Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

PGG Weekly Call – Script (April 23rd 2020)

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

As we have discussed during the last few updates, we have seen more stability in global financial markets over the last two or three weeks and in general, this trend has continued since our last update. It seems as though the market (be that the public equity markets or the more private markets such as those in which PGG invests) is trying to balance two somewhat competing themes:

i) Firstly, optimism over what appears to be a peak and now slow decline in the COVID-19 outbreak in most major economies. This is leading to the talk of gradual re-opening of economies which we are now starting to see in certain European countries and even noises about similar actions in certain US states
ii) Secondly, pessimism over dire economic data releases (record US jobless numbers stand out as one in particular) and forecasts from various bodies, including the likes of the International Monetary Fund (IMF) on the severity of the looming recession.

So far in April, the optimists have been in the ascendancy given the more positive tone in the global stock market indices. As mentioned in the previous update calls, this also fed through to price gains in the First Lien Senior Secured Loan market during April. It is worth noting however that as we write this report, we have seen more negative sentiment resume in the equity markets, notably on Monday 20th and Tuesday 21st April, likely to a large extent driven by the unprecedented sell off in the oil markets.

As we have stated in previous updates, we have a very small percentage of our portfolio that is directly exposed to Oil and Gas (and we have not added any additional exposure in this sector). Indeed, we think there are more companies within our portfolio that benefit from lower Oil prices. Many packaging, chemical and industrial companies for example, have oil as an input cost and this will likely benefit them if the low oil price environment persists.

It is also worth noting, over these last two days, the price moves in the First Lien Senior Secured Loan market, whilst likely down slightly, have been relatively muted (in general, this means quoted prices are slightly lower with very few names actually trading). We are not seeing the same sort of downward price moves in the loan market that we saw in March when the public equity markets sold off and there is no sign of a return to forced selling. However, the move upwards in loan prices has stalled so far this week.

Aside from a very small number of more “rescue-style” loans, we have not yet seen a return to activity in the primary market (that is new loans being syndicated for companies). If the market resumes its gradual improvement, we think this will restart in a few weeks. It's notable that a number of transactions were due to syndicate just before the wider market disruptions yet, so far, banks have been comfortable holding those on their books and to wait until a more favourable market to syndicate those loans.

At the portfolio level, our focus is shifting to looking to rotate out of certain names, in particular, those with relatively low coupons, where the loan has returned much closer to par. We see a limited number of opportunities where we can sell that loan in the secondary market and purchase another name that we know well at a slightly lower price, that also offers a similar or better coupon level. Whilst this activity will remain somewhat limited in nature, given the market conditions, we continue to look for opportunities to gradually improve the income level in the portfolio over time, which we believe will benefit Unitholders on a longer term basis.

We are getting a number of updates from companies that we lend to in PGG on the impact of COVID-19 on their business and on their financial position. As mentioned before, we so far see most companies having sufficient liquidity to withstand an extended shutdown period and those that are more exposed have taken fairly prompt action including the likes of:

- Cost cuts (staffing and others)
- Reducing or suspending capex
- Drawing on available revolving credit lines
- In some instances, taking assistance from the various government programs
- Obtaining additional capital from owners

As we have stated before, we believe 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 support to companies through this period. However, we remain extremely cautious overall, given the uncertain nature of both the length of the shutdown in most economies and how a gradual opening up will actually be managed in those economies.

We also again note that all the loans within the portfolio are performing and continue to pay interest when due and payable. PGG has continued and expects to continue to pay its stated monthly distribution of RBA + 4% as based upon the launch NTA of AUD 2.00 per share.

Enjoy your week.

Many thanks
Andrew