Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

# Partners Group Global Income Fund (PGG) Update

September 2020

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# About us

## Dedicated to private markets

- Our **AuM stands at over USD 96 billion**[1]: USD 45 billion in corporate equity & USD 51 billion in real assets / financing[2]
- **Our extensive investment platform** and **network** are dedicated to private markets

## Leveraging strong resources

- We have **over 1,500 employees worldwide across 20 offices** and **over 700 private markets professionals**[3]
- We leverage PRIMERA Insights, our intelligence platform **consisting of over 36,000 private markets assets**[4]

## We have a global presence with 20 offices across key investment regions


For illustrative purposes only. **1** Unaudited, inclusive of all Partners Group affiliates, as of 30 June 2020 **2** Real assets / financing includes Partners Group's asset under management relating to private real estate, private infrastructure and private debt as of 30 June 2020. **3** Team figures as of 30 June 2020; private markets investment professionals figure is calculated based on total core investment teams plus employees in the Financial Analyst program, Associate program, Portfolio Solutions and Investment Services business departments. **4** Information on each PRIMERA asset is available to Partners Group employees only to the extent contractually permitted. Source: Partners Group (2020).

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# Partners Group Global Income Strategy - Successful launch in September 2019

| | |
|---|---|
| Stable Income | • Stable and **consistent monthly income** from a diversified, global portfolio of private loans |
| Attractive returns | • Attractive returns **of RBA Cash Rate +4% net of fees**[1] with focus on capital preservation |
| Team | • Managed by a large and experienced dedicated **global debt investment team of 50+ professionals** across 20 offices |
| Information advantage | • Proprietary database of financial information offering unique sourcing and **company insights of 36,000+ private companies**<br>• Benefiting from global relationships with leading private equity partners |
| Conservative Portfolio | • Investments focused on **First Lien Senior Secured Loans** |

**An attractive alternative to traditional fixed income investments tailored to Australian investors**

Source: Partners Group 2020. For illustrative purposes only. 1. There is no assurance targets will be achieved. Diversification does not ensure a profit or protect against loss.

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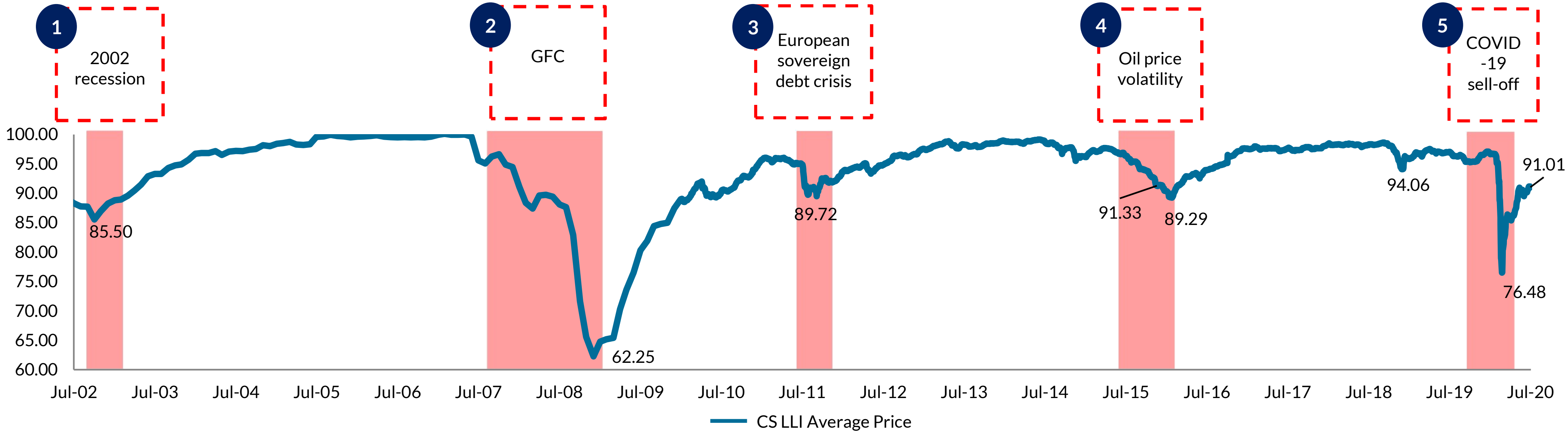
# History of market dislocations – broadly syndicated loans



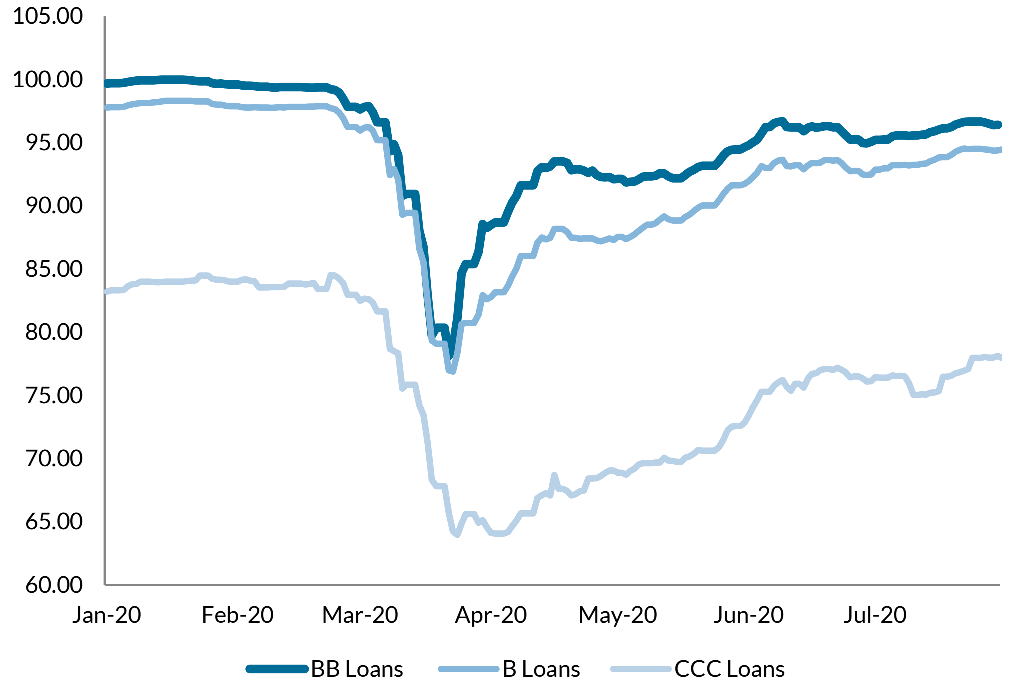

| Market Dislocation: | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Change in price[1] | -4.4 pts | -32.2 pts | -6.3 pts | -7.9 pts | -20.0 pts |
| Length (weeks) | 25 | 52 | 21 | 19 | 4 |

**The current market dislocation, whilst not as severe as the GFC, has been much more rapid**

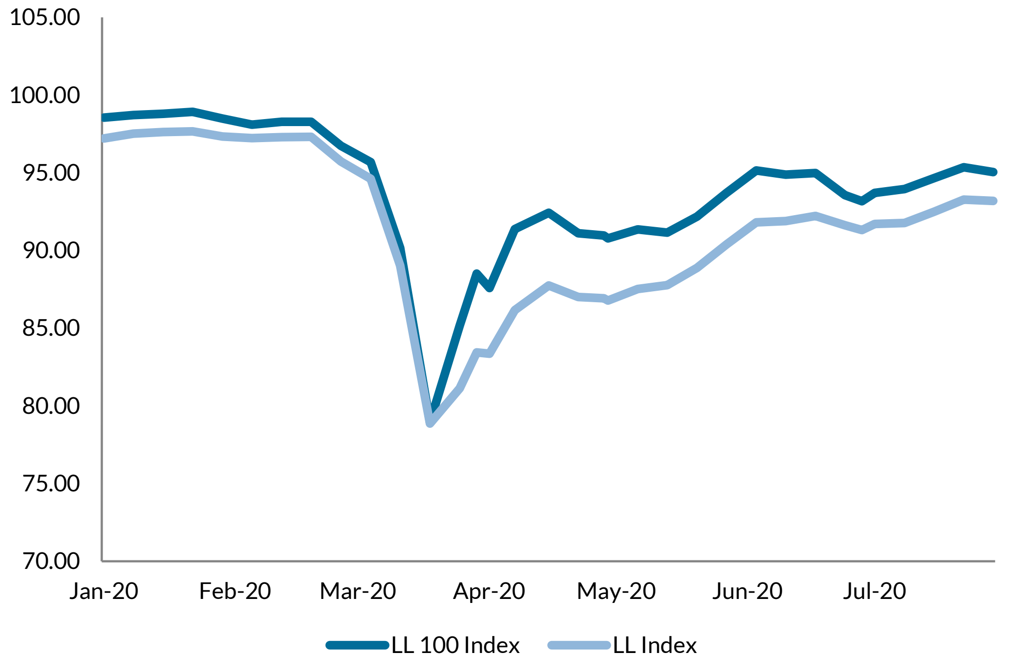
Source: Credit Suisse Leveraged Loan Index., July 31, 2020. High yield spreads, loan spreads, loan yields, loan are as of the date in the given year with the widest spread level. For illustrative purposes only. **1** Change in price reflects the delta between peak and trough during the dislocation period.

# Market Pricing Dynamics in First Lien Senior Secured Loans

## Price change by rating




## Price change by Liquidity Measure




- Material price falls across the rating spectrum
- Considerable recovery of BB, lagged by B
- Limited recovery in CCC (includes 2nd lien)

- Liquid (LL100 Index) loans suffered the same price falls
- Faster recovery in more liquid names

For Illustrative purposes only. The inclusion of this index/benchmark is used for comparison purposes and should not be construed to mean that there will necessarily be a correlation between the fund/investment return and the index/benchmark. Source: LCD, S&P Global, as of 31 July 2020. Source for underlying data is S&P Leveraged Loan Index (LLI)

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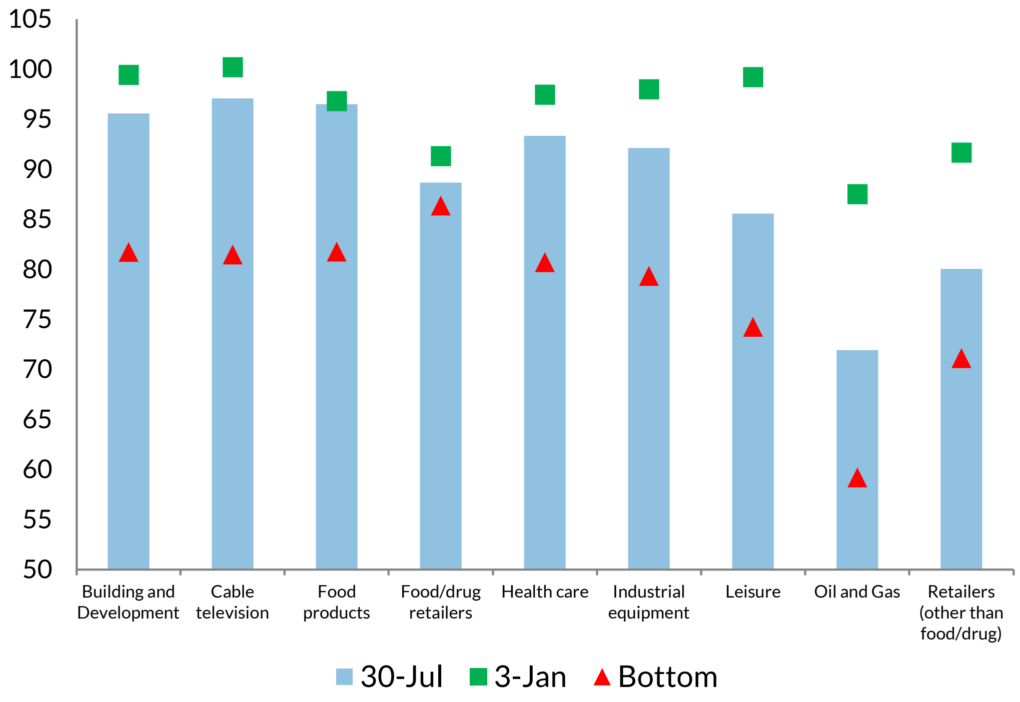
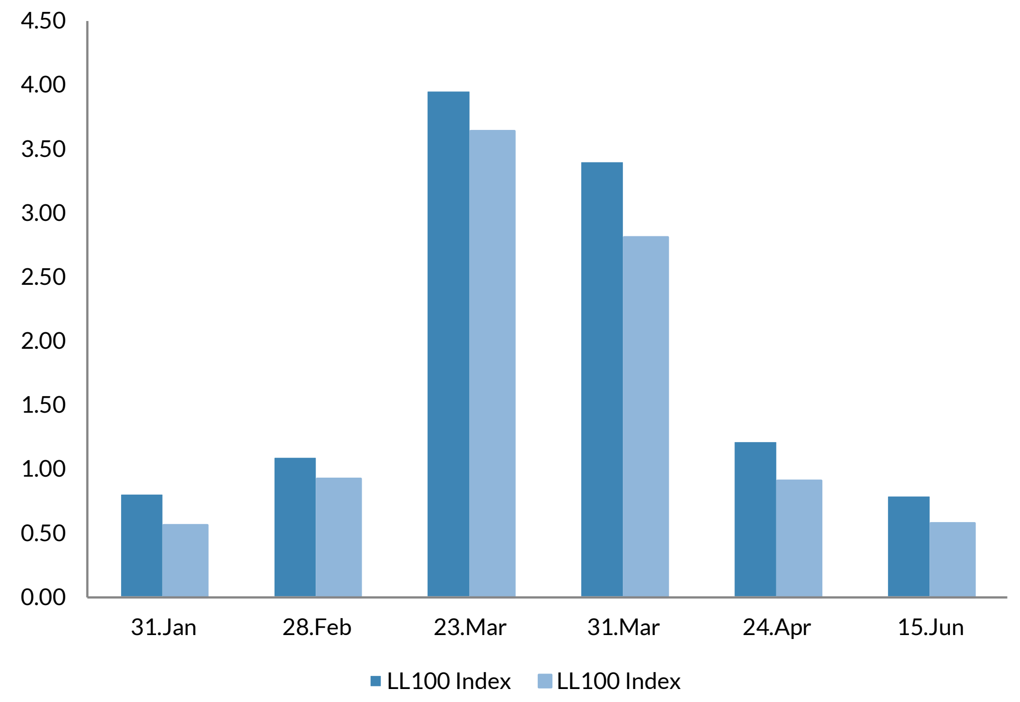
# Sector and Liquidity Dynamics

## Price changes by sector




## Bid-Ask spread (in % points)




- Prices falls across all sectors at start of COVID-19
- Largest price drops in oil & gas, leisure and retail
- Fastest price recovery in less impacted sectors food and telecom

- COVID-19 caused a dramatic widening in quoted bid-ask spreads
- The market has now significantly normalized albeit with reduced volumes

For Illustrative purposes only. The inclusion of this index/benchmark is used for comparison purposes and should not be construed to mean that there will necessarily be a correlation between the fund/investment return and the index/benchmark. Liquidity score: Loans with the highest liquidity have a liquidity score of 1. Liquidity score is calculated by Markit and is based on 6 key factors: (1) Bid-Offer spread, (2) Market depth, (3) Data freshness, (4) Movers count, (5) Quoted size and (6) Directional strength of price movements. Source: Markit, as of June 2020. LCD as of July 2020.

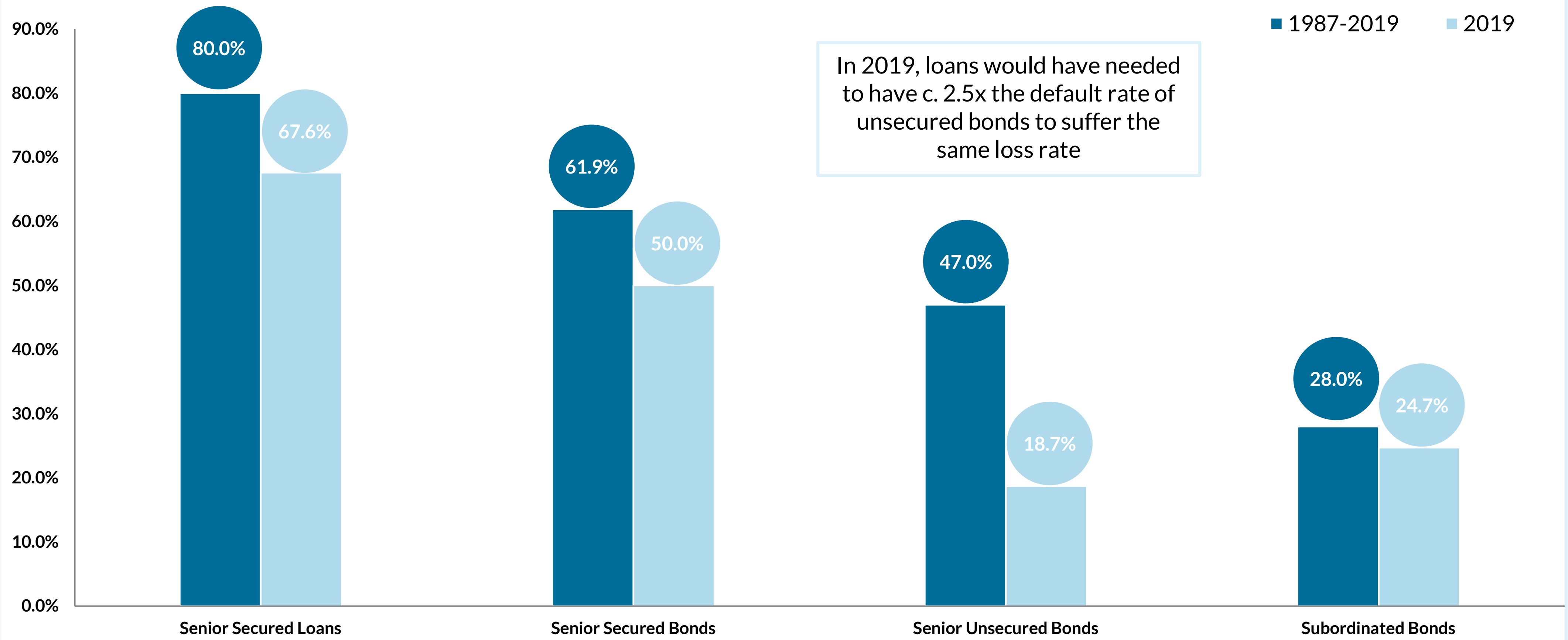
# Why First Lien Senior Secured loans: A reminder

Secured on assets of the company

Significant equity cushion below

Historically lower price volatility

## Benefit from historically higher recovery rates




For illustrative purposes only. Source: Moody's Annual Default Rate Study (released February 2020). **1** Average recovery rates measured by ultimate recoveries.

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# Partners Group Global Income Fund - Successful launch in September 2019

| | |
|---|---|
| **Target net returns**[1] | RBA cash rate + 4% p.a. net of fees with distributions to be paid monthly |
| **Fund currency** | AUD fully hedged |
| **Management costs**[2] | Management fee: up to 1.00% p.a.<br>Performance fee: 10% of returns over hurdle of RBA + 6% on Special Situations strategy |
| **Size raised** | A$550m |
| **Valuation** | NTA published bi-weekly |
| **Credit Rating** | Private debt investments are typically either Sub-Investment Grade loans or are unrated and exhibit characteristics that are consistent with being Sub-Investment Grade loans |
| **Portfolio characteristics** | Highly diversified by issuer, industry and geography with no single investment expected to consist of more than 1.5% of the NAV. Maximum Industry exposure 15% of GAV (Gross Asset Value) |
| **Research ratings** | Lonsec (Recommended), SQM (Superior), IRR (Recommended), Bond Advisor (Subscribe) |
| **ASX Stock code** | PGG |
| **Website** | www.partnersgroupaustralia.com.au |

[1]There is no assurance that targets will be achieved. [2] Performance fee will be applied on the special situations strategy, capped at 25bps p.a. (assessed across a rolling three year period) The fund will pay additional costs and fees as outlined in the Product Disclosure Statement. Source: Partners Group (January 2020). Diversification does not ensure a profit or protect against loss.

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# Partners Group Global Income Strategy – to achieve RBA +4% p.a.[1]

Illustrative Total Return Including base rate

**9-16%**

**Special Situations** — **Target allocation 0-25%**

- Investments into Senior Secured Loans in the secondary market that are trading at a discount to par but where Partners Group has strong credit conviction
- Select junior capital investments such as PIK or mezzanine
- An investment that includes an equity component with significant additional return

**7-12%**

**Second Lien & Subordinated Loans** — **Target allocation 0-20%**

- Second Lien loans are secured by the assets of the company
- Subordinated loans are typically unsecured in nature
- "Unitranche" a combination of both First lien and Second lien loans in a single facility

**4-7%**

**Senior secured loans** — **Target allocation 60-100%**

- Ranks first in order of payment, Secured by assets cash flows of the borrower
- Utilize financing to enhance income
- Highest expected recovery rate in the capital structure
- 0-20% can be invested in the PG Senior Loan Master Fund

**Risk**

Source: Partners Group pre IPO PDS, 31 July 2019. For illustrative purposes only. 1. There is no assurance targets or performance will be achieved.

# How to think about provisions in the context of the PGG portfolio (1)

- Given the COVID-19 environment, the financial market believes that there will be elevated loss rates in corporate loan and bond markets.
- The interpretation of elevated default rates is expressed in different ways, depending on how a lender values its loan book:
  - A **bank** holds the loans it makes at par ('**non-mark to market**'). It then provisions against expected future losses.

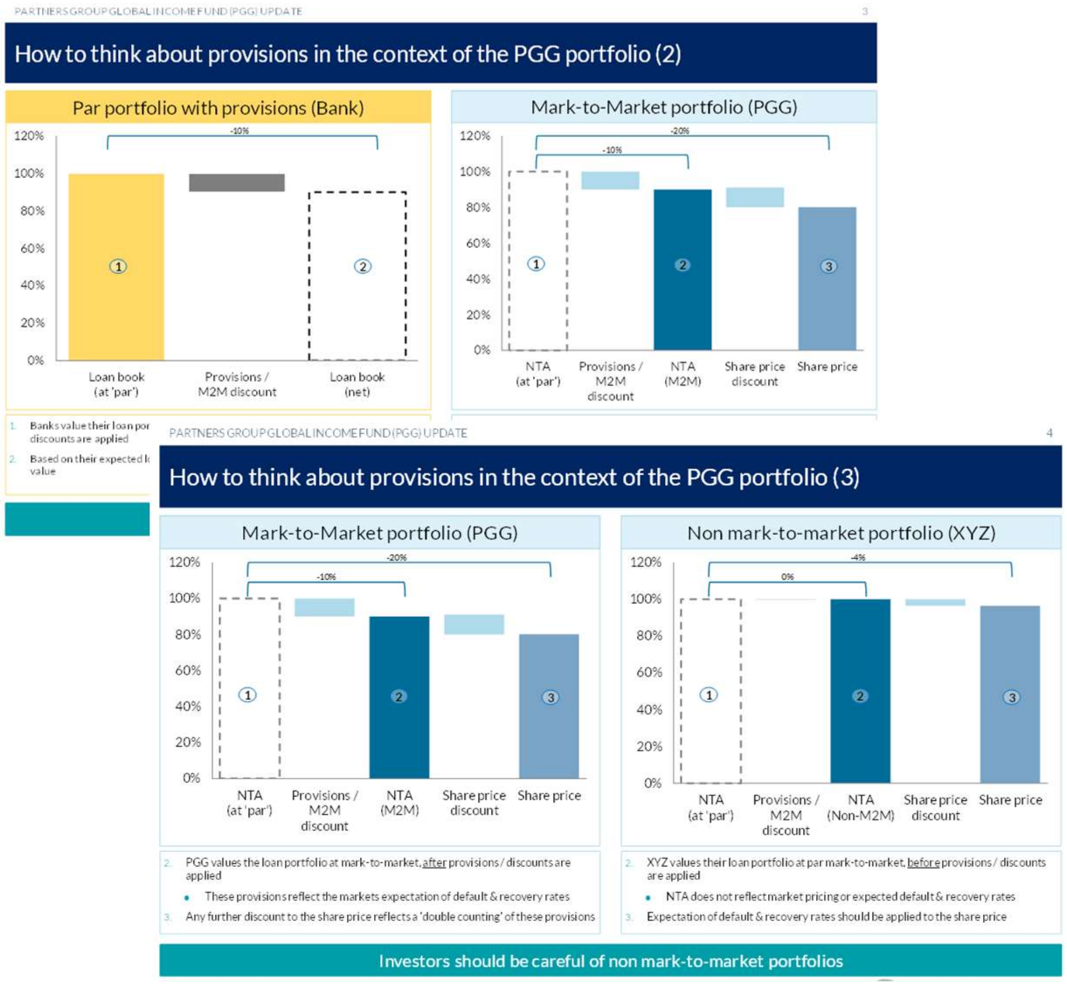
| Participant | Loan Book | Provision ($) | Provision (%) |
|---|---|---|---|
| BANK | 500m | -50m | 10% |

  - **PGG** and other funds market their loans based on quoted or implied prices ('**mark to market**'). In times of market distress, quoted or implied prices fall to reflect expectations of future losses.

| Participant | Loan Book | NTA | Discount (%) |
|---|---|---|---|
| PGG | 500m | 450m | 10% |

  - Finally, some **other funds** also hold the loans they make at par, but do not make adjustments in their NTA to reflect expectations of future losses.

| Participant | Loan Book | NTA | Discount (%) |
|---|---|---|---|
| XYZ | 500m | 500m | 0% |

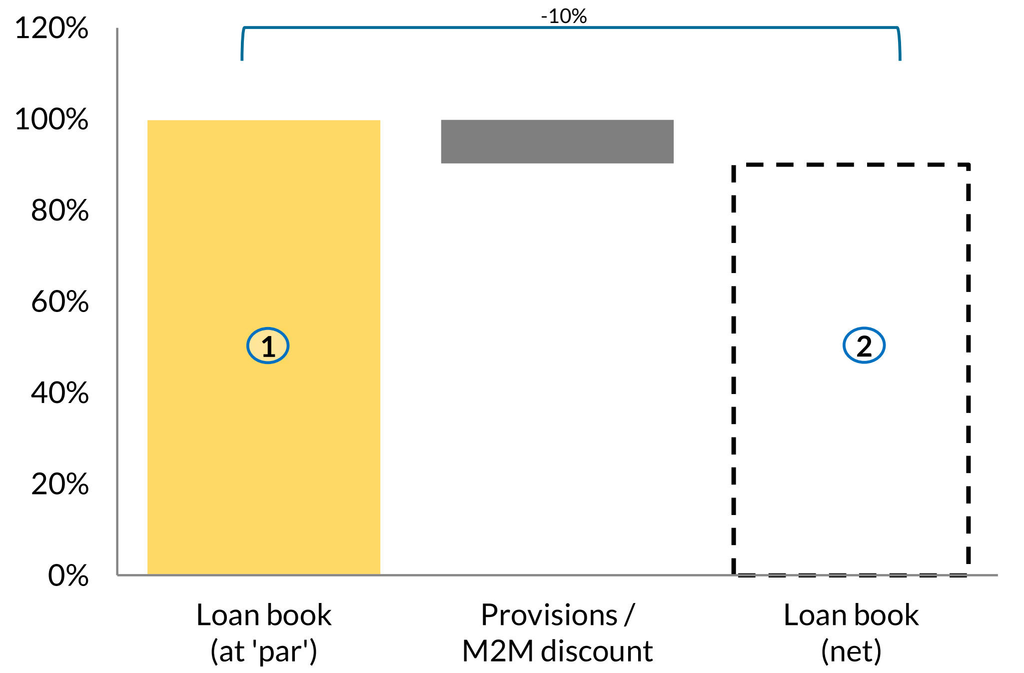



**PGG's NTA value already includes expected default and recovery rates**

For Illustrative purposes only. Source: Partners Group, 2020.There is no assurance targets or performance will be achieved.

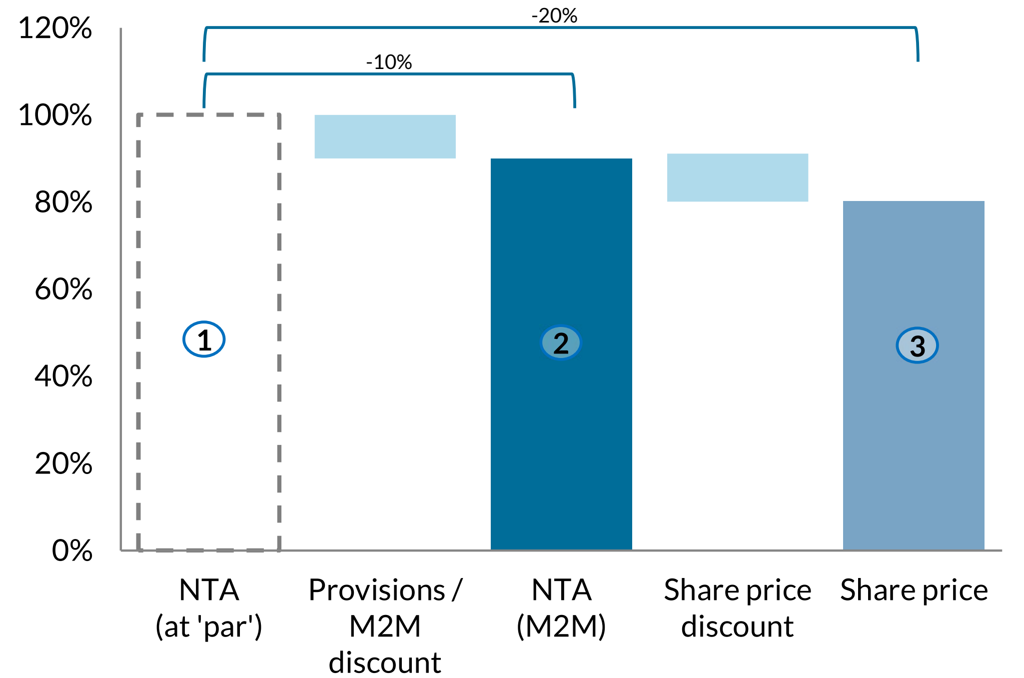
# How to think about provisions in the context of the PGG portfolio (2)

## Par portfolio with provisions (Bank)




1. Banks value their loan portfolios at 'par' (i.e. 100%), before provisions / M2M discounts are applied
2. Based on their expected loss and recovery rates, they then apply provisions to this value

## Mark-to-Market portfolio (PGG)




2. PGG values the loan portfolio at mark-to-market, after provisions / M2M discounts are applied
   - These provisions reflect the markets expectation of default and recovery rates
3. Any further discount to the share price reflects a 'double counting' of these provisions

**Any further discounts to the NTA reflects a 'double counting' of provisions**

For Illustrative purposes only . Source: Partners Group, 2020.There is no assurance targets or performance will be achieved.

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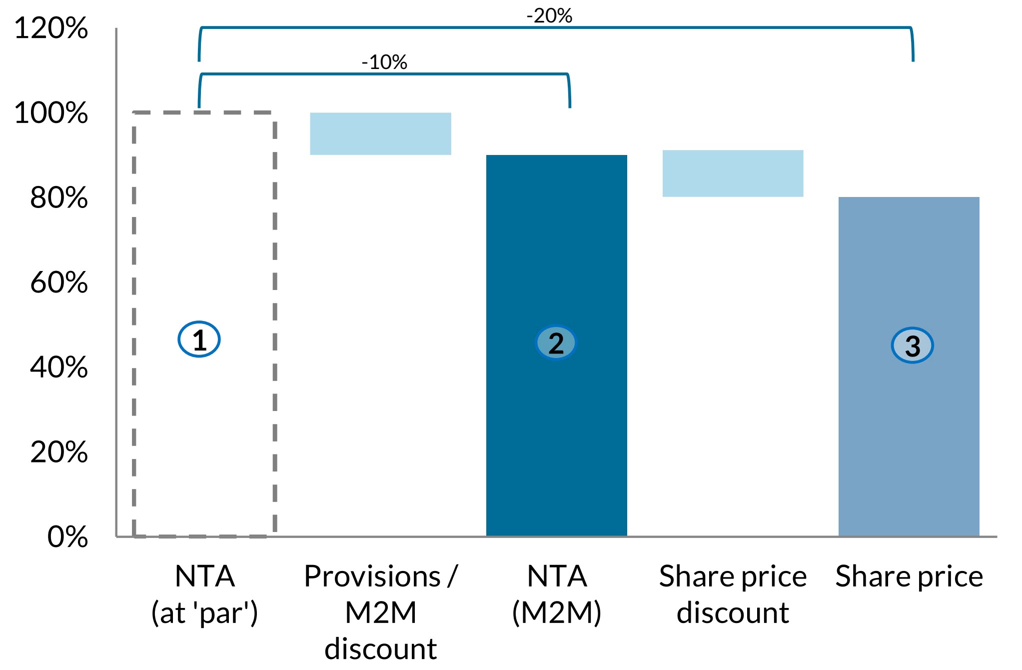
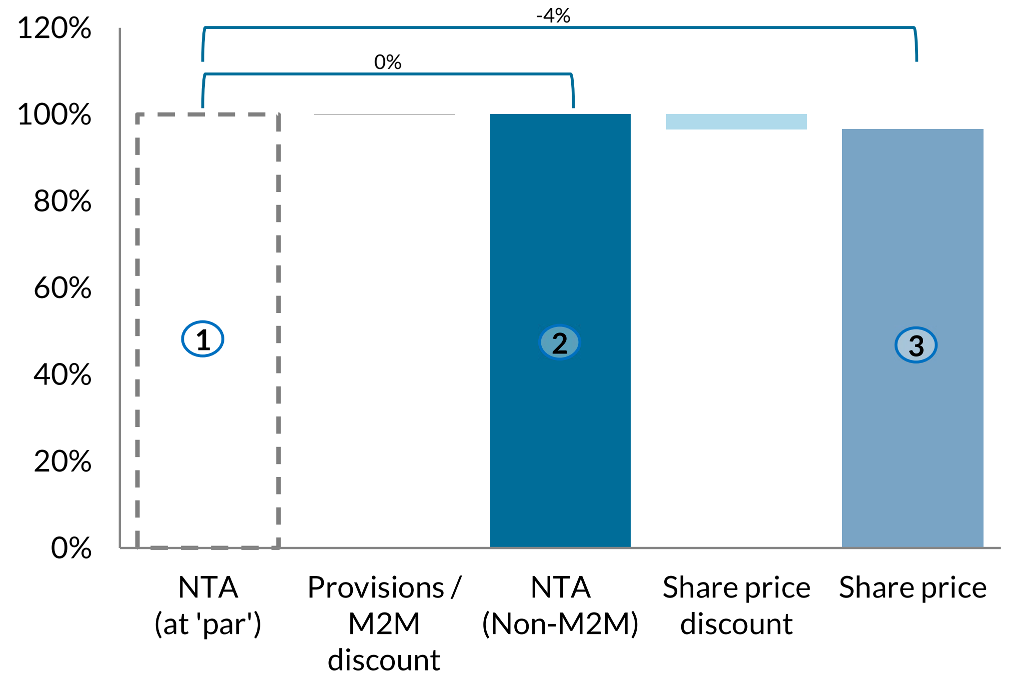
# How to think about provisions in the context of the PGG portfolio (3)

## Mark-to-Market portfolio (PGG)




2. PGG values the loan portfolio at mark-to-market, <u>after</u> provisions / discounts are applied
   - These provisions reflect the markets expectation of default & recovery rates
3. Any further discount to the share price reflects a 'double counting' of these provisions

## Non mark-to-market portfolio (XYZ)




2. XYZ values their loan portfolio at par mark-to-market, <u>before</u> provisions / discounts are applied
   - NTA does not reflect market pricing or expected default & recovery rates
3. Expectation of default & recovery rates should be applied to the share price

**Investors should be careful of non mark-to-market portfolios**

For Illustrative purposes only. Source: Partners Group, 2020.There is no assurance targets or performance will be achieved.

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# Portfolio Positioning

## Defensively positioned portfolio

**Diversified global portfolio**
(>300 obligors)

**Large companies**
(Avg. EBITDA USD 500m)

**Defensive industry focus**
(Technology / Software / Healthcare)

**First Lien Senior Secured Loans**
(c. 95%)

Owned by **large global PE firms**

**Lower exposure to challenged industries**
(Oil & Gas, Airlines, Hotels, Restaurants)

## Bottom up risk assessment of each position

**Two pronged risk assessment**

**Liquidity Analysis**
Balance Sheet Cash, Revolving Credit Facilities, Owner Support

**COVID-19 Assessment**
Direct and Indirect impact, analyze revenue shock, ability to cut costs

Source: Partners Group (2020). Diversification does not ensure a profit or protect against loss.

# Industry risk assessment: Heat map

## Industry heat map

| Negative | Neutral | Positive |
|---|---|---|
| Oil & Gas | Pharmaceutical | Staple Goods |
| | Insurance brokerage | |
| Hotels, Restaurants, Leisure | Health care technology | Internet and Software |
| Airlines, Aerospace | Food Producers | Healthcare |
| Education | Professional Services | Telecommunications |

### Case studies (Neutral / Positive)[1]

- **Staple Goods**
  - **Overview**: Manufacturer and distributor of spreads (e.g. margarine)
  - **Rationale**: Stockpiling of essential consumer goods
  - **Secondary price**: 87.5 / 91.0
- **Pharmaceutical**
  - **Overview**: Developer and manufacturer of generic drugs
  - **Rationale**: Demand for non-discretionary drugs and pain killers
  - **Secondary price**: 80.5 / 84.0
- **Insurance Brokerage**
  - **Overview**: Insurance broker for companies
  - **Rationale**: Insurance requirement, no underwriting risk, remote working
  - **Secondary price**: 84.0 / 87.0

## PGG is well positioned

- Significant majority of PGG exposure in sectors deemed Neutral or Positive
- Very low direct exposure to Oil & Gas - less than 1.5%
- Less than 10% direct exposure to other "Negative" industries combined
- Believe owners of companies in Negative industries will be supportive to address short to medium term liquidity needs

Source: Partners Group June 30 2020, based on Corona virus risk assessment by the Debt team, on 17 March 2020. 1. MarkIt as of 27 March 2020.

# Partner Group Global Income Key Metrics

## Key Metrics

### Key figures

| In AUD | 31.07.2020 | 31.08.2020 |
|---|---|---|
| Share Price | 1.56 | 1.66 |
| NTA per unit | 1.79 | 1.81 |
| Premium (Discount) to NTA | -12.80% | -8.69% |
| Leverage (in %) | 37.55% | 39.08% |

### Portfolio statistics

| In AUD | 31.08.2020 |
|---|---|
| Number of obligors | 392 |
| Current yield | 4.78% |
| Current cash yield | 4.73% |
| Current cash margin (bps) | 432 |
| Weighted average rating | B |
| Spread duration (years) | 4.46 |

## Return Potential from "Pull to Par"

Return Assuming a Share Price of AUD 1.50

| Future Price | Months to achieve Future Price | | | |
|---|---|---|---|---|
| | 6 | 12 | 18 | 24 |
| 1.50 | 5.8% | 5.8% | 5.8% | 5.8% |
| 1.60 | 19% | 12% | 10% | 9% |
| 1.70 | 32% | 19% | 15% | 12% |
| 1.80 | 46% | 26% | 19% | 16% |
| 1.90 | 59% | 32% | 24% | 19% |
| 2.00 | 72% | 39% | 28% | 22% |

If the First Lien Senior Secured Loan and Private Debt markets continue their price recovery, leading to an increase in the NTA per share, PGG can offer significant return potential at the current share price

Source: Partners Group 31 August 2020. There is no assurance that targets will be achieved. . Past performance is not indicative of future results. There is no assurance that similar results will be achieved.

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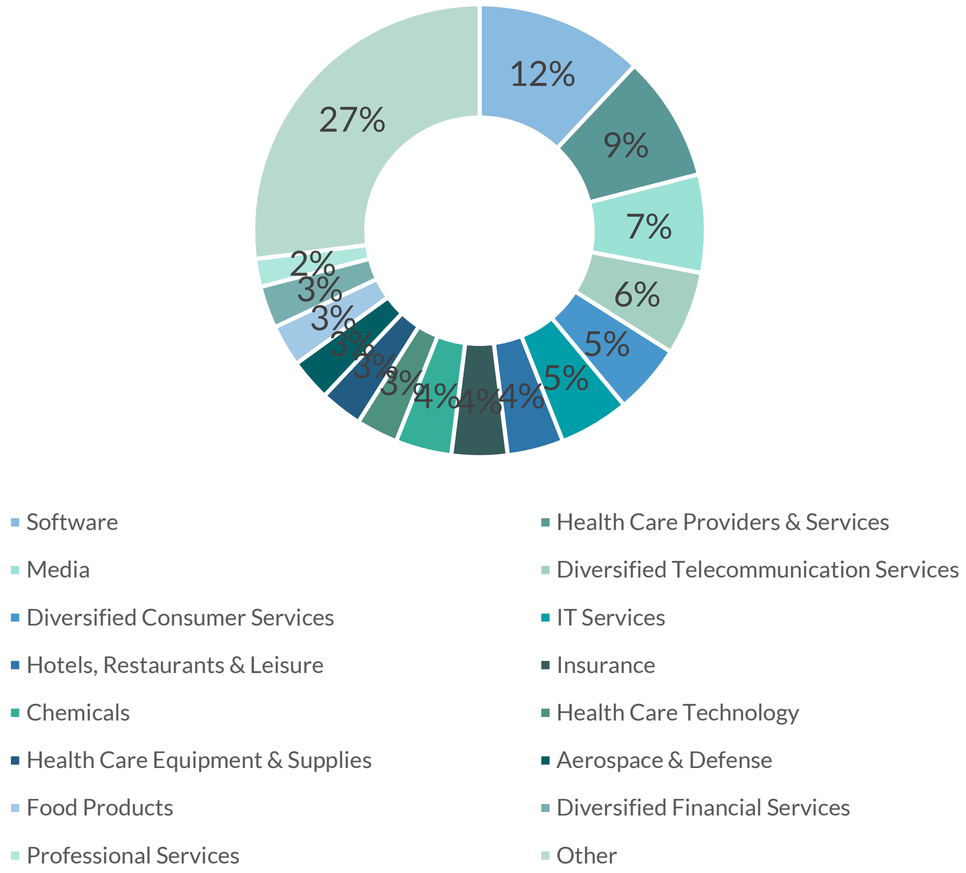
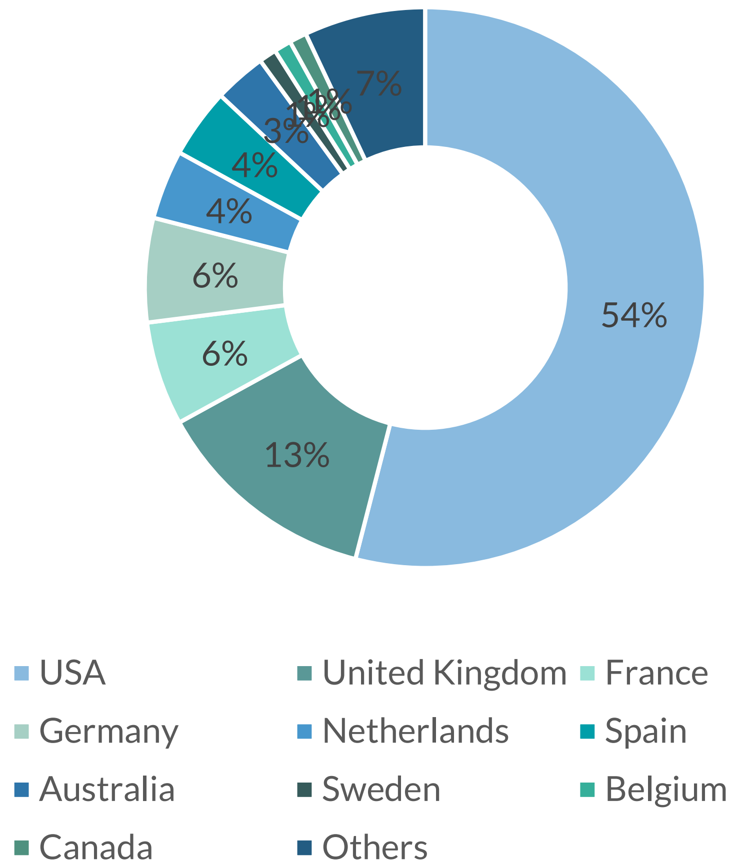
# Portfolio Composition

## Investments by industry sector



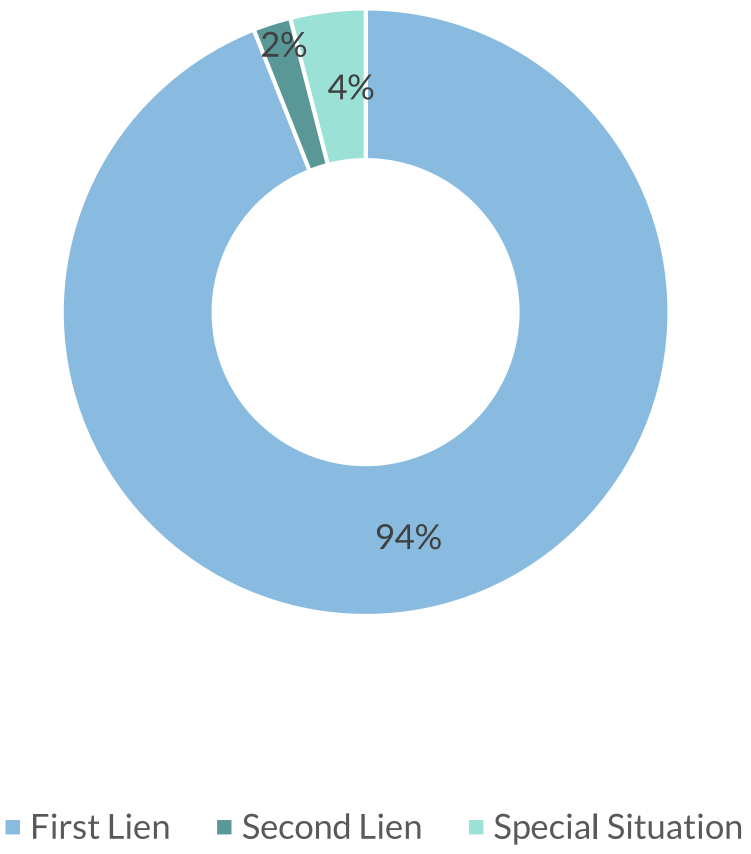

## Investments by country



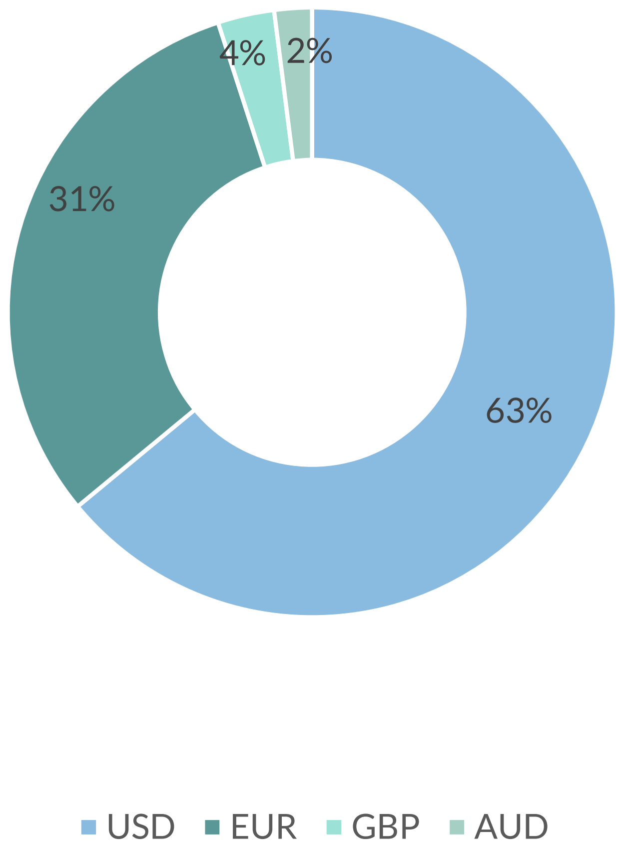

Source: Partners Group 31 August 2020. For illustrative purposes only.

# Portfolio Composition

## Investments by type




## Investments by currency




Source: Partners Group 31 August 2020. For illustrative purposes only.

# Recent portfolio activity…

## Position reductions

**Negative sector**

- Performing names, but price expected to be depressed for an extended period.

**Low yield**

- Strong price recovery but low yielding names.

**GSLMF[1]**

- Reduced exposure to GSLMF as individual loans settled.

## Position additions

**Post-COVID economics**

- Post-COVID transactions being syndicated with larger upfront fees and higher margins.

**Buy 'low'**

- High credit conviction names available at attractive prices.

**Direct Debt**

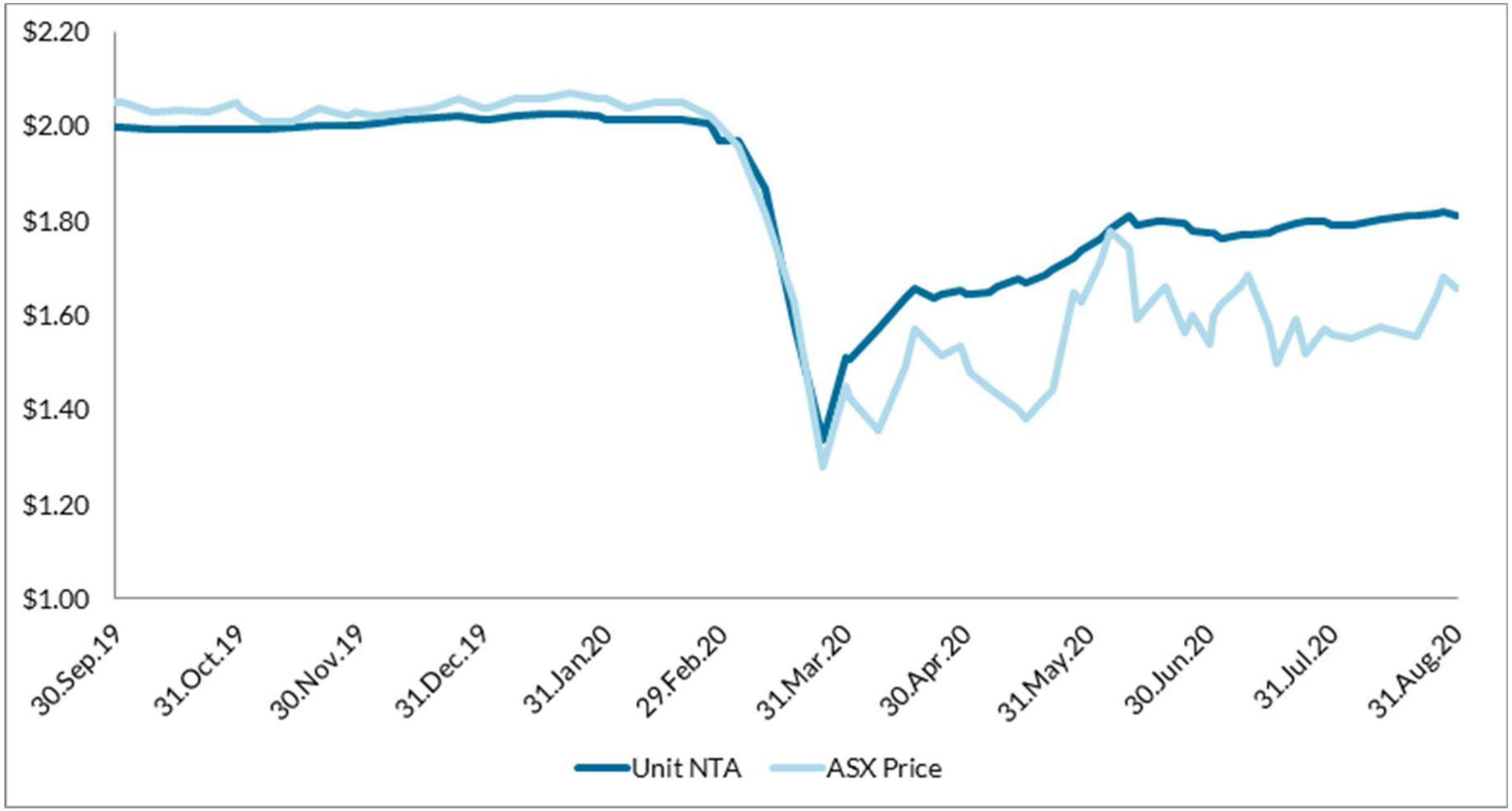
- Direct debt transactions originated post-COVID with attractive economics.

**Active portfolio management driving improved risk-adjusted returns**

Source: Partners Group, 30 June 2020.There is no assurance targets or performance will be achieved. There is no assurance that similar investments will be made. Risk-adjusted returns refer to returns taking into account potential drags to performance. Formula 1: Example of a position reduction due to its classification within a negative sector. Charter Communications: Example of a position reduction due to its low yield. App Lovin: Example of a position addition due to attractive economics. TMF Group: Example of a position addition due to attractive secondary price; **KDC**: Example of a position addition in a Direct Debt investment. 1. Global Senior Loan Master Fund.

# …driving continued improvement in NTA per unit

## NTA and ASX price development




Continued improvement of NTA since the March lows

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Source: Partners Group, 31 August 2020. ASX, 31 July 2020. For illustrative purposes only.

# Deal examples – Illustrative private debt investment case studies

## KDC

Leader in custom formulations and outsourced manufacturing solutions

| | |
|---|---|
| **Date:** | June 2020 |
| **Deal type:** | Senior secured |
| **Sponsor:** | Cornell Capital |
| **Geography:** | North America |
| **Terms:** | E (0.00% fl.) + 5.00%; 2.00% fees |
| **Equity Cushion:** | >45% |

## Ventia

Leading infrastructure services business focused on Telecommunications

| | |
|---|---|
| **Date** | June 2020 |
| **Deal type** | Senior secured |
| **Sponsor:** | Apollo / CIMIC |
| **Geography** | Australia |
| **Terms** | BBSY (0.00% fl.) + 5.50%; 3.00% fees |
| **Equity Cushion** | ~40% |

## Ceva Sante Animale

Leading veterinary health company

| | |
|---|---|
| **Date:** | April 2020 |
| **Deal type:** | Senior secured |
| **Sponsor:** | Consortium (Management, Temasek) |
| **Geography:** | Europe / Global |
| **Terms:** | 1L: E (0.00% fl.) + 4.75%; 9.00% fees |
| **Equity Cushion:** | >45% |

## Confidential Deal[1]

Global leader in skin care

| | |
|---|---|
| **Date:** | July 2019 |
| **Deal type:** | Second Lien & Equity |
| **Sponsor:** | EQT |
| **Geography:** | North America & Europe |
| **Terms (Second Lien):** | E (0.00% fl.) + 7.50%; 3.00% fees |
| **Equity Cushion:** | ~55% |

Source: Partners Group, 2020.There is no assurance targets or performance will be achieved. There is no assurance that similar investments will be made. 1 Deal details confidential unable to be disclosed. KDC: Example of a primary senior secured investment in North America. Ventia: Example of a primary senior secured investment in Australia. Ceva Sante Animale: Example of a secondary senior secured investment. Confidential Deal: Example of a primary second lien & equity investment.

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# What is Private Debt?

## Illustrative capital structure of a company

**EBITDA:** AUD 200 million, **Enterprise Value:** AUD 2 billion, **Equity Cushion:** 45%

Lower risk

| Company Capital Structure | Total | Features |
|---|---|---|
| **First Lien Loans** | AUD 850m | • The most senior obligations in the capital structure – Secured<br>• Floating rate<br>• Contracted Cash flow<br>• Interest paid before bondholders and equity holders |
| **Second Lien Loans** | AUD 200m | • Floating rate<br>• Secured or Unsecured |
| **Mezzanine** | AUD 50m | • Debt or Debt with Equity incentive<br>• Highest cost to borrower<br>• Unsecured |
| **Equity** | AUD 900m | • Ranks low in order of payment<br>• Can be common or preferred equity |

Higher risk

Unitranche debt – a single debt facility replacing multiple debt positions

Senior secured debt is the most secure part of the capital structure of a public or private company

Source: Partners Group 31 March 2020. For illustrative purposes only.

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