Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

PGG Update – November 22nd 2022

Hello, my name is Andrew Bellis.

We are now approaching the end of what has been a tumultuous year from both a geopolitical and financial markets perspective. The war in Ukraine; the rapid and sustained increase in inflation in the world's major economies; a series of central bank rate hikes have all combined with other factors to lead to challenging and volatile market conditions throughout the year.

Over the last few weeks, we have continued to see interest rate increases in most of the major economies. In contrast we saw recent numbers in the US for Consumer Prices and Produce Prices come in at lower levels than expected suggesting that inflation is past its peak. Whilst it will take a few more months of data to see if this trend continues it appears increasingly likely that the pace of rate hikes will slow as we near a peak early next year. Floating rate first lien debt, like that held within the PGG portfolio will continue to benefit from increased income returns as a result of these higher interest rate levels.

Similar to recent months portfolio activity within PGG has been limited given that the pace of new transactions is relatively slow. We are however seeing activity levels increase in recent weeks and whilst year end is a traditionally quiet period we believe activity will pick up further in early 2023.

As we noted in the previous monthly report there was one default during the month of September; a British cinema chain that filed for bankruptcy protection in the US as it seeks to restructure after facing low audience numbers. With respect to this default the loan held by PGG has now been repaid in full with no loss of principal or interest, by virtue of where we sit in the capital structure relative to other creditors of the company. Whilst expected this is a positive outcome for the fund.

Notably for PGG, the Reserve Bank of Australia have once again increased interest rates; with RBA increasing by 0.25% to 2.85%. This means that the distribution rate for PGG going forwards will move upwards to 6.85% per unit with significantly higher income levels considering the current unit price.

It is important to emphasize once again that whilst the NTA and Unit Price of PGG are impacted by overall financial market volatility and in particular the requirement to use independent third-party quotes when determining the NTA, we continue to believe that PGG offers a very attractive income focused investment. Based on the current stated distribution rate, the equivalent annual income level calculated on NTA per unit is approximately 7.9% and based on the current unit price it is approximately 9.5%.

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Many thanks, Andrew