



**PENGANA**  
CAPITAL GROUP

# **PENGANA GLOBAL PRIVATE CREDIT TRUST**

# **THIS WEBINAR WILL BEGIN SHORTLY**



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# **PENGANA GLOBAL PRIVATE CREDIT TRUST**

# **INVESTOR UPDATE WEBINAR**

**OCTOBER 2024**

# PENGANA CREDIT OVERVIEW

Bringing institutional quality global private credit to Australian investors

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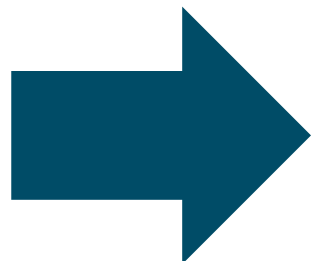
## Global Private Credit: Essential to Portfolio Construction

- Attractive risk adjusted returns
- Low correlation
- Low volatility
- Large opportunity set
- Diversification from Aus PC

2

## Institutional Grade Difficult to Access

- Identification and access
- Diversification
- Deployment speed
- Liquidity and hedging



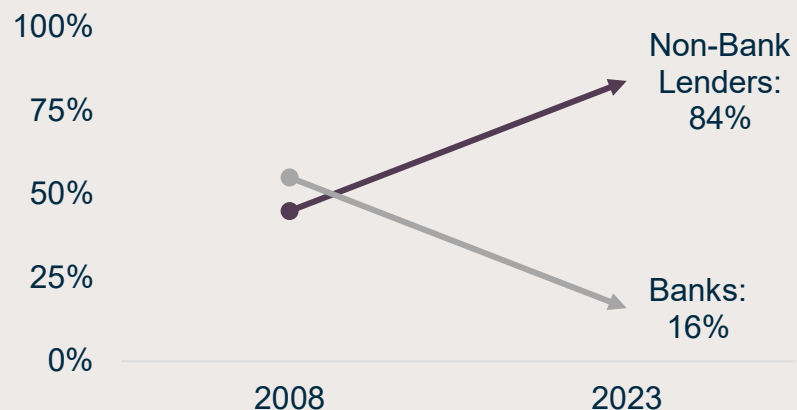
## Master Portfolio

- Master portfolio established to enable product development
- Alliance with Mercer
- Today:
  - \$400m invested
  - 20 managers, >2,000 underlying loans
  - Four distinct points of access

# ATTRACTIVE STRUCTURAL OPPORTUNITY

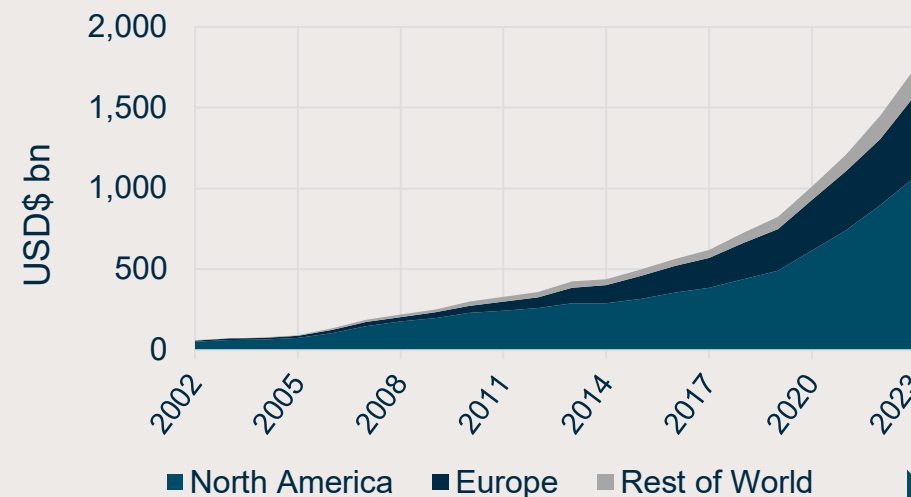
**Banks are scaling back lending as regulation decreases their appetite for certain activities**

**Bank Share of US and European Middle Market Corporate Loans<sup>1</sup>**



**Private lenders now the first “port of call” for growing subset of borrowers**

**Global Private Credit – Growth in AUM<sup>2</sup>**



**Borrowers increasingly demand flexible solutions that can be quickly executed**

1. Source: LCD Global Leveraged Lending Review Q3 2023 and Mercer analysis. Calculated as an average between US and European markets. LCD has not provided consent to the inclusion of statements utilising their data.  
2. Source: Preqin. X-axis covers the period between 31 December 2000 and 31 December 2023. Preqin has not provided consent to the inclusion of statements utilising their data.

# ATTRACTIVE INVESTOR PROPOSITION

## Attractive characteristics of Global Private Credit

### Returns



# 1

- ❖ Attractive, stable returns with low volatility as illiquidity premium is captured. Returns driven predominantly by yield with capital appreciation available in some strategies
- ❖ Borrowers pay premium for flexibility, speed of execution, customisation, confidentiality, and strategic partnership
- ❖ Yields are amplified by origination fees

### Diversification



# 2

- ❖ Reduced correlation to more traditional liquid asset classes
- ❖ Potential to create diversified private credit portfolio (lending to different sectors with different terms) further reducing volatility and correlations
- ❖ Diverse range of investment strategies provide a range of risk/return (stable income to equity-like returns) and liquidity options (varying durations, redemption windows, lock-up periods)

### Resilience



# 3

- ❖ Loans are typically individually negotiated and structured, allowing the borrower to obtain legally enforceable protections. This leads to lower default rates and higher recovery rates than other fixed income alternatives

# A BROAD OPPORTUNITY SET

## 1 Direct Lending

### **Bilaterally negotiated loans, primarily to companies earning USD\$10-\$250 million EBITDA (“Middle Market”)**

- ❖ **Senior Secured** – these loans have first right to the cash flows and assets of a company for payment of interest and repayment of debts. They will also have additional documented protections (covenants) which help the lender spot problems early and arrange remedies
- ❖ **Mezzanine** – unsecured loans which only receive payment after Senior Secured lenders have been paid. In return for the subordinated position, the lender is paid a higher rate of interest and often receives additional upside, normally through an equity-linked instrument
- ❖ **Unitranche** – a single loan combining the characteristics of Senior Secured and Mezzanine loans

## 2 Structured Credit / Specialty Finance

### **A wide range of products that are typically backed by assets**

- ❖ **Structured Credit** – loans typically made to non-bank lenders that are backed by the cash flows from portfolios of financial assets (e.g. lending to companies that provide consumer loans, commercial loans, or trade receivables)
- ❖ **Specialty Finance** – loans typically made to owners of niche assets by lenders with specialised expertise to assess the value of these assets and their cash flows. Examples include:
  - Royalty lending against a pool of pharmaceutical patents or music catalogues; and
  - Loans against cash generative assets like aeroplanes or mining equipment

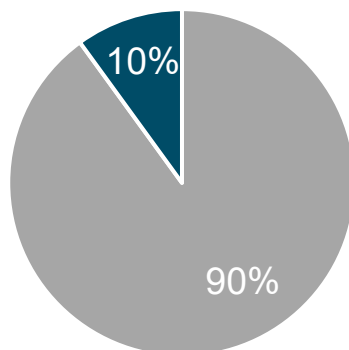
## 3 Credit Opportunities

### **Investing in companies that are experiencing financial distress or are in a state of transition**

- ❖ Strategies involve taking advantage of market dislocations and pricing inefficiencies
- ❖ The objective of such investments is to benefit from a turnaround in the company's profitability, either through improved financial performance, refinancing or restructuring, or market recovery
- ❖ Active strategies require a complex set of managerial, legal and operational skills

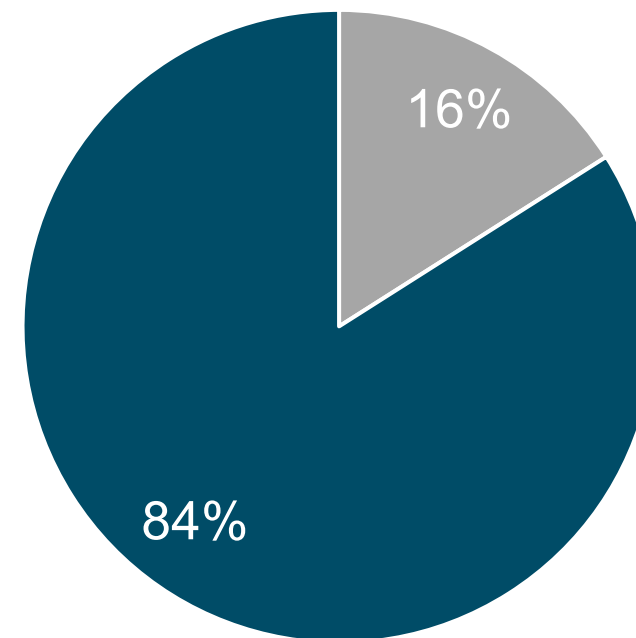
# WHY GLOBAL?

## Australia



- Predominantly commercial real estate, asset-backed securities & syndicated loans
- Smaller scale other strategies
- Driven by Australian macro environment

## Global (US and Europe)



- Highly diversified
- Wide borrower and investor acceptance
- Long tenured managers
- Structural dynamics and scale drive innovation





# MARKET OVERVIEW

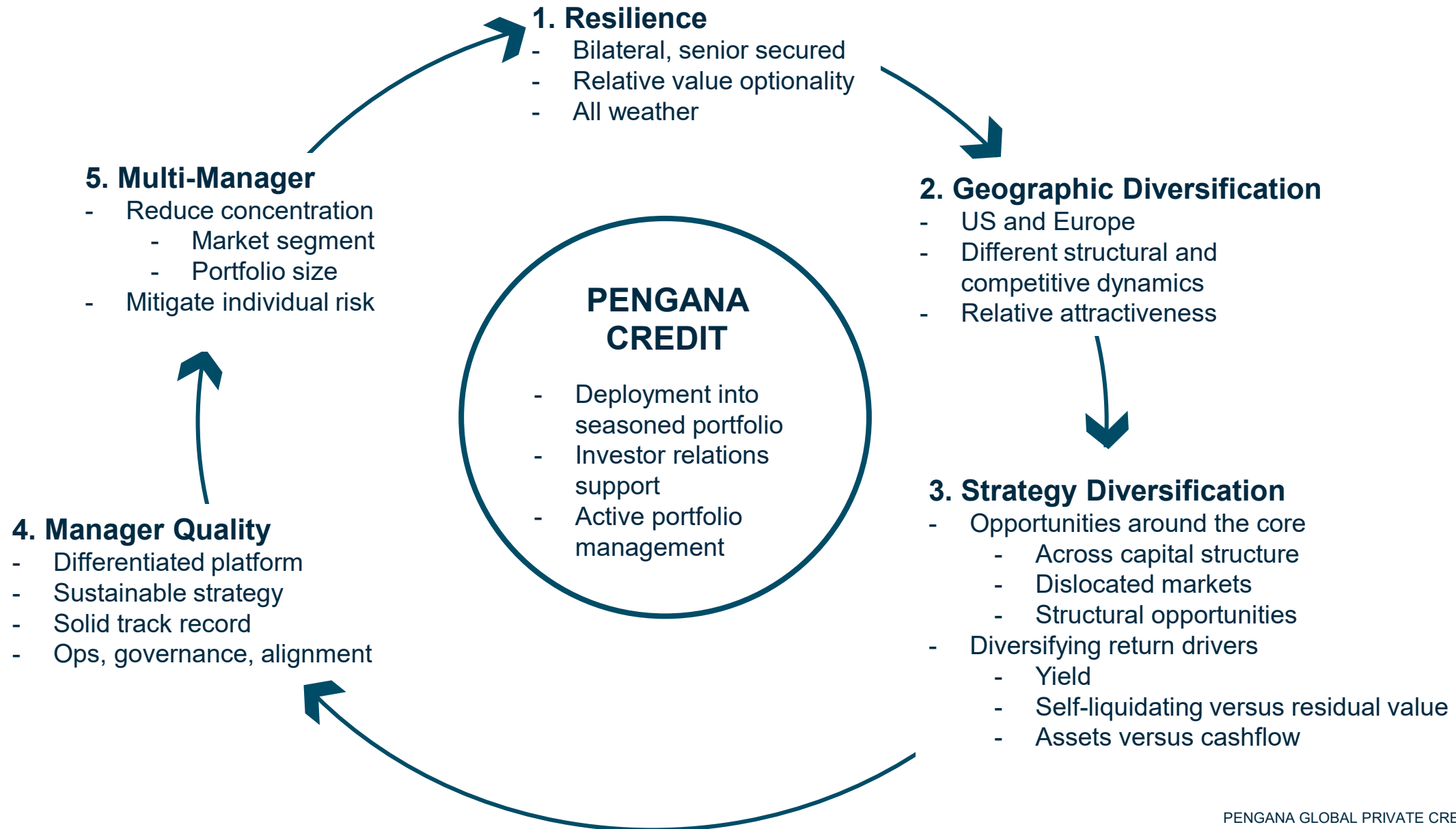
## Market environment is favourable for Global Private Credit

- Interest rate easing cycle has commenced but questions remain: inflation trajectory, economic growth and conditions, geopolitical concerns
- Increased investor appetite combined with limited new supply driving spread contraction in traded credit markets. Expect ongoing market volatility
- Bank regulation continuing to drive withdrawal of credit supply

## Private Credit Dynamics

<b>Direct Lending</b>	<ul style="list-style-type: none"> <li>• Core mid-market remains attractive for long standing, scaled participants. They continue to deliver solid origination volumes, steady spreads and attractive credit terms. Europe particularly attractive</li> <li>• Credit quality is expected to improve as borrowers’ absolute rate burden subsides. New deal activity expected to accelerate with improved valuations from lower base rates</li> <li>• Expect bifurcation of manager performance, with long tenured managers with differentiated origination and strong portfolio management continuing to thrive</li> </ul>
<b>Structured Credit/Specialty Finance</b>	<ul style="list-style-type: none"> <li>• Banks’ need to respond to increased capital and liquidity requirements is creating a significant structural opportunity, with their need to shrink their balance sheets and/or reallocate capital</li> <li>• Attractive returns available to scaled managers with deep structuring capability and capital to address bank requirements</li> </ul>
<b>Credit Opportunities</b>	<ul style="list-style-type: none"> <li>• Opportunity set remains very attractive given market dynamics, in particular, distressed balance sheet capitulation, counterparty liquidity issues, bank capital requirements, and market volatility</li> </ul>

# OUR PORTFOLIO IS OPTIMALLY STRUCTURED



# PORTFOLIO CONSTRUCTION BUILDING BLOCKS

Goals ↑  
↓ Target<sup>1</sup>

## Income

- **Income focus**, through cash coupons
- **Capital preservation**/seniority in capital structure
- Line-item diversification paramount to low correlation and concentration
- Appropriate use of leverage enhances returns

- **RBA + ~600 bps**
- **Contractual income**

## Balanced

- **Exploit the broader PC opportunity set**
- **Higher contractual returns**
- Seek further diversification to reduce credit market correlation
- Evolve portfolio actively in line with environment

- **RBA + ~600 bps**
- **Mainly contractual income**

## Total Return

- **Equity-like returns through debt investments**
- **Capitalise on dislocations**-market volatility, liquidity mismatch or episodes of stress/distress
- Opportunities more abundant during broader periods of market stress

- **> RBA + ~1000+ bps**
- **Contractual income and equity**

Notes: For illustration and educational purposes only. Actual returns may vary from those shown.  
1) Based on target performance of underlying fund investments.

# CASE STUDY: INCOME

## TRANSACTION: Financing Acquisition of B2B E-Commerce Platform

TRANSACTION BACKGROUND	COMPANY CREDIT HIGHLIGHTS	ATTRACTIVE LOAN TERMS
<ul style="list-style-type: none"> <li>• Client seeking to acquire leading B2B eCommerce provider of signs, labels, tags for regulatory, compliance and safety applications</li> <li>• Client required speed, certainty and confidentiality</li> <li>• Approached our Fund Manager on exclusive basis given strong historical relationship and track record</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Recession resilient:</b> growth through GFC and COVID given regulatory and compliance driven nature of safety, security and traffic signs</li> <li>• <b>Highly diversified</b> &gt;900,000 customers, 75% of Fortune 1000, top 10 customers &lt;4% of total</li> <li>• <b>Strong customer retention:</b> majority of revenue from repeat customers</li> <li>• <b>Industry tailwinds:</b> Shifting buyer behaviour to online; increasing reg requirements for safety signage</li> <li>• <b>Attractive, predictable cash flow profile:</b> Margin flexibility with vertically integrated model, minimal capex needs</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Attractive LVR:</b> \$75m loan secured by \$230m of value</li> <li>• <b>Attractive Yield:</b> ~10.5%</li> <li>• <b>Covenant protection</b></li> </ul>

**Senior secured positions, defensive industries, scaled and experienced managers with differentiated origination and proven track records of performance through cycles**

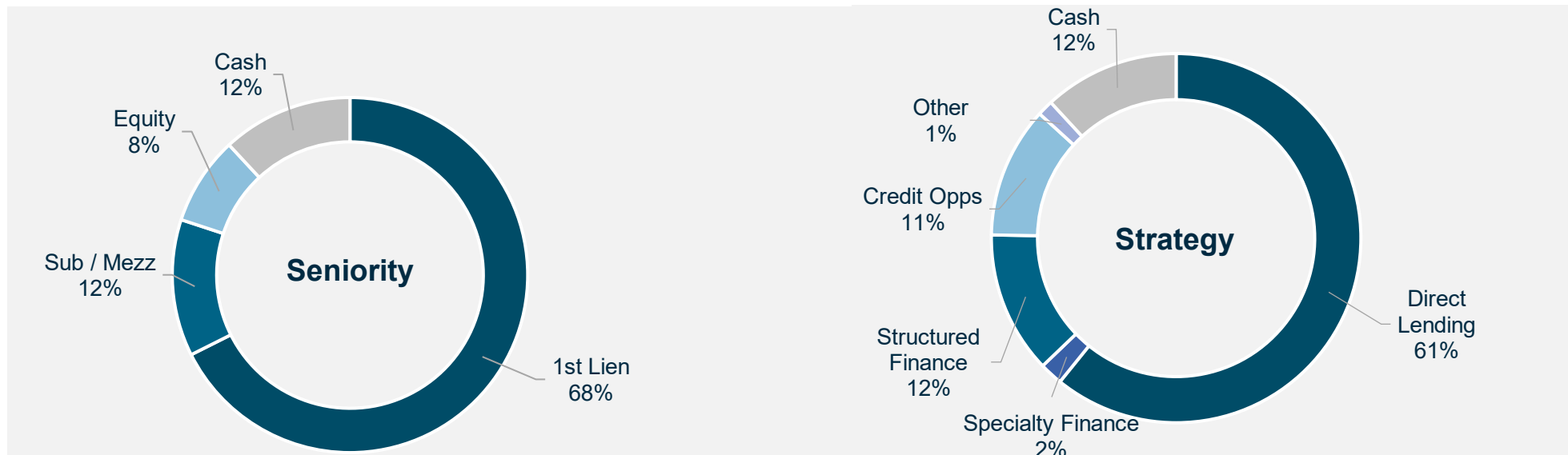
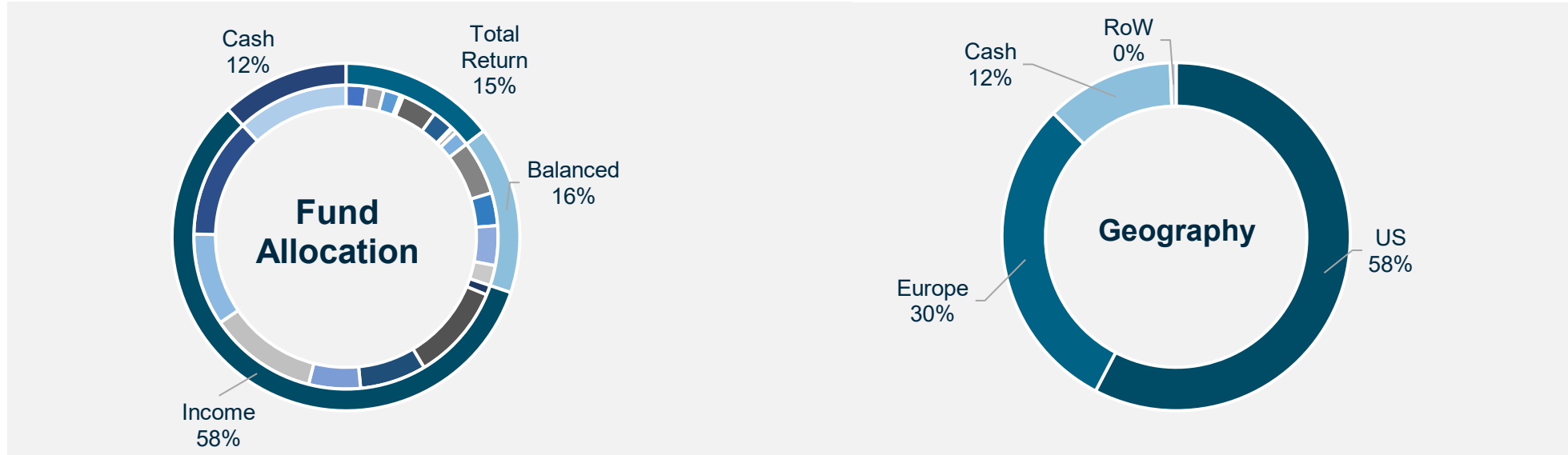
# CASE STUDY: TOTAL RETURN

## TRANSACTION: Capital Relief for US Regional Bank

TRANSACTION BACKGROUND	DEAL CREDIT HIGHLIGHTS	ATTRACTIVE TERMS
<ul style="list-style-type: none"> <li>• Changing regulatory requirements put US Regional Bank under liquidity and capital pressure</li> <li>• Bank conducted process to sell high quality asset to relieve pressure</li> <li>• Fund Manager appointed due to: scale, proven capabilities, track record, relationship</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Highly diversified</b> portfolio of assets with quality counterparties</li> <li>• <b>Manager could “cherry pick” assets</b></li> <li>• <b>Strong cash flow profile:</b> near term maturity of assets (less than two years) which were well seasoned</li> <li>• <b>Conservative underwriting (U/W):</b> Manager receives \$145 of assets for every \$100 purchased</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Attractive U/W IRR:</b> \$386m investment with expected IRR of 18%</li> <li>• <b>Attractive Realised IRR:</b> 28.6% with assets repaid more quickly than u/w</li> </ul>

**Total return managers leverage specialised expertise to generate equity like returns**

# PORTFOLIO LOOK THROUGH AS AT 30 SEP 24



# PCX PERFORMANCE UPDATE

- All capital raised has been fully deployed.

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- Underlying performance of our managers at or above their target returns.

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- Our monthly distributions are meeting our 7% minimum target distribution funded strong cash flows from our Income managers.

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- Regarding NAV performance, while we pay distributions monthly from cash distributions received from our investments, underlying valuations of our fund investments are received less regularly. As a result, there may be a limited amount of NAV movement each month until the reported returns on all funds invested are received and then will appear in our NAV

# KEY TAKEAWAYS

1

**MACRO ENVIRONMENT REMAINS ATTRACTIVE  
FOR GLOBAL PRIVATE CREDIT**

2

**OUR PORTFOLIO IS PERFORMING WELL WITH  
MANAGERS PERFORMING AT OR ABOVE TARGET  
RETURNS**

3

**WIDE DIVERSIFICATION AND QUALITY OF MANAGERS  
POSITION FUND TO DELIVER ATTRACTIVE RETURNS  
THROUGH MARKET UNCERTAINTY**





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**Q&A**





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## **FOR MORE INFORMATION**

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