Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

PGG Update – January 23rd 2023

Hello, my name is Andrew Bellis.

This is the first update of 2023 for unitholders in PGG.

Looking back on 2022 it turned out to be a challenging year across nearly all risk assets. The numerous headwinds of high inflation, rising interest rates, a looming recession, lingering supply chain challenges, scattered labor shortages and unprecedented geo-political worries centered around Ukraine led to steep price falls across many asset classes. Over the 12 months of 2022 PGG saw its NTA fall by approximately 10.7% driven by mark to market moves across the portfolio as a result of these overall headwinds and risk off sentiment. This was to some extent offset by distributions of approximately 5.7% based on an AUD 2.00 issue price with the level of distributions increasing steadily throughout the year reflective of the distribution rate being set at a level linked to the RBA rate plus 4%. The resulting full year NTA total return performance of minus 4.85% whilst disappointing was materially better than many more traditional asset classes.

During December the Fund added or increased its exposure across 6 different companies. The fund specifically increased its exposure to direct debt by investing in a provider of mission-critical regulatory and compliance software, which has demonstrated strong historical financial performance in a large and growing market with significant consolidation opportunity. The fund also invested in a loan with significant capital appreciation potential with a company which is a global supplier of highly engineered running gear technology, chassis assemblies, and related components. There was one reduction in an exposure to a company that is an environment solutions provider in the US where we were concerned around deteriorating fundamentals due to supply chain issues and labor challenges.

On a positive note we have seen 2023 start with a much more constructive tone. We have seen prices in the syndicated loan markets start to slowly increase driven by renewed interest from the institutional buyer base and a lack of new issue supply creating an imbalance of demand over supply. We have started to see this dynamic feed through into an increase in the NTA of PGG in the first two weeks of January.

Investment activity was somewhat muted in the last few months of 2022 with a much lower level of M&A and LBO activity feeding through to a reduced level of issuance within the first lien syndicated loan and private debt markets. However there are signs of a pick up in activity levels and if the more positive market tone of the first weeks of January continues we will likely see a further pick up in investment activity as the year progresses.

We continue to believe that PGG offers a very attractive income focused investment with strong downside protection due to the fact that the vast majority of the portfolio is first lien senior secured in nature. If prices continue to improve in the secondary market and we see an increase in new investment opportunities alongside a faster rate of prepayments in the existing portfolio that should provide further support to a gradual improvement in the NTA of the fund.

Many thanks, Andrew