these revenues declines and their liquidity positions.

This is a key point for us, the ability for these companies to use cash at hand as well as revolving credit lines or equity injections to manage through what is likely to be a short but intense period of financial stress is critical to understand.

Other areas of focus are the short and medium term disruption impacts to supply chains for many companies, or for their customer's ability to source required materials or production in COVID-19 disrupted geographies in Asia, Europe or the U.S. These assessments can be more challenging, and will take more time to understand but again we think that these are periods of financial challenge rather than a fundamental business model change.

Lastly, we are also assessing the impact of lower oil and gas prices across the portfolios, some benefitting positively while others impacted negatively.

In summary, I would like to provide some key take-aways here:

1. We are likely to see a number of government/central bank interventions over the coming days to implicitly support certain sectors of the economy, overall, we believe these will be beneficial (although more indirectly than directly)
2. It is important to note that for the vast majority of companies this is more about managing through a liquidity issue i.e. people will still go and have back surgery but will postpone it for a few weeks whilst the virus spreads. It is not about a fundamental change that renders a company's business model obsolete
3. To a certain extent the virus is an unknown and thus fear factor and market volatility is high, however, 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.
5. As mentioned at the start, we will seek to 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.

Finally, I hope everyone and their families are safe in what is clearly a very difficult situation on a global basis.