AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Partners Group Global Income Fund

(Expected ASX Code: PGG)

July 2019

INDEPENDENT
INVESTMENT RESEARCH

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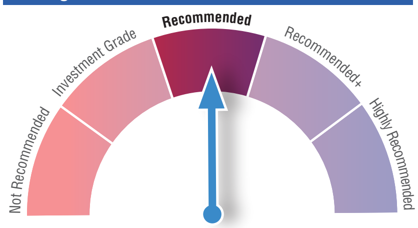
INDEPENDENT INVESTMENT RESEARCH

Partners Group Global Income Fund

(Expected ASX Code: PGG)

Note: This report is based on information provided by the Manager as at July 2019 and the PDS dated 29 July 2019.

Rating



Key Investment Information	
Name of LIT	Partners Group Global Income Fund
Manager	Partners Group Private Markets (Australia) Pty Ltd
Investment Type	LIT
ASX Code	PGG
ASX Listing Date	26 Sept 2019
Issue Price	$2.00
Day One NAV	$2.00
Min / Max Raise Units	100m / 250m
Market Capitalisation	$200m / $500m
Target Distribution	RBA Cash Rate + 4% p.a.
Distribution	Monthly
FX Exposure	Fully hedged to AUD
Management Costs	1.00%
Admin Costs (est.)	~0.20%
Performance Fee	A fee equal to 10% over RBA Cash Rate + 6% hurdle applied to the Special Situations strategy, capped at 25bps p.a. over a rolling 3-year period

Offer Timetable	
Expected PDS Lodgement	29 July 2019
Offer Period	12 Aug - 5 Sept 2019
Settlement	19 Sept 2019
Despatch of Statements	20 Sept 2019
ASX Listing Date	26 Sept 2019

Fees Commentary

For an ASX-listed private debt strategy, the overall fee level is deemed competitive. That said, a number of other such strategies have higher risk-return objectives, potentially impacting a comparative assessment on an ICR basis. We note the Manager will incur all IPO costs.

Target Portfolio Characteristics	
Min Floating rate securities	95%
Senior / Subordinated securities	75%/25%
Geographic split - NA/Europe	60%/40%
No. Holdings (approx)	150-200

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

The Partners Group Global Income Fund ('the Trust') is expected to list on the ASX on 26 September 2019, with a minimum and maximum raise of $200m to $500m, respectively. The Trust is managed by Partners Group Private Markets (Australia) Pty Ltd ('Partners Group' or 'the Manager') and its 50+ person strong private debt team and which manages approximately US$17bn in private debt investment strategies. The Trust provides exposure to a diversified portfolio of private debt investments to predominantly large to mid-sized companies through direct lending and broadly syndicated loan (BSLs) investments. It will seek to do so through both active origination in primary issues and secondary market trading. The debt investments will be predominantly in US and European private company borrowers, with a substantially smaller allocation to the Australian and Asia Pacific companies. The investment strategy will dynamically allocate across three private debt sub-strategies, specifically: i) senior secured first lien loans, with a target portfolio allocation of 60-100% and generally BB/B rated; ii) subordinated and second lien loans, with a target allocation of 0-20% and generally B-/CCC+ rated, and; iii) 'special situations' loans, with a target allocation of 0-25% and which may range from senior first lien up to mezzanine debt. The objective of the Trust is to provide monthly income with a focus on capital preservation. The Fund will target a cash income distribution of RBA Cash Rate plus 4% p.a. (currently 5% p.a.), net of fees and ongoing expenses of the Trust, paid monthly.

INVESTOR SUITABILITY

IIR would generally characterise the Trust as sitting at the mid to lower end of the private debt risk-return spectrum and can be expected to deliver a relatively stable level of income that at least meets the performance with a relatively low degree of capital downside. This view is based on a combination of: i) the Manager's focus on a diversified portfolio of senior secured first lien loans; ii) a focus on middle-market companies in generally resilient industries and generally characterised by dominant market positions, competitive advantages, barriers to entry and strong/stable cashflow profiles; iii) borrowers backed by quality Private Equity (PE) sponsors with considerable equity invested in the borrower; iv) solid and prudent underwriting, facilitated by wide deal sourcing channels based on long-standing relationships; v) a track-record of relatively stable interest rate spreads (read, income distribution stability), and; vi) a track-record of very limited capital losses on both first and second lien loans since commencing in the private debt asset class in 2006. Distributions are expected to commence at the end of the third month after listing. From an NAV perspective, the portfolio will largely be subject to mark-to-market volatility in the liquid private debt market (the bank loans market). As a sub-investment grade market, investors should expect that there may be periods of NAV volatility (yet which may have no impact on either income stability nor default risk in the underlying loans).

RECOMMENDATION

IIR ascribes a "**RECOMMENDED**" rating to the Trust. Partners Group is a solid investment manager that plays to its relative abilities, which translate to income stability and capital preservation, rather than stretching for yield and capital upside by moving up the private debt risk-return spectrum. In this regard, IIR has a high degree of conviction in the Manager's ability to at least achieve the stated income objectives over the foreseeable future. A key concern is while Partners Group has an established track-record in private debt and all three sub-strategies that make up the Trust (and has provided this data to IIR), each preexisting fund and client mandate is different to the Trust in terms of its fund structure, weighting to the different investment strategies, use of leverage, geographical focus and other factors. As such, no fund is exactly comparable to the Trust's structure and investment strategy and no past performance track-record is directly comparable. This detracts from overall information transparency, particularly in relation to patterns of performance (volatility, drawdowns, consistency) and relative performance (vs benchmarks, peers).

SWOT ANALYSIS

Strengths

- Partners Group has exhibited a strong capital preservation focus, with average annual historical default and loss rates since inception (since 2007 for first lien, 2006 for second lien and 2003 for mezzanine) materially below that of the bank loans market.
- Partners Group has a strong private debt deal sourcing network, which is critical to the flow of opportunities and the quality and timeliness of deal information. Partners Group has a corporate network of more than 950 private markets investment partners and 350 private markets advisory board seats. Many of these investment partners represent private equity sponsors which have funds the Partners Group is invested in, being a Limited Partner (LP) to several hundred PE General Partners (GPs).
- Partners Group has, and seeks to establish long-standing relationships with a broad network of PE sponsors. This is based on the philosophy that doing so not only permits stronger deal flow which, in turn, enables it to be more selective in its investments but also importantly provides an information advantage over other lenders. Specifically, these relationships facilitate i) early access to deal information, enabling Partners Group more time to due diligence a loan and therefore a better credit risk assessment, ii) more access to information by way of one-on-one meetings with company management if required, and iii) a greater ability to negotiate on pricing, leverage, and legal terms.
- The Manager is expected to prudently position the portfolio for a late cycle credit environment, investing in predominantly senior secured debt and showing a bias towards sizable and stable companies with high cash generation in resilient, less cyclical markets (healthcare, business services, education, for eg) and strong management teams.
- Through senior first lien secured loans being purchased on or around the closing date and a strategy of investing the IPO (plus financing) proceeds over the subsequent three months the Manager will diversify the portfolio by market entry timing over an approximate 5-6 month period, thereby mitigating this risk that IPO investors would otherwise face. IIR believes this is prudent given the higher inherent volatility in traded credit markets over the last 18 months, or so.
- The IPO has been well structured, with all costs borne by Partners Group and the Manager, or one of its associates, intending to apply for two percent of the number of units in the Trust on issue following completion of the offer (up to a maximum investment of $10 million), thereby creating an alignment of interest with investors.

Weakness

- As noted, a key concern is the lack of a directly comparable, GIPS (Global Investment Performance Standards) compliant historic performance track-record from the Manager's preexisting funds and mandates. While IIR acknowledges that historic performance of the separate sub-strategies was provided, the data is a composite of various mandates it is therefore not independently verifiable by way of being GIPS compliant. This detracts from overall information transparency, particularly in relation to patterns of performance (volatility, drawdowns, consistency, dynamic allocation between the three sub-strategies) and relative performance (vs benchmarks, peers).
- In the primary issue BSL segment, Partners Group is far from a passive 'price taker' with respect to proposed loan pricing and documentation, pushing back where there are perceived issues with both and, if not addressed, being prepared to walk away from an issuance. Nevertheless, as a participant in BSLs, the Manager has limited choice not to invest in some degree in 'covenant-lite' loans. While covenant-lite is not in itself a precursor of higher default risk, when combined with other erosions in traditional lender protections, suggests that while events of default may be extended (relative to the credit cycle) and lenders may experience lower overall recoveries in future bankruptcies than has been observed historically.
- IIR notes the three PMs responsible for managing the Trust have a relatively short tenure at Partners Group to date. While acknowledging Partners Group has a relatively stable team culture, the test of the stability, longevity, and effectiveness of these three PMs working as a team will only be borne out over time.

Opportunities

- Private debt has, to date, presented an attractive income opportunity, partly through a persistent illiquidity and complexity premium and attractive arrangement fees relative to the syndicated bank loan market. On first lien senior secured direct loans, the Manager has generally derived a 100bps premium to the liquid / bank loans market. While this average premium is less than certain other investment managers IIR has reviewed, we reserve judgement on a comparative basis due to the different complexity / risk of each direct loan.

- Private Debt offers several advantages over the traded sub-investment grade markets of high yield bonds (public debt). Private debt investors receive more detailed due diligence information, senior investments benefit from security over assets, there is a lower degree of interest rate sensitivity as private debt investments are more often floating rate notes, and there is lower marked to market volatility. Further, private debt investors benefit from stronger covenants, better information / monitoring rights and closer borrower relationships with PE sponsors / borrowers. This is reflected historically in lower default rates and higher recovery rates, equating to lower capital loss. However, this comes at the price of lower liquidity and the need for more resource-intensive implementation and monitoring processes.
- With interest rates at historic lows and one further rate cut broadly expected by December 2019, investors have moved into ASX-listed fixed-income ETFs in search for yield, with FUM in such ETFs surging by 30%, to $10.4bn, in the five months ended 31 May 2019. IIR would caution investors to be highly selective with respect to investment manager / strategy choice. We believe an active, fundamentally based, and flexible mandate is best placed to exploit the increasing market inefficiencies in the sub-investment grade markets.

Threats

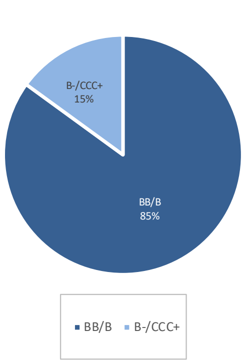
- There have been a number of technical (ownership structure) and fundamental (underwriting) changes in the bank loans (and HY bonds) market over recent years that create significant market risks and suggest these markets will be subject to heightened volatility moving forward relative to the post-crisis environment over the last ten years. These include: i) the significant increase in asset-liability mismatched structures (ETFs, daily liquid mutual funds based on relatively illiquid underlying assets); ii) the inability / disincentive for many private debt vehicles to hold or acquire deteriorating credits; iii) corporate borrowers' leverage having reached record highs and the deterioration in lender protections; iv) the masking of the deterioration in underlying collateral, including the rising use of 'pro-forma earnings adjustments' (understating real leverage levels) and the rise of 'unitranche' removing the benefit of junior debt absorbing losses for senior lenders; v) the substantial drop in dealer liquidity since the GFC and the consequent risk of a lack of market-making in the next downturn, impeding price discovery, and; vi) the central banks taking a much less active role in suppressing volatility through the retreat / removal of the quantitative easing liquidity cushion. All in all, the inherent volatility and price dislocation event risk has increased. While the market-driven, opportunistic nature of Partners Group liquid BSL / bank loans strategy may make it a beneficiary of such events, we believe it would be wise for investors to expect a higher degree of volatility in the private debt market moving forward.
- The portfolio level financing which will be applied to the Senior Secured Loans Strategy (see overleaf for details) does not change the risk profile or capital structure of the underlying loans but it does alter the risk-return profile of the overall Senior Secured Loans Strategy for Trust investors. Investors should note that within the first year while ever the gearing level is close to the maximum 50% level of the Gross Asset Value (GAV) of the Senior Secured Loans Strategy, a precipitous fall in the bank loans market may run the risk that the Manager would be a forced seller of some loans (in a down market) to the extent required to at least realign gearing with the maximum 50% limit.
- Regulatory oversight of the private debt sector is more likely to strengthen than weaken, with regulators hearing too many stories about poor underwriting standards, weak loan documentation and overuse of leverage for it to be otherwise (notwithstanding that a strong defence can be made against charges that the private debt sector poses systemic risks). Whether this occurs and whether it ultimately impacts the growth opportunity for investment managers and investors in the sector is yet to be seen.

PRODUCT OVERVIEW

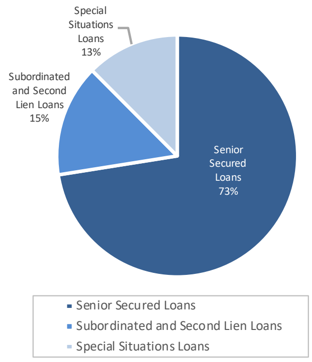
As noted, the investment strategy will dynamically allocate across three private debt sub-strategies, specifically: the Senior Secured First Lien Loans Strategy which will engage in primary issue direct and BSLs loans as well as secondary market trading in BSLs (BB/B rated, target portfolio allocation 60-100%); the Subordinated and Second Lien Loans Strategy which will engage in direct lending to middle-market companies (B-/CCC+ rated, target allocation 0-20%), and; the Special Situations Loans Strategy which will engage in a mix of highly selective mezzanine investments and secondary sales in direct loans from distressed sellers (target allocation 0-25%). When fully invested, the Trust's portfolio is expected to consist of 150 - 200 individual loans diversified by borrower, sector and geography. The long-term target portfolio diversification corresponds with the characteristics set out in the charts overleaf.

Subsequent to the IPO the portfolio is likely to be significantly allocated to the Senior Secured Loans Strategy as a result of these investments being purchased on or around the closing date in the primary and secondary markets combined with a naturally greater flow of such investment opportunities immediately post-IPO. The Manager expects to fully invest the proceeds of the IPO plus the portfolio level finance (see below) within the Senior Secured Loans Strategy over the first three months subsequent to the listing date. Over the course of the first 12-months, or so, it is expected the Trust's portfolio allocation will progressively become to approximate the target range allocations of the three sub-strategies as prospective opportunities in the other two sub-strategies (which are subject to more credit intensive and prolonged due diligence processes and higher investment hurdles) begin to present themselves to the Manager.

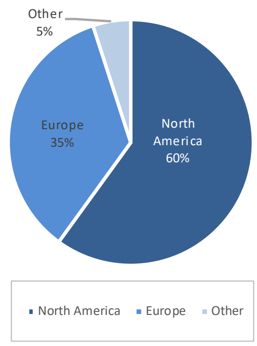
Target Range by Credit Rating



Target Range by Loans Strategy



Target Range by Geography



The Senior Secured Loans Strategy is expected to use an accretive portfolio-level term finance facility to generate higher returns from this portfolio sleeve of the Trust. The financing will be limited to 50% of the GAV of the Senior Secured Loans Strategy ($1 allocated to the Senior Secured Loans Strategy = $1 of financing). Initially, with the Fund expected to have limited allocation to the higher yielding Subordinated and Second Lien and the Special Situations strategies, the Manager is expected to utilise close to the upper limit of gearing for the Senior Secured Loans Strategy. This is for the purpose of generating a year one yield more in-line with the expected long-term level of the Trust. Over time, as the allocation to the higher yielding strategies approach and reach the target ranges, the amount of leverage is expected to be reduced to approximately 25% of the GAV of the Strategy.

The Trust will be managed by Partners Group's global private debt investment team consisting of over 50 credit investment professionals embedded in the overall Partners Group platform. The team is predominantly located in Europe and North America and, to a lesser degree, Asia. Its investment style is fundamental bottom-up, with a relative value overlay, that seeks to assess cashflow variability / debt serviceability risk and to be adequately compensated for that risk. There is a strong focus on capital preservation, and which is primarily achieved through prudent underwriting, proactive portfolio management and strong relationships with private equity sponsors and issuing banks.

The global private debt team currently manages US$17bn in AUM as at 31 December 2018 for institutional and retail clients and has a track-record dating back to 1999. It is one of four key private market asset teams within Partners Group, the others being private equity, infrastructure and real estate. Partners Group was founded in Switzerland in 1996, it currently has US$83bn in AUM and serves over 850 institutional investors with respect to these asset classes.

Partners Group seeks to invest in private debt on the basis of its relative strengths. These include: i) an extensive sourcing capability primarily based on long-standing relationships with several hundred private equity sponsors; ii) the ability to have a very selective credit investment approach enabled by strong deal flow and facilitated by an extensive proprietary private market database populated over the last 20 years; iii) proactive portfolio monitoring and management, with engagement with PE sponsors on direct lends in particular and managing out underperforming BSLs on the secondary market being critical to protecting capital, and; iv) a private credit team embedded in a global platform and complemented by in-house industry, tax, legal and execution expertise.

While noting the historic track-record limitations previously raised, IIR has conviction in the Manager's ability to at least achieve the stated income objective of annual income of RBA Cash Rate + 4% based on the historic performance of each of the three underlying strategies. Overall, this conviction is based on: i) a relatively steady interest rate spread above LIBOR on first lien senior secured loans equating to an approximate 5% p.a. (above the applicable LIBOR rate); ii) the positive impact of accretive leverage on the above stated (unlevered) spread; iii) the positive impact of the ~300-400bps margin typically generated on second lien and subordinated loans as well as the Special Situations Strategy, and; iv) a track-record of low absolute and relative defaults and capital loss.

Fees comprise a 1.00% p.a. MER (plus expenses) and a performance fee equal to 10% over a hurdle equal to the RBA Cash Rate + 6% p.a. (currently 7.0%) applied on the Special Situations Strategy, capped at 25bps p.a (accessed across a rolling three year period). There are no fees charged to Trust investors at the underlying strategies level and all IPO costs will be borne by the Manager (Day 1 NAV equal to the IPO price).

MANAGEMENT GROUP PROFILE

Partners Group is an independent global private markets investment manager with a major ownership by its employees. It was founded in Switzerland in 1996, with the launch of its private equity business. Over the course of the next eleven years, it launched a presence in the three other key private markets which, along with private equity, the group focuses on today. Specifically, private debt (1999), private infrastructure (2001), and private real estate (2007). The parent company, Partners Group Holding AG's, listed on the SIX Swiss Exchange in 2006. The group established an office in Sydney, Australia in 2008.

Today, Partners Group serves over 900 institutional organisations worldwide who seek attractive investment performance through private markets for their more than 100 million beneficiaries. It currently has a total US$83bn in AUM of which US$17bn is invested in private debt on behalf of clients. It has more than 1,200 professionals across 20 offices worldwide.

Partners Group began investing in private debt in 1999, making its first direct mezzanine investment in 2003, and has since invested over US$28bn in private credits globally as at 31 December 2018. The private debt investment team have provided debt financing to over 500 companies and invest across the entire capital structure in first and second lien senior secured loans, unitranche, mezzanine debt, private high yield, HoldCo notes, preferred equity, and common equity (via equity kickers). This flexible approach enables the firm to target relative value up and down the capital stack, as well as across geographies. The private debt investment team consists of over 50 dedicated debt investment professionals and deployed US$5.2bn globally in 2018.

In Australia, Partners Group has 25 people employed and approximately A$10bn in AUM, 90% of which is from the institutional market made up of mandates, limited partnerships in close-ended investments. These are across multiple asset classes, including private debt. The firm also has a retail presence domestically through three open-ended strategies, specifically a private equity strategy with 30% allocation to debt, a real estate mandate, and a multi-asset class mandate.

INVESTMENT TEAMS

Partners Group's private debt team consists of a core team of more than 50 credit investment professionals. The team is integrated into the overall global private markets platform, and receives support in areas including loan closing, investment monitoring, portfolio and risk management, structuring, and from a dedicated, globally deployed group of industry specialists comprising the Industry Value Creation (IVC) team.

The Trust is managed by three portfolio managers, specifically Andrew Bellis, Surya Ysebaert, and Mark Hanslin. Investment decisions are approved and overseen by the Global Direct Debt (for private debt) and Global Liquid Debt (for BSLs) Investment Committees (ICs).

The credit analysts are split between the liquid and illiquid sides of investments, specifically secondary market trading in BSLs and direct lending. In the former, there are eight credit analysts with particular focus on different sectors and one generalist based in New York. In addition, there are five junior analysts (three in the US and two in Europe) that currently assist with additional credit work.

The remainder of the credit professionals are generalists and focus on the direct / illiquid side of the business. Frequently credits will overlap between the two strategies and the respective analysts have pooled resources for their analysis, in particular this is applicable where the Manager looks at an early stage as a potential second lien lender to a large number of situations in the US.

A summary of the three PMs and IC members is contained below.

Andrew Bellis, Managing Director, Head Liquid Loans. Andrew Bellis is Head of the Liquid Loans business unit, based in New York. He is a member of the Global Liquid Debt Investment Committee and has 16 years of industry experience. Prior to joining Partners Group, he worked at Merrill Lynch, Credit Suisse and 3i Group plc. He holds a master's degree in physics from Imperial College London, UK.

Surya Ysebaert, Senior Vice President, Liquid Loans. Surya Ysebaert is part of the Liquid Loans business unit, based in London. He is Chairman of the Global Liquid Debt Investment Committee. He has 20 years of industry experience. Prior to joining Partners Group, he worked at Aberdeen Asset Management, Goldentree Asset Management, Bank of America Merrill Lynch and ING. He holds a postgraduate degree in banking and finance from HEC Lausanne, Switzerland, and a master's degree in economics from the University of Ghent, Belgium.

Mark Hanslin, Senior Vice President, Liquid Loans. Mark Hanslin is part of the Liquid Loans business unit, based in New York. He is a member of the Global Liquid Debt Investment Committee. He has 34 years of industry experience. Prior to joining Partners Group, he worked at Mountain Bridge Advisors, Nebula Capital, Mizuho Bank, Fuji Bank and Union Bank of Finland. He holds a bachelor's degree in business from Boston University and an MBA from the New York University Stern School of Business.

Partners Group Global Income Fund PMs and Key Persons

Member	Title	Role	Yrs PG	Yrs Ind
Andrew Bellis	MD, Head of Liquid Loans	PM, Global Liquid Debt IC member	2	16
Surya Ysebaert	Senior VP, Liquid Loans	PM, Global Liquid Debt IC Chairman	2	20
Mark Hanslin	Senior VP, Liquid Loans	PM, Global Liquid Debt IC member	1	34
Bill Berry	Partner, Head Private Debt	Head of Private Debt, Global Executive Board member	3	23
Scott Essex	Partner, Head of the Private Debt Americas	Global IC member, Global Direct Debt IC Chairman, Global Liquid Debt IC member	12	19
Christopher Bone	Partner, Head Private Debt Europe	Global Direct Debt IC member, Global Liquid Debt IC member	9	18
Edward Tong	Senior VP, Head Private Debt Asia	Global Direct Debt IC member	6	15

INVESTMENT PHILOSOPHY

Partners Group assesses credit risk on the basis of a fundamental bottom-up assessment of cashflow / debt serviceability risk with a relative value overlay to determine the attractiveness, or otherwise, or proposed loan pricing. The intensity of the due diligence process is broadly aligned with the capital structure risk of a loan, being naturally more detailed as it moves up the capital structure risk spectrum. Reflecting this, Partners Group turn down rate on potential investments increases as it moves from BSLs, first lien direct, second lien and ultimately mezzanine.

From a fundamental credit risk perspective, it seeks to preserve capital through a natural bias towards established companies in recession resilient industries with strong management teams and that typically exhibit strong market position, barriers to entry, stable recurring cash flows, high cash conversion levels, solid growth prospects and have acceptable downside risks.

From a pricing perspective, a relative value assessment to comparable loans is integral to the determination that the Manager is being appropriately rewarded for the risk taken. An integral component of risk is lender protections by way of the negotiation over matters of legal documentation / covenants. Even in the BSL segment, which may include 50 - 100 lending participants, Partners Group seeks to exert influence through its scale by negotiating to the degree required to be satisfied adequate lender protections are in place. If not, the Manager will walk away from a primary issuance BSL.

Partners Group almost invariably lends to companies owned by private equity sponsors, and which hold significant or controlling stakes in these private companies. The Manager is a strong advocate, and particularly in the direct side, of the value of the sponsor. Transactions with a sponsor typically have more seasoned management teams compared with non-sponsored deals due to the private equity company's ability to leverage personnel from their portfolio companies. Sponsors will typically work with lenders more quickly to resolve any potential issues a credit may have, more so than in non-sponsored deals. Furthermore, there is a strong alignment of interest by way of sponsors substantial equity investment (particularly in a private equity environment characterised by high valuation multiples) and sponsored borrowers can have additional access to equity capital that non-sponsored borrowers do not.

Partners Group has, and seeks to establish long-standing relationships with a broad network of PE sponsors. This is based on the philosophy that doing so not only permits stronger deal flow which, in turn, enables it to be more selective in its investments but also importantly provides an information advantage over other lenders. Specifically, these relationships facilitate i) early access to deal information, enabling Partners Group more time to due diligence a loan and therefore a better credit risk assessment, ii) more access to information by way of one-on-one meetings with company management if required, and iii) a greater ability to negotiate on pricing, leverage, and legal terms.

As a lender, the Manager's role will range from that of a sole, lead, club participant, to participant lender. As a point of philosophy though, as the Manager moves up the capital structure spectrum and the larger the loan investment, its natural preference is to represent a greater percentage of a total tranche, thereby having greater input on credit terms and protections and privy to better ongoing information flow and influence over PE sponsors in addressing any emerging issues.

For BSLs, secondary market liquidity is a critical component in managing loan deterioration and offsetting the risks that may come with the lesser degree of information flow and lesser lender protections in this segment.

INVESTMENT STRATEGY

The Fund's investment strategy is to gain exposure to a portfolio of private debt to predominantly middle-market companies through direct lending and broadly syndicated loan investments. It will seek to do so through both active origination in primary issues and secondary market trading (limited to BSLs only). The debt investments will be predominantly in US and European private company borrowers, with a substantially smaller allocation to the Australian and Asia Pacific companies. Partners Group defines a 'direct' lend as a primary issue first or second lien senior secured loan in which it represents greater than 10% of the total loan tranche.

The investment strategy will dynamically allocate across three private debt sub-strategies, specifically:

- Senior Secured First Lien Loans Strategy - (BB/B rated, target portfolio allocation 60-100%) through primary issue direct and BSLs loans as well as secondary market trading in BSLs;
- Subordinated and Second Lien Loans Strategy - (B-/CCC+ rated, target allocation 0-20%) by direct lending to middle-market companies;
- Special Situations Loans Strategy - (target allocation 0-25%) representing a potential mix of direct loans purchased by (distressed) sellers and highly selectively junior capital with an equity component investments, such as PIK or mezzanine debt.

A summary of the attributes of these three strategies is tabled below.

Themes	Senior Secured Loans Strategy	Subordinated and Second Lien Loans Strategy	Special Situations Strategy
Intended allocation	60-100%	0-20%	0-25%
Credit Quality	BB/B	B-/CCC+	Variable
Typical loan duration	3 year average, 7 year legal	3 year average, 8 year legal	3-4 year average,5-7 year legal
Strategy Finance/Leverage	Up to 50% of GAV	None	None
Loan type	BSLs, direct	Direct	Distressed Direct / Junior capital with equity component
Lender role	Lead, Joint-lead, Participant	Lead, Joint-lead, Participant	Secondary market / Lead
Sponsor / Non-Sponsor	Sponsor / Non Sponsor	Sponsor only	Sponsor only / N/A
Typical # of participants	1-10 / 50 - 100	1 - 3	1
Secondary market liquidity	High	Low to none	Low to none
# holdings / Max Single %	110-130 / 2% of GAV	10-15 / 1% of NAV	10-20 / 1% of NAV
Avg Total Tranche Size	>$200m	$20 - $80m	Variable
Avg Borrower Ebitda	>$50m	$60 - $150m	Variable
Avg Leverage Range	4.5 - 6.0x	5.0 - 6.5x	Variable
Avg Return Range (gross)	US Libor+4.0-5.0% p.a (unlevered)	US Libor+7.5-8.5% p.a.	Variable
OID (upfront payment)	0.5%	3.0%	N/A
Target Return (overall gross)	**US Libor+5.6% p.a**		

Returns to investors in the Trust from the portfolio of loans will comprise a mix of: 1) floating rate interest payment coupons; 2) up-front "fees," principally in the form of original issue discount or "OID" (the difference between the issue price and the par value of the debt); 3) fees and other penalties on early repayments from borrowers; 4) gains / losses on debt purchased / sold in the secondary market at a discount / premium to the par value; 5) the inclusion of equity warrants, preferred equity or common equity shares with subordinated debt instruments that may be incorporated in certain transactions (the value of which is typically realised through a trade sale, an IPO or dividend payments); 6) potentially an FX positive or negative carry component (should the RBA Cash Rate differ from the applicable LIBOR rate), and; 7) a potential diminution of income should losses be incurred through a default event and a recovery rate less than par value.

Senior Secured Loans Strategy

The strategy will invest in senior secured first lien direct loans and BSLs and where typically the total size of the loan is greater than US$200m (or its equivalent in other currencies) and where the borrower is generating a minimum EBITDA of approximately $50m or more.

The direct loans will be invariably PE sponsor backed and have either very limited or no secondary market liquidity. As such, Partners Group invests on a hold-to-maturity basis. While the legal term of the majority of these loans are 5-7 years, they are frequently repaid early, with the average term around three years. Given the generally smaller size of these loan relative to BSLs, the Manager's role is often that of a lead, co-lead or otherwise a club participant. Relative to BSLs, these investments are typically more heavily bilaterally negotiated between the lender and the borrower and typically have more robust reporting packages and protective covenants. This is designed to partly offset the greater risk lenders incur on direct lends, specifically i) investment size may be larger than BSLs (given the limited number of lenders) and, ii) there is limited or no ability to exit via the secondary market, with such investments having a buy-and-hold nature.

Senior secured first lien BSL, which have an active secondary market (the bank loans market), are typically to upper mid-market to larger corporate companies (EBITDA >$100m) with total average deal sizes across all participant lenders ranging from $200m-$1bn.

By definition, Partners Group lending role is that of a participant. BSLs are typically less negotiated and subject to weaker lender protections (some being 'cov-lite') than direct loans due to a combination of each lender representing a smaller percentage of total tranche size and, importantly, secondary market liquidity providing a means to mitigate downside risks of a deteriorating credit through the ability to exit on-market. Partners Group also generally seeks to partly offset the risk of weaker protections and generally less influence and information flow from the borrower relative to a direct lend by investing in more conservatively geared investments.

Secondary market purchases of BSLs relate only to credits Partners Group has assessed during the period of primary issuance and, subsequently, have been placed upon an approved liquid loans list, as determined by the Global Liquid Loans IC. Such purchases may represent a top-up of an existing primary issue BSL investment, where such a loan has traded to a level perceived to present an attractive risk-return proposition, or a relative value buy-sell trade. Partners Group secondary market trading in BSLs is market-driven opportunistic in nature (of deals previously assessed in the primary issuance stage) and largely implemented by way of a dislocated price, relative value strategy.

The Senior Secured Loan Strategy will itself be highly diversified with no single borrower expected to consist of more than 1.5% of the GAV and no single industry consisting of more than 15% of the GAV. The portfolio will consist primarily of exposure to US and European companies but may also include exposure to Asia-Pacific or Australian borrowers.

As noted, the Senior Secured Loans Strategy is expected to use portfolio-level term finance in order to generate a higher return from this portfolio sleeve of the Trust. This floating rate term facility is expected to be provided at an interest rate in the vicinity of Libor + high 100s bps margin, thereby creating positive leverage given Partners Group interest rate margin on BSLs has been approximately Libor + 400-500bps in recent years.

The financing will be limited to 50% of the GAV of the Senior Secured Loans Strategy ($1 allocated to the Senior Secured Loans Strategy = $1 of financing). Initially, with the Fund expected to have limited allocation to the higher yielding Subordinated and Second Lien and the Special Situations strategies, close to the upper limit of gearing is expected to be utilised for the Senior Secured Loans Strategy for the purpose of generating a yield more in-line with the expected long-term level of the Trust. Within the first year of the closing date, as the allocation to the Subordinated and Second Lien and the Special Situations strategies increase and the anticipated overall yield of the Trust commensurately increases, there is expected to be a progressive reduction in the amount of leverage used to approximately 25% of the GAV of the Fund.

There a number of investor protections built in to the financing facility. Specifically: i) it is long term in nature (expected 5 years) and, importantly, cannot be "called away" by the lender if market conditions deteriorate or loans fall in value (averting 'margin call' risk); ii) it is limited recourse in nature, having security over the Senior Secured Loan Strategy loan portfolio only and no other assets of the Trust, and; iii) the portfolio level financing, which is a relatively common structure for diversified senior secured first lien mandates, does not change the risk profile or capital structure of the underlying loans (although it does alter the risk-return profile of the overall Senior Secured Loans Strategy for Trust investors).

Subordinated and Second Lien Loans Strategy

The Subordinated and Second Lien Loans Strategy intends to invest in loans secured by way of a second ranking lien and, potentially, subordinated (unsecured in nature) and "unitranche" loans (a combination of second lien and senior secured loans in a single facility). The priority is second to first-lien facilities, the security is generally a second lien on the first assets and the pricing is wider by 300bp–500bp. These loans will invariably be direct lends to middle-market companies, be PE sponsored backed, with Partners Group lending generally on a sole, lead, or co-lead basis. Loan terms and conditions are expected to be heavily negotiated to ensure adequate lender protections and adequate compensation for additional risk.

In some cases, such investments may be to the same companies targeted in the due diligence process for the Senior Secured Loan Strategy. Partners Group due diligence process for such loans is almost invariably more detailed and lengthy relative to first lien loans. The Manager remains highly selective in the second-lien segment given the limited issuance activity, more competitive environment, and the greater capital structure risk and limited secondary market liquidity. It is expected that no single investment that forms part of this strategy will be more than 1.5% of the Net Asset Value of the Strategy.

Special Situations Investment Strategy

The Special Situations Investment Strategy is expected to be invested in a range of different asset types to achieve attractive risk adjusted returns for the Trust. Investments are predominantly expected to represent investments in mezzanine debt (typically alongside a second lien loan investment) that can provide significant additional return potential in companies the Manager has a very high of conviction in. Additionally, secondary purchases of direct loans at a significant discount to par value from a club participant lender.

It is expected that no single investment that forms part of this strategy will be more than 1.5% of the NAV of the Strategy

INVESTMENT PROCESS

The Investment Strategy comprises four key elements, specifically: deal sourcing (origination); investment criteria; credit analysis, and; monitoring and portfolio management.

Deal Sourcing

The Partners Group has a corporate network of more than 950 private markets investment partners and 350 private markets advisory board seats. Many of these investment partners represent private equity sponsors which have funds the Partners Group is invested in, being a Limited Partner (LP) to several hundred General Partners (GPs). Additionally, the Manager has long-standing working relationships with leading advisory firms, accountants, banks and brokers in relation to private debt investments. Partners Group notes that approximately 75% of all sponsored deals syndicated in the US and EU in 2018 were from sponsors where Partners Group is a client or investor. Strong sponsor relationships facilitates invitations to syndications and receiving allocations.

The strength and network of these relationships serve to provide a strong sourcing capability in terms of private debt opportunities. Further, these sponsor relationships facilitate the flow of information, with Partners Group commenting it often receives better and more advanced deal related information, and particularly in the case of second lien transactions, which are more credit intensive.

Investment Criteria

Strong origination channels is essential to be selective in deals, information flow, structuring, post deal relationships (particularly with PE sponsors) and, in turn, being feasibly able to implement a strong investment criteria. We note evidence of this deal flow and selectiveness by way of the table below, noting also that the investment hit rate is materially lower for second lien and mezzanine lends given the higher hurdles that naturally apply.

Credit Selection Hit Rate - Direct Lending

Year	2015	2016	2017	2018	Total
First Screening	614	478	424	416	1932
Due Diligence (1)	208	166	190	211	775
Due Diligence (2)	**73**	**76**	**79**	**74**	**302**
Deals Committed / Funded	**51**	**41**	**47**	**47**	**186**
Hit Rate %	8%	9%	11%	11%	10%

In this latter regard, Partners Group, at this stage in the credit cycle, exhibits a bias towards companies operating in non-cyclical industries with leading market positions, stable EBITDA margins and strong cash generation. As it moves up the general risk spectrum from BSLs to first lien direct and then second lien / subordinated direct lends, it applies increasingly strict criteria with respect to fundamental bottom-up company and lending protection aspects.

For private markets investing, access to information is a key differentiating factor. A key advantage of Partners Group's investment process is its proprietary "PRIMERA" platform, which contains investment information on more than 36,000 assets populated over roughly 20 years. It provides a number of benefits.

Firstly, it enables Partners Group to track the development of peer group companies (e.g., by geography and sector) and understand borrowing levels, profitability development, growth and equity contributions; and

Secondly, it enables Partners Group to understand the historic background of a company as its systems often track multiple transactions with a single company (e.g., where it has been bought and sold by different financial sponsors over time). This provides an insight into company performance through multiple cycles beyond the standard due diligence available.

Credit Analysis

Partners Group follows a three- to four-step, structured credit analysis process to evaluate, select and monitor investments.

Step 1: Pre-Selection screening

Partners Group's private debt investment team screens incoming opportunities during the biweekly deal source/screening meeting. Based on the available information from the management presentation, credit memo or Partners Group's proprietary database, the investment committee decides whether to advance an investment to the next step. While a large majority of investments are declined at the meeting, the more promising opportunities are advanced and a first credit review is prepared for submission to the investment committee. Credit analysts responsible for the industry are assigned the credit.

Step 2: First Credit Review

First Credit Review includes a comprehensive credit analysis based on extensive quantitative and qualitative analysis of the underlying company. Partners Group's analysis is generally based on (i) reports from third parties such as consultants, accountants, lawyers, and investment partners; (ii) meetings with the management team; (iii) ESG checks; (iv) reference calls with parties related and unrelated to the investment target (such as independent industry experts); and (v) legal due diligence.

Partners Group also assesses transaction pricing, debt levels, financial aspects of the target company and management. The credit analyst condenses the findings into a structured credit paper and presents in the daily investment committee for detailed discussion. For first lien investments under a certain risk limit, if approved then the credit is added to the approved list of credits ("Transaction Advice"). For larger first lien investments greater and all second lien investments, the investment proceeds to a second credit review.

Step 3: Second Credit Review

The mandated second credit review process with respect to second lien reflects the fact that such investments represent a riskier investment proposition and thereby prudently require more diligence. Reflecting this higher bar, Partners Group turn down rate on second lien investments is naturally very high. Furthermore, Partners Group may be providing all of the second lien to a company, they are also heavily negotiated transactions.

In the second credit review, the credit analyst carries out additional work with particular focus on the financial model with downside case and credit documentation. In the follow up investment committee meeting, the credit analyst addresses any outstanding credit concerns and questions from the Investment Committee members. The transaction advice will be updated to reflect increased hold risk limit based on a final positive decision from the investment committee.

Step 4: Additional Approval Requirement for large investments

For investments that exceed 10% of the target debt tranche (i.e., a direct lend), additional approval is required which includes taking the investment to Partners Group's Global Investment Committee. Similar to second lien investments, the general absence of secondary market trading for such transaction increases the risk profile of a direct lend relative to a BSL. The Global Investment Committee, comprised of the most senior professionals in the firm, supervises the firm's overall investment approach and is informed of all investment opportunities in due diligence and oversees the investment recommendations for all private markets investments.

All BSL loans approved for primary issue investment are also automatically approved for secondary market purchase, within specified price thresholds. The approval applies for a three month period and, subsequent to updating the credit thesis based on company quarterly updates, is re-presented to the Global Liquid Loans IC for re-approval, or otherwise. At any given time, the liquid loans approval list number 200 to 300 BSLs that have been reviewed during the primary issue stage. This enables Partners Group to act quickly and in an informed manner in the event of a price dislocation event in the bank loans market.

Pro-active Monitoring and Portfolio Management

Partners Group believes that the monitoring and portfolio management of existing investments is a core component of the overall due diligence process and integral to successful investing. Partners Group emphasises regular quantitative and qualitative monitoring of debt investments beyond simply analysing monthly and quarterly reports.

Credit monitoring is carried out through (i) actively monitoring credit news flows and price changes, (ii) watch lists, (iii) biweekly earnings meetings, (iv) weekly portfolio management meetings and (v) quarterly credit and industry investment committee meetings.

Credit analysts are responsible for updating the investment committee, flagging credit changes and uploading the updated financials into the proprietary database. Each analyst follows a set of loan names (generally split by sector) that are discussed for earnings/credit news in biweekly meetings. Daily price feeds on all loans serve as another method of monitoring.

Portfolio management is carried out based on the following principles (i) capitalizing on market inefficiencies and relative value opportunities and (ii) capturing capital gains and minimizing credit losses through rebalancing. Ongoing portfolio monitoring is achieved using proprietary and external analytical tools.

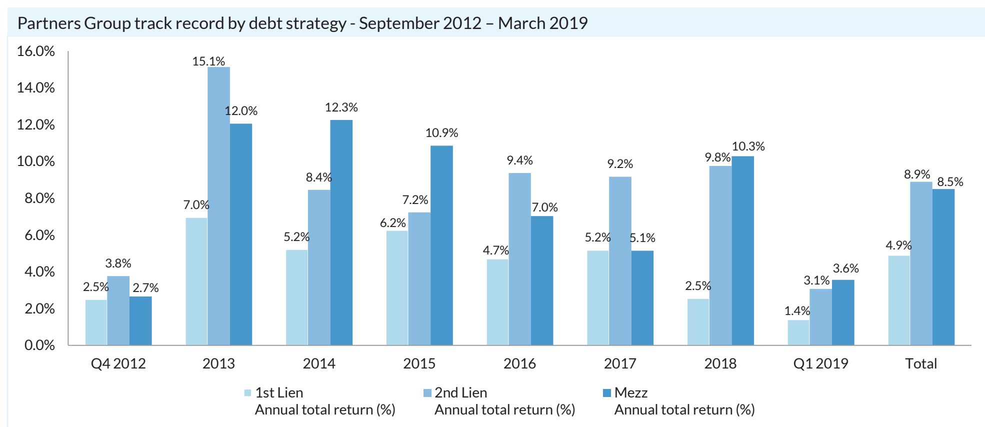
PERFORMANCE

Partners Group has invested over US$28.4bn in private debt investments since 2003 through different funds and client mandates that invest fully or partly into private debt. While the private debt investments made by these other funds and client mandates are the same investments that comprise the investment strategies of the Trust, each fund and client mandate may be different to the Trust in terms of its fund structure, weighting to the different investment strategies, use of leverage, geographical focus and other factors.

As such, no fund is exactly comparable to the Trust's structure and investment strategy. As such, Partners Group has provided a composite total returns performance of the three separate sub-strategies between September 2012 and March 2019 based on the following assumptions: i) the total returns figures are based on quarterly cashflows into Partners Group investments in first and second lien and mezzanine debt from September 2012 and March 2019; ii) NAV performance is hedged to the AUD; iii) modelled performance is based on the fees incorporated in the Trust, and; v) IIR notes that the first lien loan returns are unlevered.

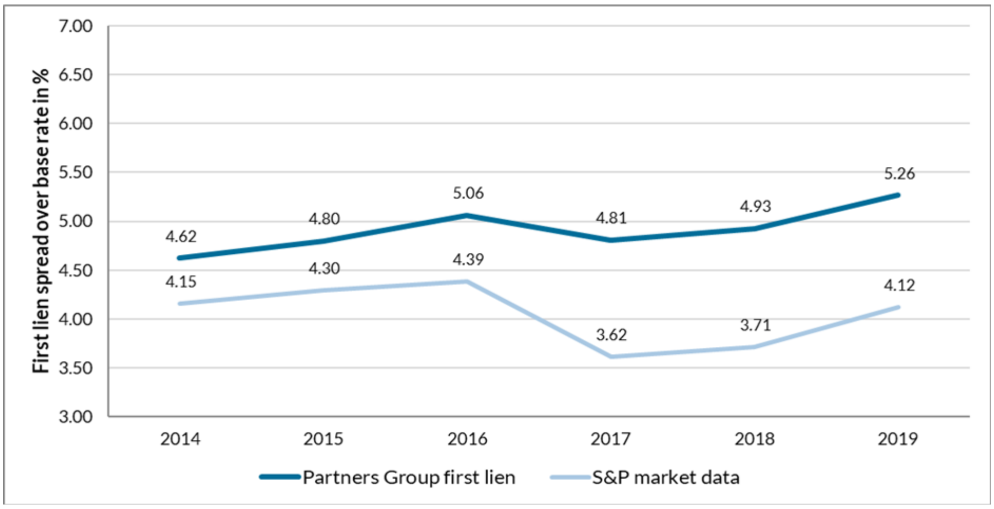
- Taken collectively, and considering the accretive impact of gearing on the Senior Secured First Lien strategy, the sub-strategies have consistently and comfortably exceeded the returns objective of the Trust. The second lien and mezzanine components have exhibited an expected markedly higher premium to the first lien, but greater variability in returns given the additional risk and equity upside component.

Partners Group Track Record by Debt Strategy - Sept 2012 - March 2019



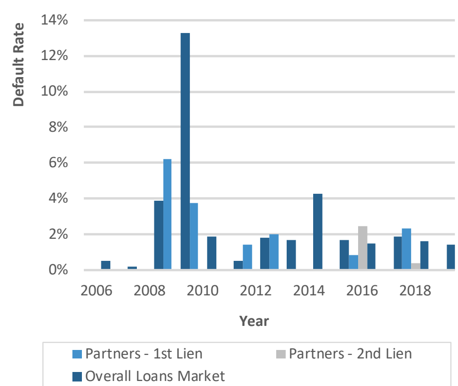
- The chart below illustrates Partners Group's first lien investments (both direct and BSLs) relative to first lien spreads in the secondary bank loan market. IIR would make a number of points: i) over the past five years, spreads (and OIDs) for Partners Group's first lien investments have been relatively stable (with variability generally reflecting general market sentiment and risk appetite), with this stability is important in achieving the investment objective of the Trust; ii) Partners Group has maintained a premium over the secondary market, reflecting partly an illiquidity and complexity premium on direct loans as well as the fact that in syndications the banks take the fees whereas in direct debt the investors get the full benefit of the fees; iii) the spreads achieved by Partners Group are on an unlevered basis, with investors in the Trust expected to benefit from an arbitrage uplift on first lien secured loans, and; iv) the chart illustrates first lien only, with second lien and subordinated debt typically benefiting from an additional circa 400bps spread margin.

Partners Group First Lien Spread vs Bank Loans Market

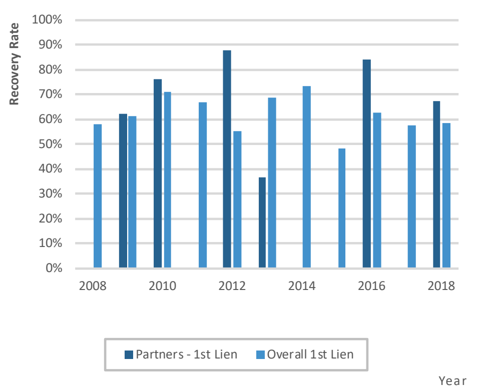


- Another important performance metric is the level of principal protection provided by the asset class, and particularly so for an overall investment strategy designed to provide consistently monthly income with a focus on capital preservation. This is particularly important in the debt asset class given the asymmetry of downside risks (limited upside, complete capital loss risk). We note that Partners Group has performed strongly in this regard, achieving a low lifetime principal loss rate of 0.46% p.a. for first lien debt and 0.22% p.a. for second lien debt investments, compared to approximately 3.0% p.a. for the overall bank loans market. While recognising the latter is inclusive of CCC rated credit (which Partners Group first lien does not include), it must be borne in mind the Partners Group second lien default rate (predominantly B, CCC rated) is materially lower.
- The Manager has exhibited a strong capital preservation focus, with average annual historical default and loss rates since inception (since 2012 for first lien, 2006 for second lien and 2003 for mezzanine) being: first lien default and loss rate of 0.59% p.a. and 0.27% p.a, respectively; second lien default and loss rates of 0.29% p.a and 0.25% p.a., and; mezzanine default and loss rate of 4.00% p.a. and 1.22% p.a.

Default Rates vs Bank Loan (BSLs)



Recovery Rates vs Bank Loan (BSLs) - First Lien



Source: Partners Group, J.P. Morgan

- Where a default has occurred, Partners Group recovery rate on first lien has also been on the whole superior, which may speak to the strength of strong PE sponsor backed relationships. There has been insufficient default events in second lien to make a meaningful comparison. However, we note Partners Group recoveries in the two that did occur averaged 0.31% (of par, versus 23% for the overall second lien bank loans market), highlighting the considerably higher risk relative to first lien senior secured loans. When combined with the default rates, Partners Group average annual capital loss rate is 0.46% for senior secured loans and 0.22% pa for second lien loans since 2006.

COMPARATIVE ANALYSIS

Over the course of the last 18-months, or so, there has been a welcomed addition (from a portfolio perspective) of listed fixed income mandates. Furthermore, the general quality of these mandates has been high to very high. That said, all said strategies differ either materially or significantly. As such, the point of this section is limited to a comparative fee analysis of the Trust to determine competitiveness in this regard.

Comparable Listed Credit Funds

Fund	ASX Code	MER	Perf. Fee	Target Return (post fees)	Credit Segment	IIR Rating
Moelis Australia Fixed Income Fund	N/A	0.5%	n/a	RBA + 4.0% (5.0%)	Consumer, commercial ABS	Recommended +
MCP Master Income Trust	MXT	0.6%*	Possibly **	RBA + 3.25% (4.25%)	Corporate loans	Recommended +
MCP Income Opportunities Trust	MOT	1.03%*	15.4% over RBA + 6% p.a.	8.0 - 10.0%	Private debt	Not Rated
Gryphon Capital Income Trust	GCI	0.86-0.96%	n/a	RBA + 3.5% (4.5%)	ABS, RMBS	Recommended
NB Global Income Trust	NBI	0.85%	n/a	5.25%	Global high yield	Recommended +
Perpetual Credit Income Trust	PCI	0.88%	n/a	RBA + 3.25% (4.25%)	Diversified credit	Recommended +
Qualitas Real Estate Income Fund	QRI	2.34%	20.5% over 8% p.a	8.0% p.a. net	Commercial real estate loans	Recommended
Partners Group Global Income Fund	**PGG**	**1.00%**	*******	**RBA + 4.0% (5.0%)**	**Private debt**	**Recommended**

* Inclusive of a 0.22% Investor Equalisation Expense (IEE). ** Underlying wholesale fund investments may charge a performance fee. *** a performance fee equal to 10% over a hurdle equal to the RBA Cash Rate + 6% p.a. (currently 7.0%) applied on the Special Situations Strategy, capped at 25bps p.a (accessed across a rolling three year period).

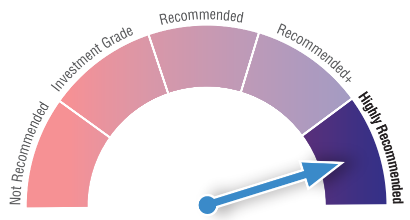
The table above details the fee structure of ASX LITs that have debt related investment strategies. We have included Moelis Australia Fixed Income Fund in the analysis due to the expectation of a 2H 2019 ASX listing. While the fee structures and expected levels are relatively variable (albeit with the higher risk-return strategies universally applying a performance fee, and vice versa), we note the Trust is at the mid point end of the peer group yet the lower end for private debt mandates.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

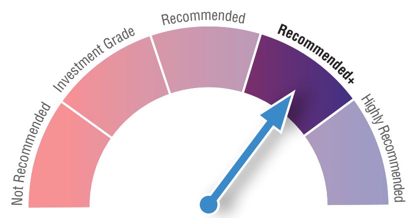
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above



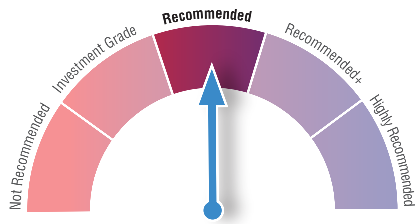
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

LMI Ratings	SCORE
Recommended +	79–83



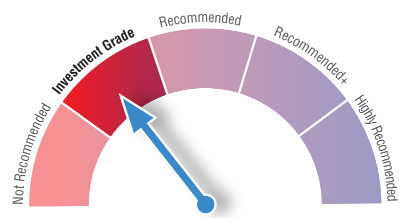
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

LMI Ratings	SCORE
Recommended	70–79



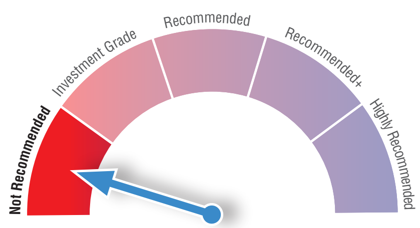
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

LMI Ratings	SCORE
Investment Grade	60-70



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

LMI Ratings	SCORE
Not Recommended	<60

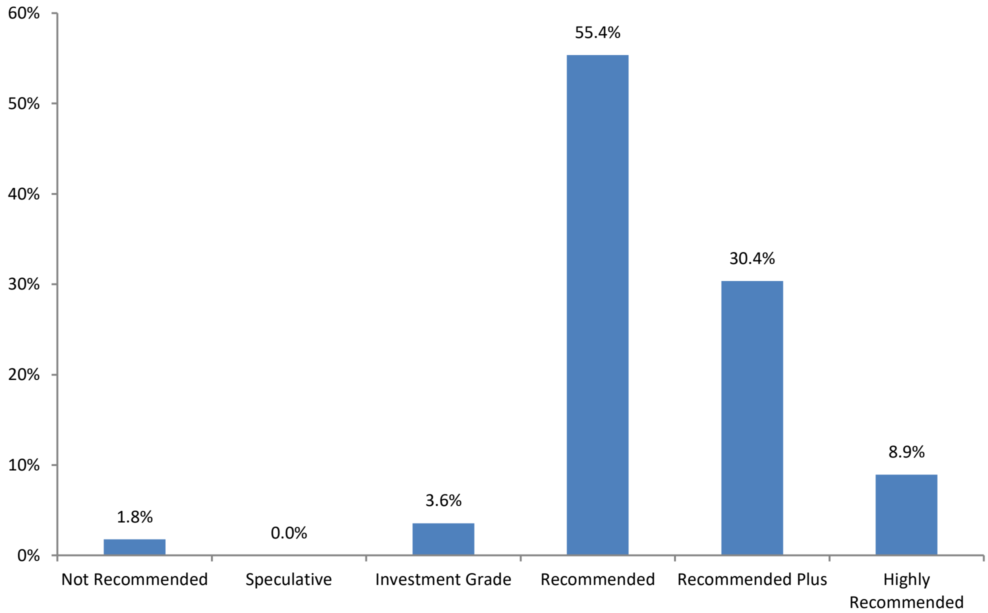


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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