



## MONTHLY REPORT

APRIL 2023

### Unit Price and FUM

**Indicative Unit Price**

**\$1.2406<sup>^</sup>**

**FUM Size**

**\$14.2 Million**

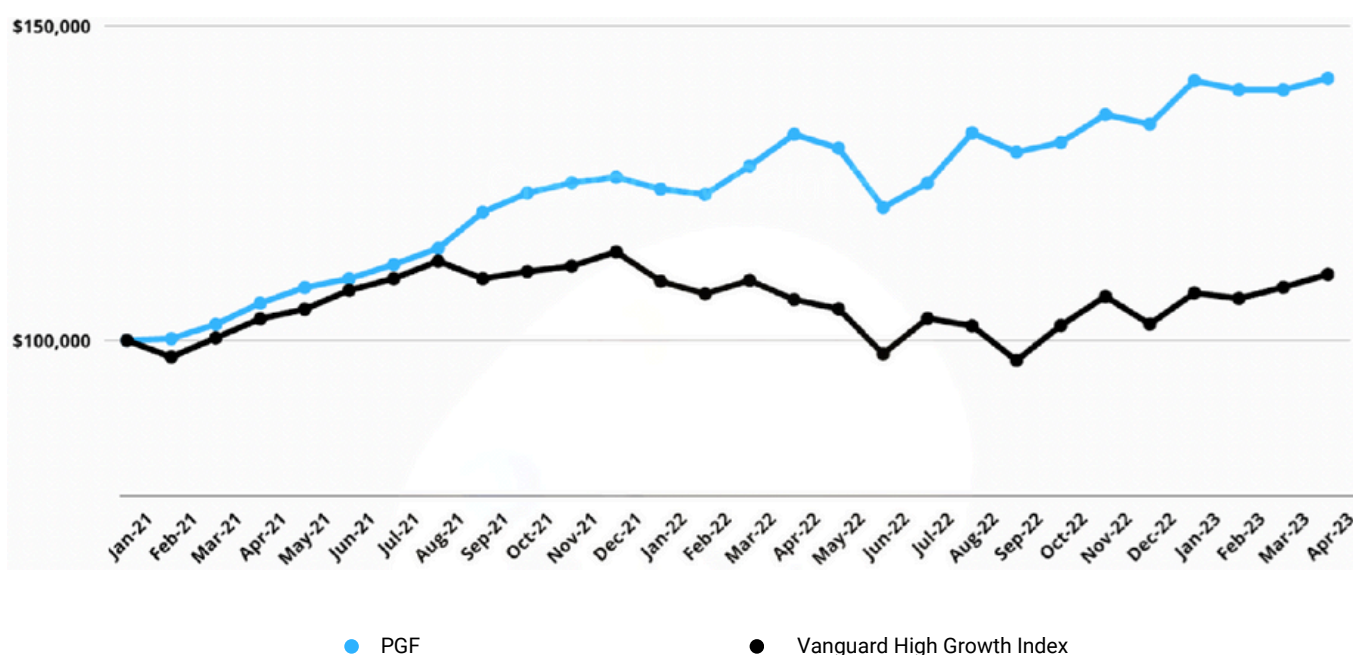
Indicative unit price is quoted on an ex-distribution basis. FY22 distribution 5.12c, FY21 distribution 8.91c.

### Performance Table Net of Fees

| As at 30 April 2023 | PGF    | Vanguard High Growth Index Fund | Difference |
|---------------------|--------|---------------------------------|------------|
| 1 Month             | 1.32%  | 1.88%                           | -0.56%     |
| 3 Months            | 0.28%  | 2.74%                           | -2.46%     |
| 1 Year              | 6.39%  | 4.22%                           | 2.17%      |
| 3 Years p.a.        | -      | -                               | -          |
| Since Inception*    | 41.67% | 10.95%                          | 30.72%     |

### Monthly Performance Net of Fees and Growth of \$100,000

| Return % | Jan   | Feb   | Mar   | Apr  | May   | Jun   | Jul  | Aug  | Sep   | Oct  | Nov  | Dec   | Total |
|----------|-------|-------|-------|------|-------|-------|------|------|-------|------|------|-------|-------|
| 2021     | -     | 0.28  | 2.28  | 3.28 | 2.36  | 1.28  | 2.06 | 2.29 | 5.02  | 2.52 | 1.33 | 0.70  | 25.95 |
| 2022     | -1.48 | -0.68 | 3.80  | 4.10 | -1.62 | -7.21 | 3.21 | 6.80 | -3.09 | 1.54 | 3.08 | -1.12 | 6.71  |
| 2023     | 5.12  | -1.01 | -0.02 | 1.32 |       |       |      |      |       |      |      |       | 5.41  |



\*Inception date is 8 February 2021

<sup>^</sup>The latest monthly unit price and return figure are provided on an estimated basis only and may be subject to change.

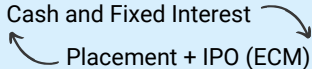
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Past performance is not indicative of future performance. Specific risks of the Fund may impact on the possibility of such a return in future.

## Top 10 Listed Equity Positions

| Stock Name                          | Portfolio Weight |
|-------------------------------------|------------------|
| S&P Biotech ETF (ASX:CURE/NYSE:XBI) | 5.2%             |
| Santos (ASX:STO)                    | 2.7%             |
| Entain (LON:ENT)                    | 2.3%             |
| Meta Platforms (NASDAQ:META)        | 2.0%             |
| VanEck Gold Miners ETF (ASX:GDX)    | 1.8%             |
| Whitehaven (ASX:WHC)                | 1.5%             |
| Stanmore Resources (ASX:SMR)        | 1.3%             |
| Star Entertainment (ASX:SGR)        | 1.2%             |
| New Hope Corporation (ASX:NHC)      | 1.2%             |
| Nextdc (ASX:NXT)                    | 1.1%             |

## Exposure Allocation

| Strategy Bucket Allocation                                                                                    | Portfolio Weight |
|---------------------------------------------------------------------------------------------------------------|------------------|
| #1 Cash and Fixed Interest  | 29.8%            |
| Placement + IPO (ECM)                                                                                         | 11.0%            |
| #2 High Conviction Stocks                                                                                     | 36.1%            |
| #3 Options Account                                                                                            | 8.7%             |
| Managed Funds                                                                                                 | 7.3%             |
| Unlisted Investments                                                                                          | 7.1%             |

## Fund Analytics

|                      |               |
|----------------------|---------------|
| # of Positive Months | 19/27 (70.4%) |
| Upside Capture       | 0.77          |
| Downside Capture     | 0.02          |

## Fund Commentary

In April, PGF generated a return of +1.32%, which was lower than the +1.88% return of the Vanguard High Growth Index Fund. During the same period, the ASX 200 Index rose by +1.85%, while the MSCI World Ex-Aus Index rose by +3.16%. Similar to March, the MSCI was boosted by a continued rally in large-cap technology stocks such as Apple, Microsoft, Meta, and Nvidia. However, most stocks performed poorly in a widely dispersed market.

During the month, PGF participated in 26 placements, contributing positively to the fund's return. Large gains were made from HMC Capital (ASX:HMC) +5.7%, Ora Banda (ASX:OBM) +8.0%, Avenira (ASX:AEV) with +36.4%, and Western Mines (ASX:WMG) +101.50%. Early in April, Western Mines discovered an extensive nickel sulphide mineral system at its Mulga Tank project in WA, which excited the market and pushed the share price up 250% from 11 cents to 40 cents in the two days following the announcement. However, with just \$2m left in the bank account, the logical next step for the company was to raise capital. A week following the initial discovery announcement, WMG wrapped up a capital raise at 34 cents lead by a solid broker. Together with an unwavering support from investors for the stock, we felt that the positive momentum will continue. WMG eventually finished the month at \$0.685. The largest detractors were Cynata Therapeutics (ASX:CYP) -18.6% and Hartshead Resources (ASX:HHR) -18.70%.

Our high conviction long-term positions also added modestly to return. On the positive side, Santos (ASX:STO) +2.5%, TUAS (ASX:TUA) +4.0%, VanEck Gold Miners (ASX:GDX) +5.1%, Whitehaven (ASX:WHC) +7.0%, Biotech Index (ASX:CURE/NYSE:XBI) +7.0%, Meta Platforms (NASDAQ:META) +15.2%, Temple and Webster (ASX:TPW) +16.9%, Entain (LON:ENT) +18.9% and Pointsbet (ASX:PBH) +29.3%. We are continuing to pivot away from our fossil fuel positions and have added Nextdc (ASX:NXT) and Flight Centre (ASX:FLT) to our long-term high conviction positions. Biotechs rebounded from their March sell-off, and deal-making in the sector is booming, with over US\$12B worth of transactions announced during the month. Merck acquired Prometheus Biosciences for approximately US\$11B, and GSK inked a deal worth approximately US\$2B to acquire Bellus Health. The premiums for these acquisitions were 75% and 103%, respectively. There are also a lot of buzz around weight loss drugs Wegovy and Ozempic fuelling interest in the space. We feel that the sector may have more to run.

Key detractors were Ramsay Healthcare (ASX:RHC) -2.8%, Semiconductor ETF (ASX:SEMI) -5.9%, Terra Uranium (ASX:T92) -8.5%, Tencent Holdings (HKG:0700) -9.4%, Star Entertainment (ASX:SGR) -11.2%, Stanmore Resources (ASX:SMR) -11.1% and Alibaba (HKG:9988) -17.1%. We're disappointed with Star Entertainment's performance which we mentioned in our February newsletter. We have decided to continue holding it due to its embedded value despite the negativity surrounding the stock. To offset some of the short-term pain, we've started selling slightly out-of-the-money calls to generate yield. Star now represents just over 1% of the fund.

## Partners Group Global Income Fund (ASX:PGG)

We have fortuitously stumbled upon one of the most compelling special situation investment opportunities in recent memory. Special situations are uniquely attractive, as they arise from specific events or circumstances that can significantly impact a stock's share price. With the sheer multitude of investment structures available in today's market, it is not uncommon for such special situations to present themselves, offering exceptional risk-to-reward ratios.

### Background

Back in 2018/2019, fixed income Listed Investment Trusts, or LITs, were the talk of the town. LITs are effectively managed funds that are listed on the ASX, and the fixed income versions were particularly popular due to an expectation of them delivering a relatively stable running yield of RBA + 4% when interest rates were close to zero. In theory, these LITs were great, as they allowed investors of all sizes to buy or sell sophisticated fixed-interest portfolios just like any other stocks. The market flourished with new fixed income LITs listings, and Partners Group's Global Income Fund, or PGG was one of them. PGG invests in a highly diversified pool of global private debt investments that are mostly senior secured. The portfolio is well constructed across different sectors and countries with a focus on capital preservation. PGG listed on the ASX in 2019 at a Net Tangible Asset, or NTA, of \$2.00 per share.

### Share Price vs NTA

Initially, PGG received positive investor response, pushing its stock price as high as \$2.08 per share, which represented a small premium to NTA. However, the product's flaw first became evident during the COVID-19 sell-off, when PGG suffered a staggering 52% decline in stock price, from \$2.08 to just \$1.00, despite the NTA bottoming out at \$1.34. Although PGG has since recovered from its COVID-19 low, it currently trades at \$1.64, representing a 9% discount from its NTA of \$1.80.

As depicted in the chart below, PGG has persistently traded at a discount of around 10 to 20% to its NTA over the past year, causing frustration among its holders. It's akin to the situation of a house **seller** knowing her house is worth \$1.8 million but receiving an offer of only \$1.64m upon selling it. This discrepancy is not present in an unlisted managed fund, but it's a widespread occurrence with the LIT/LIC structure. Partners Group has made attempts to narrow this gap through the years but to limited success.



Source: Trading View, PGG ASX Announcements

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## Fund Commentary (Continued)

Now, imagine you're the **buyer** of the \$1.8 million house, and your offer of \$1.64 million gets accepted. You'd be ecstatic, right? Similarly, buying PGG at a discount on the market can be an attractive strategy just from the additional yield that can be received. Here's why:

Currently, PGG has a net running yield of around 20 cents per share after fees. At the current \$1.80 NTA, this equates to an annualised yield of 11.1%. However, for a new buyer at \$1.64, the investor can earn an annualised yield of 12.2%, which is a pretty good deal. It's worth noting that the actual compounded annual yield is even higher, as PGG pays a monthly distribution.

While PGG is a reasonable buy at \$1.64 with a 12.2% yield, it still fell short of our internal return hurdle. We've had traded in and out of PGG in the past but has now changed our stance to make PGG a part of our core portfolio holding due to its upcoming delisting.

### The Delisting

Early May, Partners Group made a groundbreaking decision to delist PGG in July of this year and convert it into an unlisted managed fund vehicle with monthly liquidity. This development was music to our ears, as we saw the opportunity to acquire shares at a discount and obtain a quick uplift in valuation. Once it becomes a managed fund, PGG's investors can exit at NTA, which represents a 10% gain from purchase price or 16 cents per share. Although there are gating mechanisms and a tiered threshold of exit fees once PGG becomes a managed fund, we are not too concerned because we are confident in the outlook for private loans. In fact, we believe that PGG may even revert closer to its original NTA of \$2.00 per share, which will yield additional returns for us.

We find comfort in PGG's underlying senior, first lien loans, which are extended to non-cyclical, defensive businesses that are typically backed by large global private equity firms. To experience an above-average level of default in these loans, we believe we would need to witness a severe global recession, which is becoming increasingly unlikely. Despite the rapid rate increases and evident credit risks, the outlook for default rates in US and European private loans remain around the historical average rate of 2%. PGG invests primarily in senior loans, which have a very high recovery rate of approximately 80% since they occupy the top of a company's capital structure. This implies that PGG senior loans which represent over 80% of its portfolio should only have 0.32% of its portfolio provisioned as bad debt in a given year [2% default x (1-20% non-recovery)] x 80%. Although default rates can increase, it is unlikely that they will be as severe as what is reflected in PGG's current price of \$1.64 versus a par value of closer to \$2.00.

As loans approach maturity, they can be either paid back or refinanced at par. The current NTA of \$1.80 mainly reflects loans that are trading at 91 cents on the dollar compared to their \$1 par value. PGG's average weighted maturity is 4 years but companies typically refinancing loans one year in advance. Therefore we expect the pull to par effect to come into play gradually, and we anticipate that the NTA will eventually move closer to \$2.00 as loans are paid back or refinanced at par value.

| PGG NTA in 1 Year |        |        |        |        |        |        |        |        | Entry Price | <div>Covid Low</div> <div>Base Case</div> <div>Back to Par</div> |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|------------------------------------------------------------------|
| Sensitivity Table | \$1.35 | \$1.44 | \$1.53 | \$1.62 | \$1.71 | \$1.80 | \$1.89 | \$1.98 |             |                                                                  |
| \$1.80            | -13.9% | -8.9%  | -3.9%  | 1.1%   | 6.1%   | 11.1%  | 16.1%  | 21.1%  |             |                                                                  |
| \$1.76            | -11.9% | -6.8%  | -1.7%  | 3.4%   | 8.5%   | 13.6%  | 18.8%  | 23.9%  |             |                                                                  |
| \$1.72            | -9.9%  | -4.7%  | 0.6%   | 5.8%   | 11.0%  | 16.3%  | 21.5%  | 26.7%  |             |                                                                  |
| \$1.68            | -7.7%  | -2.4%  | 3.0%   | 8.3%   | 13.7%  | 19.0%  | 24.4%  | 29.8%  |             |                                                                  |
| \$1.64            | -5.5%  | 0.0%   | 5.5%   | 11.0%  | 16.5%  | 22.0%  | 27.4%  | 32.9%  |             |                                                                  |
| \$1.60            | -3.1%  | 2.5%   | 8.1%   | 13.8%  | 19.4%  | 25.0%  | 30.6%  | 36.3%  |             |                                                                  |
| \$1.56            | -0.6%  | 5.1%   | 10.9%  | 16.7%  | 22.4%  | 28.2%  | 34.0%  | 39.7%  |             |                                                                  |
| \$1.52            | 2.0%   | 7.9%   | 13.8%  | 19.7%  | 25.7%  | 31.6%  | 37.5%  | 43.4%  |             |                                                                  |

Source: PGF Internal Estimates, assuming 20 cents of distributions over the next twelve months

## Fund Commentary (Continued)

You may be curious about our excitement over the 22.0% return. After all, couldn't we achieve such returns through small-cap mining stocks? The reason lies in the exceptional risk-to-reward profile of this investment which we will explain.

We are investing in senior secured private loans, which possess a higher level of seniority and safety compared to hybrids, high-yield securities and equities. As depicted in the table below, investing in PGG within this structure generates returns that are more than two to three times higher than those offered ranked more subordinately in the capital stack. It is this stark contrast that fuels our enthusiasm and conviction in this opportunity.

During a catastrophic event such as a black swan sell-off, we have strong confidence in the resilience of Partner Group's underlying loans compared to equities. The evidence of this became apparent during the challenging times of the COVID-19 pandemic. While our Partners Group strategy is expected to experience a modest decline of 5.5% (due to our lower entry price and yield cushion), equities, on the other hand will likely suffer far more significant drops.

This stark contrast highlights the superior performance potential of Partner Group's loan portfolio in the face of extreme market conditions. It is precisely this robustness that gives us peace of mind and reinforces our conviction in purchasing PGG at the \$1.64 level.

| Investment                          | Base Case One Year Return |
|-------------------------------------|---------------------------|
| PGG - Majority Senior Private Loans | +22.0%                    |
| ASX Hybrids                         | +7.3%                     |
| US High Yield                       | +8.5%                     |
| First Mortgages                     | +9.0%                     |

*Source: PGF, Fred Economic Data, Yield Report*

### Concluding Notes

We hold high hopes that the two other esteemed global fixed interest Listed Investment Trusts (LITs), namely KKC and NBI, will take a cue from Partners Group's groundbreaking move. It has become glaringly apparent that despite ongoing market buybacks and various efforts to narrow the discount to Net Tangible Asset (NTA), the most effective approach is to transform the listed trusts into unlisted managed funds or ETFs.

Partners Group's admirable display of ethical conduct serves as a shining example of the values that should permeate our industry. As avid supporters of transparency and accountability, we eagerly await the responses from both KKC and NBI regarding their plans to rectify the situation for the multitude of everyday Australian investors who have placed their trust in their products.

In this dynamic landscape, where investor expectations are rightfully elevated, it is imperative for financial institutions to step up and align their practices with the highest standards of integrity. By taking decisive actions to address the prevailing challenges, KKC and NBI can regain the trust and confidence of their loyal investors, resulting in a sustained growth in their equivalent unlisted products.

We welcome feedback from KKC and NBI stakeholders at [jack@pgf.net.au](mailto:jack@pgf.net.au).

**The above reflects our opinion only and we recognise that we may be wrong and change our position at anytime without notice. This should not be taken as a recommendation to purchase PGG stocks.**

Fund Information

PGF was established in February 2021 with the goal of generating an above equity net return for its unitholders. It is designed as an absolute return fund with capital growth as the key focus, achieved by using an unconstrained approach via investing in a wide range of investable assets. Refer to fund Information Memorandum for more information.

|                                                                                                                                                                               |                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Portfolio Manager</b><br>Jack Hu, CFA   jack@pgf.net.au                                                                                                                    | <b>Fund Guideline</b> <ul style="list-style-type: none"><li>• Maximum Single Holding Size: 20% at Cost</li><li>• Maximum Unlisted Holdings: 30% at Cost</li><li>• Buy Sell Spreads: Nil</li><li>• Distribution Frequency: Annually</li><li>• Minimum Investment: \$100,000</li></ul> |
| <b>Responsible Manager</b><br>Benjamin Peters   ben@pgf.net.au                                                                                                                |                                                                                                                                                                                                                                                                                      |
| <b>Operations Manager</b><br>Alice Zhang   alice@pgf.net.au                                                                                                                   |                                                                                                                                                                                                                                                                                      |
| <b>Application and Redemptions</b><br><a href="https://www.registrydirect.com.au/offer/phoenix-growth-fund/">https://www.registrydirect.com.au/offer/phoenix-growth-fund/</a> |                                                                                                                                                                                                                                                                                      |
| <b>Website</b><br><a href="https://www.pgf.net.au/">https://www.pgf.net.au/</a>                                                                                               |                                                                                                                                                                                                                                                                                      |

\*The target return figure provided is a target only and may not be achieved. Investors balance may even fall in value.

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There are risks involved in investing in the CAR's strategy. All investments carry some level of risk, and there is typically a direct relationship between risk and return. We describe what steps we take to mitigate risk (where possible) in the Fund's Information Memorandum. It is important to note that despite taking such steps, the CAR cannot mitigate risk completely.

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