PGG Update – June 26th 2023

Hello, my name is Andrew Bellis.

This is our sixth update of 2023.

We are now almost at the end of the first half of the year. As noted in the last monthly update we did, as expected come to a resolution in the US for the debt ceiling to be expanded. Financial markets as a whole reacted positively, although over recent days some of that optimism has faded. Despite a pause in rate hikes in the US the language from the Federal Reserve is still hawkish and we have seen further rate rises in Europe and the UK. So, whilst we are nearly at the peak of the interest rate cycle we are not quite there yet. However, in the context of the last 12 months the level of volatility we have seen in financial markets generally; including those in which the Fund invests are substantially lower.

In May, the monthly net performance (change in NTA plus distributions made) per unit was a slightly disappointing negative 0.10%. However year-to-date returns are positive 6.66% for the first 5 months of the year. In addition, the Fund continues to provide its distribution target of RBA +4% per annum.

Whilst the performance in May represents underperformance of a little under 0.5% versus the global loan index, on a year-to-date basis to the end of May the Fund has strongly outperformed, by around 1.5%. In the month of May the average price of the Fund decreased from 94.9 per cent of par to 94.5, resulting in a higher current yield of 11.7% given their inverse relationship.

During the month, the Fund continued to increase its direct debt allocation by investing in a leading designer and manufacturer of proprietary rotational-molded poly, welded steel bulk store and material handling products. The company is the market leader in North America with a competitive moat driven by 50+ year brands, diverse customer relationships (>5000 customers), largest product selection and broadest manufacturing footprint (40+ locations).

We also continued to pro-actively manage the syndicated portion of the Fund's portfolio; we reduced or exited some first lien loans with depreciating fundamentals: a leader in sports management, marketing and media; an American computer and network security company; and a global leader in veterinary care. Meanwhile there were investments in several broadly syndicated loans, including a leading independent distributor of foodservice and industrial packaging which benefits from its defensive positioning and published very good earnings over the past quarters; one of the market leaders in indoor air quality and critical ventilation; and a European company focusing on healthy and sustainable food.

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The Fund experienced one default over the month of May: a U.S. provider of outsourced medical and outpatient services. Partners Group signed an agreement that we expect will result in Partners Group taking part ownership in the company and maximize principal recovery.  There is no material impact to the NTA as a result of this.

Whilst we are approaching the summer months which tend to be relatively quiet periods in terms of new investment activity, we have seen in recent weeks an increase in activity with the pipeline more weighted to Europe, particularly on the Direct Debt opportunities.

Many thanks, Andrew