

Fund Research

Pengana Global Private Credit Trust (ASX: PCX)



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Overview

The Pengana Global Private Credit Trust (the “Trust”; “PCX”; or the “Fund”) is a retail closed-ended unit trust listed on the ASX, providing investors with exposure to a diversified pool of global private credit investments. It achieves this through a portfolio of look-through fund exposures (Underlying Funds). As such, PCX is designed to be a single touch point to access a number of private credit strategies, ranging from direct bilateral lending to the riskier spectrum of distressed credit. As at 28 February 2025, the Fund had a market capitalisation of \$169 million.

Through investment in a global portfolio of private credit investments, the Fund aims to generate strong risk adjusted returns while maintaining strong capital protection. The Fund targets a cash distribution yield of 7% p.a. (net) but is also expected to deliver additional returns through selective capital appreciation from underlying positions.

In terms of fund structure, PCX gains exposure to the Pengana Private Credit Feeder Fund through profit participating notes (PPNs), which then invests in the Master Fund, which in turn invests in the Underlying Funds.

The Fund may hold exposure to leverage directly or indirectly, with exposure primarily to be gained indirectly via the execution of the strategies of Underlying Managers. Direct forms of leverage include the potential use of an FX hedging facility, and for short term cash needs of the Fund. This is expected to be established in the near future.

The Fund charges a management fee of 1.20% of NAV (inc. GST), 1.24% of NAV in indirect costs (estimate), and a performance fee of 20% above a hurdle rate of RBA +6% with a floor of 7.5% p.a, subject to a high-water mark.

Key Characteristics			
Fund Size¹	\$165 million	BondAdviser Risk Score	Very High
Unit Price¹	2.01	Product Assessment	Approved
Net Asset Value¹	2.00	Outlook / Asset Classification	Stable / Level 3
Fixed / Floating	Both ²	Structure	Listed Closed Ended Unit Trust
Distribution Frequency	Monthly	Sub-Asset Class	Private Credit
Target Return	7% p.a. Distribution Yield	Responsible Entity	Pengana Investment Management Ltd
Net Return Since Inception^{1,3}	4.72%	Manager	Pengana Credit
Management Fee⁴	1.20%	Auditor	EY
Performance Fee⁵	20% Above Hurdle	Custodian	BNP Paribas

¹As at 31 March 2025. ²Predominantly Floating. ³Unannualised net return from 31 July 2024, the date which represents the first full month of returns. ⁴Base management fee 1.20% on NAV, plus 1.24% in indirect costs.

⁵Subject to a hurdle of RBA +6% with a 7.5% floor.

Product Assessment

Approved

PCX provides investors with access to a diversified portfolio of US and European private credit investments, these opportunities of which are difficult to source directly at scale.

The **Pengana Global Private Credit Trust (ASX: PCX)** targets a 7% p.a. cash distribution yield net of fees through investment in a diversified portfolio of global private credit investments. This is achieved through allocation across the Pengana Credit platform, defined through a series of Master Classes with varying risk and return profiles. Pengana Credit (the Manager) leverages the expertise and global relationships of Mercer (as the investment consultant to the Fund) through investing in an assortment of global private credit managers approved and researched by Mercer. As a function of Mercer's global network and scale, the Fund benefits from fee discounts on investments in underlying managers.

Pengana Credit has a relatively short track record since inception in 2022, but the broader Pengana Capital Group (ASX: PCG) was founded in 2003 with teams across the globe focussing predominantly on global equity investments. Whilst the Manager itself has a short track record in private credit investing, **we take comfort in the partnership with Mercer, one of the largest global investment consultants globally, in identifying and conducting due diligence on private credit managers globally**, with teams located across the world and holding presences in invested regions. As a key adviser to the Fund, Mercer helps Pengana access private credit opportunities that would otherwise be difficult to source directly. Additionally, we also note that the underlying managers have extensive experience and track records, and are well regarded across US and EU private credit markets.

PCX invests primarily in bilateral senior secured loans across the US and Europe, but also takes exposure across mezzanine loans, structured credit, distressed debt and equity and equity-like opportunities. These opportunities are at the higher end of the risk spectrum but there are diversification benefits to holding a large portfolio of investments (on an underlying look-through basis), reducing tail risk outcomes which would otherwise result in materially negative return outcomes in a small, concentrated credit portfolio. We also note this opportunistic exposure opens the Fund to potential capital upside if executed well by the underlying managers. Whilst the Fund targets a 7% distribution yield, we expect performance over the **longer-term to reach the RBA +6% hurdle rate as strategic allocation to these investments accrue and disburse capital returns**.

The Fund may also be exposed to leverage in the underlying funds held within PCX, and there is no formal policy on leverage on these underlying funds. That said, the Manager does not intend to manage the Fund such that the leverage attributable to underlying funds exceeds 1.5x NAV. Currently, leverage within the underlying funds is around 0.5x (weighted average) with leverage primarily existing within the open-ended senior secured direct lending funds. This subset of funds is expected to on average produce the majority of income returns for the Fund. In comparison, we note that there is minimal leverage across the total return underlying funds held by the Trust. The Fund may also utilise an FX hedging facility expected to vary between zero to 0.25x NAV. Whilst the Fund does not yet have a working capital facility established, it is currently in the process of establishing one to manage any short-term cash needs. Investors should be aware that creditors to the underlying funds rank senior to the Fund's investment in the underlying funds, and creditors to the FX hedging facility and the potential working capital facility if established rank senior to Fund investors.

From a performance perspective, PCX has met its 7% target distribution return since inception in June 2024, however we expect medium to long-term returns to be closer in line with the hurdle rate (RBA +6% p.a.) on a total return basis as total return investments provide some upside upon revaluation or exit. We note that the fee structure for the Fund is relatively high as a function of the fund-of-fund structure and level of complexity of the underlying assets. That said, we view the fee load to be more fair if PCX achieves the hurdle rate for performance fees of RBA +6% p.a.

We view the risk management and governance processes to be favourable, as defined by the level of oversight and decentralisation across the investment decision making process. This

Manager selection is supported by Mercer, one of the largest investment consultants globally. This provides access to worldwide expertise in private markets.

is however counterbalanced by a lack of track record for the Fund, and a relatively short track record at the broader Pengana Credit platform. We note that while BondAdviser has been provided with broad data surrounding the underlying funds, we have not been provided with extensive documentation, such as offering documentation, for the underlying funds. As a result, we do not have a view on the underlying strategies. However, we note that the underlying managers have generally had strong track records with limited losses incurred (see Figure 25), with many managers having track records spanning across the credit cycle dating back to or prior to the GFC.

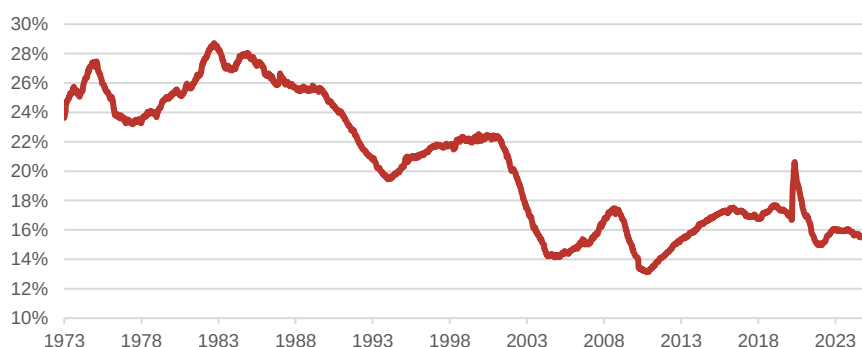
As a listed fund we also view the **buyback mechanism as a positive for investors concerned about discounts to net asset value**, and this mechanism should hopefully drive the unit price to be relatively close in line with NAV to prevent arbitrage opportunities from arising. That said, we note this is yet to be tested in material market stress.

Consistent with criteria under the BondAdviser Alternative Investment Fund Methodology, we assign an **Approved** Product Assessment with a **Stable** Outlook. Upward pressure to our Product Assessment will be contingent on a successful 2-year track record of the Fund while upholding excellent standards across systems and processes. Additionally, given the asset composition of the Trust being skewed to middle market US lending, the exposure to distressed and opportunistic credit, as well as the level of leverage in the underlying funds, we assign a **Very High** risk score to PCX.

Investment Strategy & Performance

The investment strategy of PCX takes advantage of the pullback in credit from the global banking system after the global financial crisis (GFC) due to stricter capital requirements imposed by regulators on banks. This has provided strong risk-adjusted return opportunities for lenders to the middle-market companies due to the resulting funding gap in this space, with the void being filled by a growing number of non-bank lenders, private credit funds and other alternative financiers.

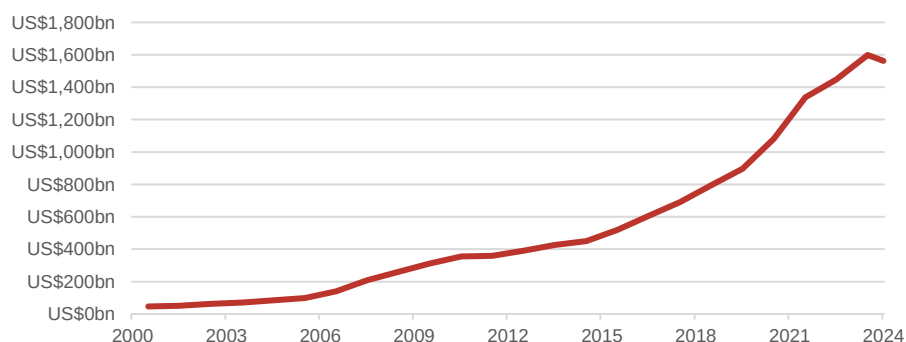
Figure 1. Commercial & Industrial Loans Held by Banks (% of Bank Assets)



Source: BondAdviser, Federal Reserve. As at 26 March 2025.

The pull back in bank lending since the GFC, and to an extent bank consolidation over recent decades has helped drive the growth of the private credit market in the US. This has allowed non-bank lenders to step in and fill the gap, financing deals that banks found too costly to underwrite due to stricter capital requirements. According to Preqin, global private credit has grown rapidly, reaching \$1.6 trillion in assets under management, at around a 12.2% compounded annual growth rate since the end of 2008.

Figure 2. Global Private Credit AUM



Source: BondAdviser, Preqin. As at 30 June 2024.

The Fund implements its strategy by investing globally in around 20 private credit managers, which provides exposure to over 2,000 individual investments. These assets are primarily senior secured bilateral loans to mid-market borrowers across the US and Europe, however the Fund also holds smaller exposures to mezzanine loans, structured credit and specialty finance, as well as riskier credit opportunities (distressed credit, special situations dislocation investing etc) and some minor equity exposure. These riskier opportunities provide potential upside to investors; however we note that performance may be impacted during downturns across the business cycle.

While the Fund has a short track record having been incepted in June 2024, it has generally met the 7% p.a. distribution yield over recent months on a compounded returns basis. We expect that as time progresses, PCX will be in a greater position to meet or exceed its target distribution as the benefits of equity and equity-like exposures in the Fund begin to contribute to the Fund return assuming these exposures perform well. Although the timing of such positions are uncertain, we argue the hurdle rate for performance fees of RBA +6% per annum (currently over 10%) is a useful gauge for the longer-term total net return of PCX.

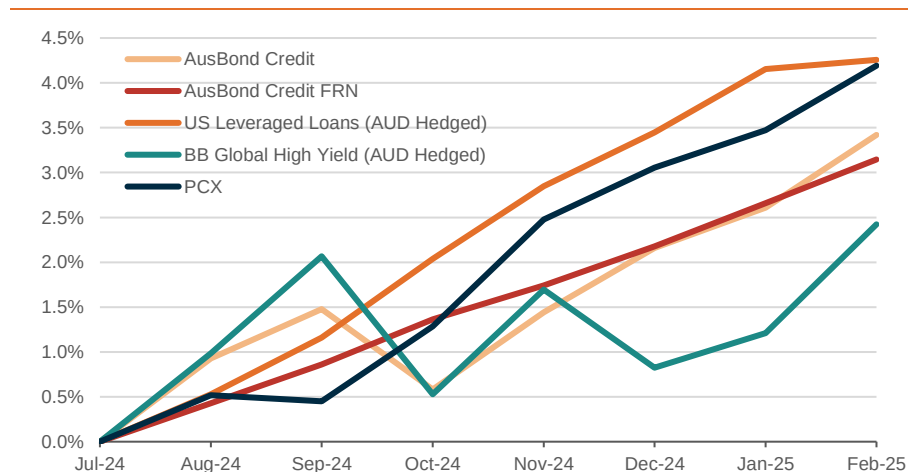
Figure 3. PCX Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2025	0.40	0.69	0.50										1.60
2024								0.52	-0.07	0.83	1.18	0.56	3.02

Source: BondAdviser, Metrics. As at 31 March 2025.

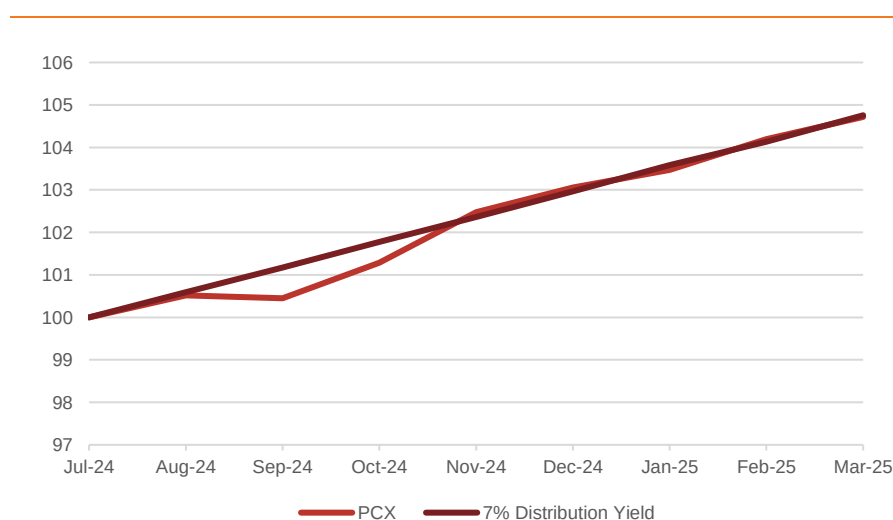
* Return is monthly net total return based on NAV and distributions on a **non-compounded basis**.

Figure 5. Relative Cumulative Performance*



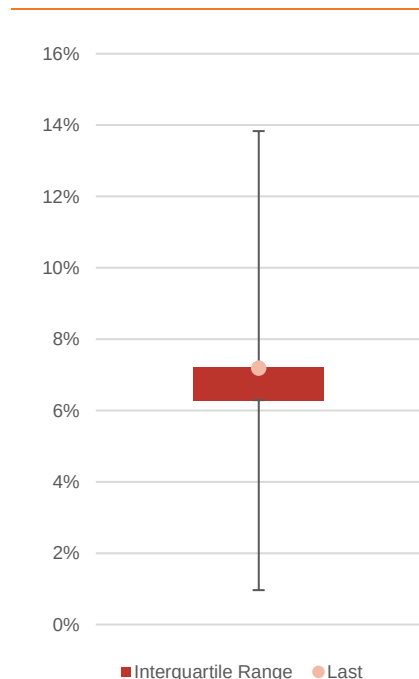
Source: BondAdviser, Pengana, Bloomberg. As at 28 February 2025. Calculated from cumulative net monthly returns of the Fund. Returns on NAV, not traded unit price.

Figure 6. PCX* & Target Distribution Yield



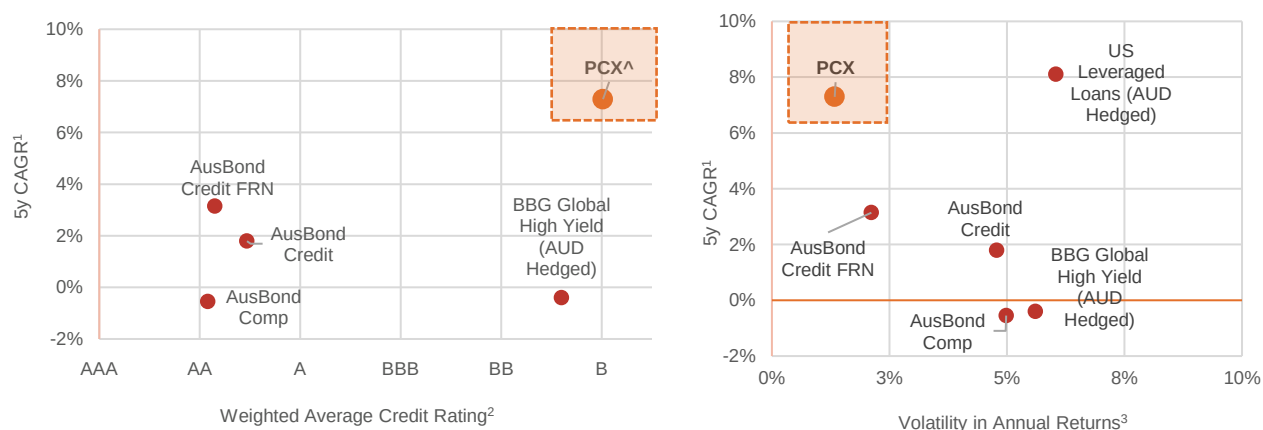
Source: BondAdviser, Pengana. As at 31 March 2025. * Returns are on a compounded basis.

Figure 4. PCX* Net Returns Box Plot



Source: BondAdviser, Pengana. Annualised monthly returns, after fees since inception. As at 28 February 2025. * Returns based on NAV.

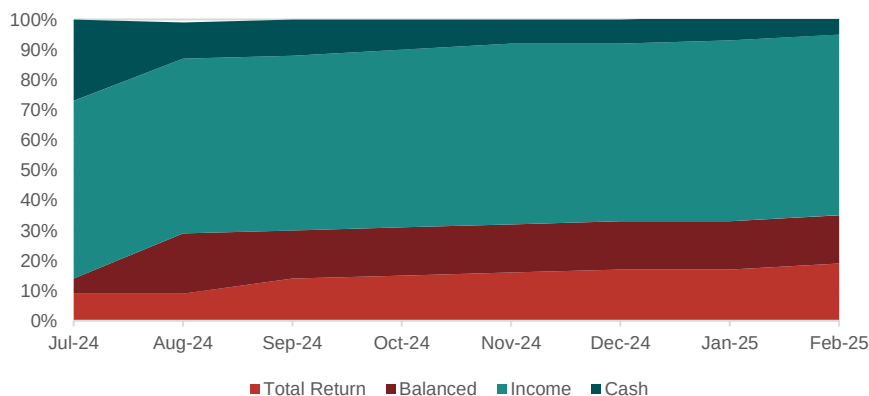
Figure 7. Estimated Risk-Adjusted Return Comparison***



* Credit Ratings based on BondAdviser estimates. ** Calculated based on annualised monthly returns data for past five years. Source: BondAdviser, Pengana, Bloomberg. As at 28 February 2025. *** Annualised risk and return for PCX for p.a. comparison to other indices. ^ Credit rating based on BondAdviser assumptions and may not reflect the true credit rating of the Fund. Orange box reflects BondAdviser expectations of total return performance of PCX.

In terms of asset allocation, through the feeder fund, the Fund toggles allocation between Pengana Credit's four Master Class portfolios (Income, Balanced, Total Return and Cash) within guidelines set out in the PDS as detailed in the *Construction and Investment Process* section of this report. The Fund primarily holds exposure to the Income portfolio and is expected to continue to do so over the life of the Fund, which is a sub-strategy deriving returns from contractual interest payments from a diversified portfolio of predominantly US and European bilateral senior secured loans. That said, allocations to the four sub-strategies are expected to change but remain within guidelines and are consistently monitored by Mercer and Pengana over time.

Figure 8. Fund Allocation

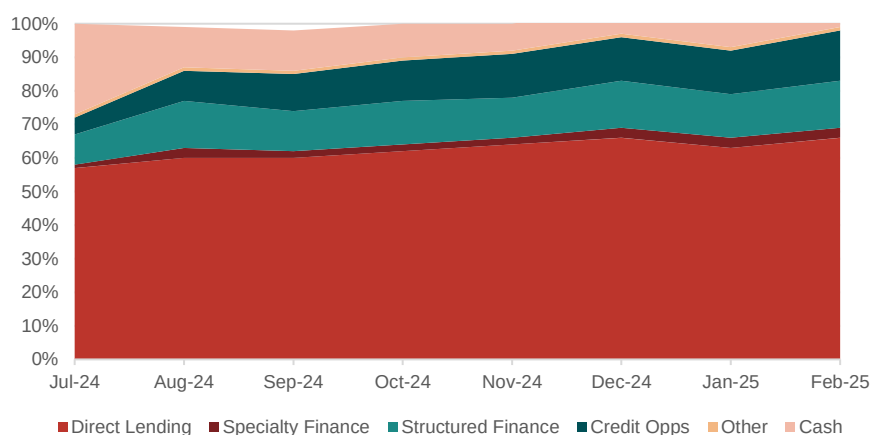


Source: BondAdviser, Pengana. As at 28 February 2025.

As seen below, the Fund has primarily held exposure to direct lending, which are mostly first lien in the capital structure. The next two largest exposures are credit opportunities at 15%, and structured finance at 14% as at 28 February 2025 (calculated including cash). Structured finance investments, such as private asset backed securities and collateralised loan obligations, can present strong risk-adjusted return opportunities with lower correlation to public credit markets. We note that there is some exposure to the equity tranche of CLOs which are riskier in nature relative to secured bilateral loans given the first loss nature and variability of cash flows. That said, cash yields on these exposures can be in excess of 15% under normal functioning conditions providing

greater carry to the portfolio, and we take comfort that these positions make up a minority of the portfolio.

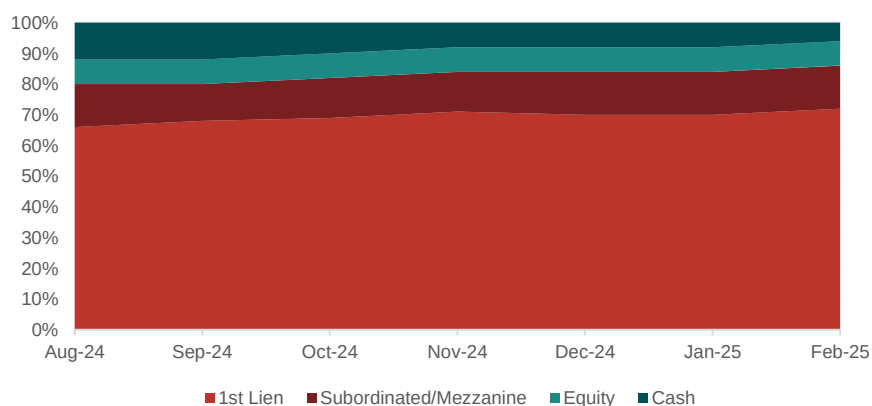
Figure 9. Asset Allocation – Strategy



Source: BondAdviser, Pengana. As at 28 February 2025.

We expect the Fund will primarily hold first lien exposures given the investment guidelines for the four sub-strategies, which alongside the highly diversified nature of the Fund, provides strong capital protection under downside outcomes. Seniority is a key consideration in credit investing, as it provides stronger capital protection in the event of default. The Fund also holds some exposure to mezzanine loans, which are subordinate to the claims of senior creditors. These exposures are riskier in nature but are compensated with a higher credit spread and can be an attractive risk-adjusted return prospect where the underlying managers have fundamental credit comfort with the borrower. Additionally, as noted previously the Fund holds some equity and equity-like exposures. These exposures can be in the corporate capital structure (traditional equity) or in the equity tranche of CLOs, which take the first loss in the event there is zero excess spread paid to the vehicle. These equity holdings are moderate (8% including cash) and can provide some upside and capital gains (which we expect to be distributed in the form of special distributions), but equally note that potential downside can prevail if managed unsuccessfully.

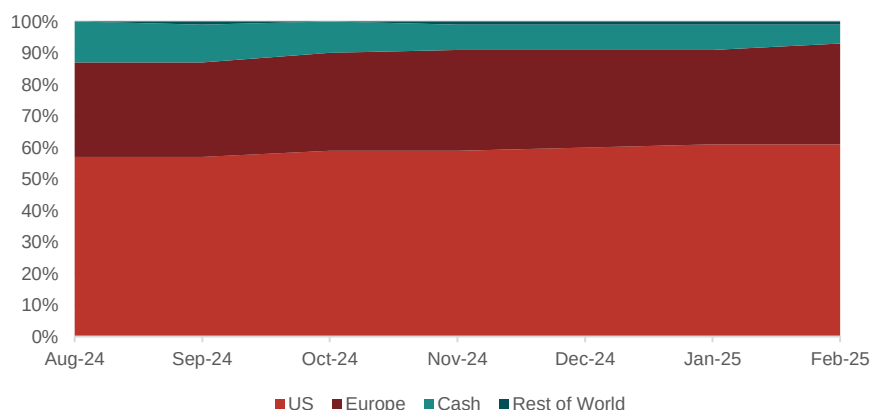
Figure 10. Asset Allocation – Seniority



Source: BondAdviser, Pengana. As at 28 February 2025.

In terms of geographical asset allocation, the Fund is primarily exposed to the US and Europe, consistent with the majority of the global private credit asset class being located in these two regions. The Fund is fully hedged to AUD to mitigate foreign currency risk using rolling currency forwards.

Figure 11. Asset Allocation – Geography



Source: BondAdviser, Pengana. As at 28 February 2025.

For further information on the strategies PCX invests in, the below table breaks down each investment type and provides an overview of the strategy, return breakdown and typical cashflow type.

Figure 12. Strategy Types – Private Credit

Strategy Type	Description	Return Composition	Return Profile*	Cashflow Type
Direct Lending	Direct lending to companies, generally senior secured and contains covenants	Income	9-12%	Floating rate
Structured Credit	Lending backed by a pool of assets	Income and some capital appreciation	9-13%	Floating rate
Specialty Finance	Lending to niche markets underserved by banks, requiring niche lending and specialised knowledge	Income and some capital appreciation	10-14%	Floating rate
Real Asset Lending	Lending secured by tangible assets, such as real estate, infrastructure, etc.	Income	8-12%	Floating or fixed rate
Credit Opportunities	Flexible, non-constrained opportunistic credit investing designed to benefit from dislocation in markets	Income and capital appreciation	16%+	Floating rate, fixed rate or equity exposure

Source: BondAdviser, Pengana. *Return profile depends on market conditions, spread and risk-free rate levels.

Positive Risk Factors

Global Expertise. Mercer is considered a global market leader in investment consulting and plays a leading role as an investment consultant in the due diligence and portfolio management process of PCX. Pengana leverages Mercer's global research capabilities and scale to source highly rated managers and provide portfolio construction guidance.

Senior Secured Positions. The Fund primarily invests in senior secured loans, providing underlying managers with priority payment in the capital structure. The structure of these investments provides greater recovery outcomes during insolvency and restructuring events.

Strong Workout Experience. Based on Pengana and Mercer's due diligence, underlying managers are known to have strong workout experience, which is key to capital preservation across the cycle. The Underlying Manager diversification of Fund also limits risk concentrations to specific strategies and improves collective investment specialisation across the look-through portfolio.

Counterparty Diversification. The Fund benefits from strong counterparty diversification with over 2,000 individual assets within the underlying funds. This is especially important in credit investing given the negative skew of returns inherent within the asset class

NAV Stabilisation Mechanism. Investors who seek to withdraw their investment can do so either on-market, or through quarterly redemption at NAV. This mechanism in theory should see the unit price tend close to NAV to prevent arbitrage opportunities, and provides investors with a mechanism to redeem their investment at NAV should the unit price trade at a material discount. That said, this mechanism is not yet tested through highly distressed scenarios.

Negative Risk Factors

High Fee Structure. The Fund charges a management fee of 1.20%, indirect cost estimates of 1.34% of NAV, as well as a performance fee of 20% above the RBA cash rate +6% p.a. (and performance fees within the underlying funds). This is relatively high in our opinion, but is reflective of the fund-of-funds structure. That said, the performance fee having a reasonably high hurdle (RBA +6% p.a.) is positive in our view.

Manager Risk. A significant deterioration in the quality of the Manager (Pengana) could adversely impact the Fund. Whilst the Manager has a track record spanning two decades, it has a relatively short track record managing private credit, with Pengana Credit being established in 2022. That said, this is balanced by a management team with strong experience and is further supported by Mercer, one of the world's leading investment consultants. These risks could include (but are not limited to), poor fund performance, material breaches in governance, risk management failures and/or loss of key personnel.

Leverage. The underlying funds are expected to use leverage in the execution of their investment strategies, with leverage expected to be at a maximum of 1.50x NAV of the Trust and a total of 1.75x maximum at the aggregate of Trust and Underlying Funds levels. The Fund itself may also employ leverage directly to support FX hedging and short-term cash requirements, not to fund investments at the Trust level. Investors should be aware that the use of leverage magnifies returns for investors to both the upside and downside.

Lack of Independent Responsibility Entity. The Responsible Entity of the Trust is Pengana investment Management Limited, a subsidiary of the broader group. Whilst we prefer an independent RE, we note that the RE consists of two independent non-executive directors, one of which is the chair of the board out of the four directors of the board.

FX Risk. The Fund is exposed to foreign currency risk, which is mitigated by using rolling currency forwards. The Manager also uses one investment grade counterparty in its forward contracts, exposing the Fund to concentrated counterparty risk. That said, we view this as a tail risk and we expect any potential FX volatility to be managed prudently for the foreseeable future.

Construction and Investment Process

Whilst Pengana Credit has been engaged by Pengana Capital to implement the PCX investment strategy, Mercer plays a leading role as an investment consultant in the due diligence and portfolio management process. Mercer is considered a global market leader in investment consulting with US\$17.5+ trillion in assets under advice as at 30 June 2024, and US\$613 billion in assets under management as at 31 March 2025. Pengana leverages Mercer's global research capabilities and scale to source highly rated managers and provide portfolio construction guidance. Along with a c.100-person global investment team, Mercer employs a dedicated Private Credit Team with 20+ years' experience and access to over 1,300 strategies across ~550 managers.

The investment process implemented by Mercer begins with rigorous research on underlying managers, guided by portfolio construction limits. Research conducted by Mercer incorporates analysis of past performance, qualitative manager research, portfolio structure analysis and operational due diligence, considering risks associated with the investment mandate and the underlying manager. Pengana Credit is responsible primarily for legal due diligence on the fund structure of each underlying manager throughout the process.

Given that Mercer's due diligence underpins the investment selection process, it participates in both the Investment Consulting Group (ICG) and Investment Committee (IC) along with senior members of Pengana Credit and Pengana Capital Group Limited (ASX: PCG). The ICG's role is to manage the ongoing strategy of the Master Fund and Feeder Fund, while the IC approves all capital deployment and asset allocation decisions.

All underlying funds are required to receive approval from Mercer's investment and operational due diligence teams. The selection process begins with an initial screening to assess the potential inclusion of an underlying manager in one of the underlying strategies. This is performed on an ongoing basis by either Pengana or Mercer and is necessary to refine the PCX investable universe. The screening process follows a traffic light system which considers a range of measurable characteristics such as leverage, diversification, structure and marked-to-market volatility.

Screened prospects are presented monthly to the Investment Consulting Group (ICG) which either approves or rejects the Manager. If approved, the Manager is further scrutinised by Mercer's investment due diligence process. This involves a quantitative and qualitative assessment guided by four key factors: 1) business management, 2) strategy, 3) alignment of interests, and 4) track record.

Figure 13. Key Due Diligence Factors

1. Business Management	2. Strategy	3. Alignment of Interests	4. Track Record
• Quality of the investment team and their ability to work together. • What is the turnover of partners and the justification for turnover? • Are there potential management transitional issues? • What is the investment sourcing framework and potential pipeline? • Cashflow management.	• How effective will the strategy be in the current environment? • Is the strategy unique? • Is it likely that management can execute on the strategy? • Has management implemented changes to ensure previous mistakes aren't repeated?	• Are the manager's interests aligned with the fund and investors? • Considers previous funds offered, including whether the terms are getting better or worse from the investor's perspective.	• Assessment of the historical performance with a focus on consistency including loss ratios.

Source: BondAdviser, Pengana.

Based on this analysis, Mercer's Ratings Review Committee assigns a rating, while Mercer Sentinel, an in-house team, evaluates the non-financial and operational risks associated with the Manager. Mercer Sentinel is a specialised division within Mercer, focusing on advising clients on operational and implementation risks associated with the execution of investment.

Figure 14. Mercer Fund Rating Assessment

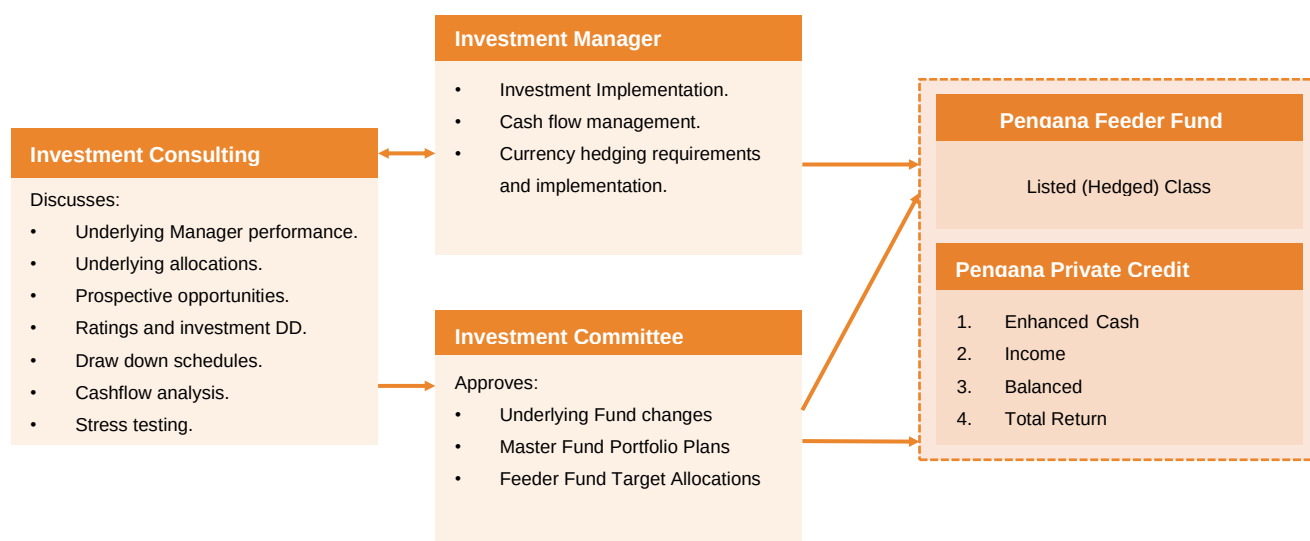
Rating	Description
A	Above-average prospects of outperforming
B+	Above-average prospects of outperformance but with some reservations
B	Average prospects of outperformance
C	Below average prospects of outperformance
N	Not Rated
R	Early-stage research/research no longer maintained

Source: BondAdviser, Pengana.

The ICG then meets again to confirm the inclusion of the Manager in the portfolio plan for consideration by the Mercer Private Debt Investment Committee (PDIC). The PDIC ensures that all potential recommendations are aligned across client portfolios and adhere to best practices. With the PDIC's endorsement, the prospective Manager is referred to the Investment Committee (IC) for final approval (requires unanimous vote). We view the level of oversight and decentralisation of investment decisions positively in the context of mitigating key person risk.

The ICG meets monthly and is responsible for making recommendations to the IC regarding the underlying manager selections; pipeline investments; operational, legal, and tax due diligence; liquidity planning; and stress testing. The IC meets when required (or at least quarterly) and is ultimately responsible for reviewing and approving recommendations from the ICG.

Figure 15. Investment Process



Source: BondAdviser, Pengana.

In terms of portfolio construction, capital within the Fund is allocated based on target parameters. The underlying strategies are weighted in line with the Fund's objective to pay an annual 7% distribution yield while minimising liquidity and capital risk. Over time, we expect the NAV to accumulate and special dividends to be paid on top of the target yield where successful equity and equity-like positions are exited.

The Fund's construction is focused on providing diversified exposure to global private credit investments, liquid credit investments, and cash. The Trust, through investment into the Master Fund, invests across the four underlying strategies defined by separate Master Classes. Each Class segregates approved underlying managers based on the risk and return attributes of their respective strategies:

- 1) Enhanced Cash Class** – expected to exhibit low default rates with minimal exposure to duration via investments in short-term floating rate senior corporate credit.
- 2) Income Class** – focused on achieving stable returns with strong downside protection. The sub-strategies invest in senior positions within the capital structure, often with security, and are widely diversified across c. 100 loans.
- 3) Balanced Class** – captures a wider private credit opportunity set compared to the Income Class. Sub-strategies seek to exploit credit imbalances and sourcing barriers in specific sectors to provide low correlation to credit markets and potential capital appreciation. Typical underlying Managers provide specialist access to a single sub-strategy (i.e., structured credit or specialty finance).
- 4) Total Return Class** – provides exposure to sub-strategy Managers that seek to capitalise on market volatility, liquidity mismatches or periods of distress. The underlying portfolios are exposed to distressed debt, opportunistic credit, and special situation strategies. This is the highest risk class of the four and is expected to derive returns in line with equities.

While minimal changes to the target allocations are expected, this will ultimately depend on the economic and lending environment. That said, there are restrictions imposed by the Fund's investment guidelines as below:

- Enhanced Cash Strategy: 0 - 20%
- Income Strategy: 50 - 70%
- Balanced Strategy: 10 - 30%
- Total Return Strategy: 0 - 20%

The guidelines only apply when assessing the inclusion of a new investment. That is, the Master Fund can trade outside of these ranges if the imbalance is caused by market movements, distributions, and/or mandatory redemptions. There are no specific provisions requiring the Fund to conform within a specific period. Instead, Pengana Credit shall use reasonable best endeavours to bring the Trust back into material conformity within a reasonable period from the time that they become aware of such unconformity.

The Fund has separate investment guidelines for seniority, strategy and geography aggregated across the Master Classes. From the Fund perspective, the Manager toggles between Master Classes within the investment guidelines set out below. Other guidelines adhered to are: a maximum 50% of commitments to one manager across the Master Fund, and a maximum commitment of 30% to one underlying fund.

Figure 16. Seniority – Investment Guidelines

Seniority	Maximum Exposure
First Lien	100%
Subordinated	31%
Equity & Equity-Linked	16%

Source: BondAdviser, Pengana.

Figure 17. Investment Strategy – Investment Guidelines

Strategy	Maximum Exposure
Direct Lending	100%
Specialty Finance	54%
Structured Credit	52%
Credit Opportunities	11%
Other	28%

Source: BondAdviser, Pengana.

Figure 18. Geography – Investment Guidelines

Geography	Maximum Exposure
Australia	55%
North America	70%
Western Europe	70%
Asia, Latin America & ROW	21%

Source: BondAdviser, Pengana.

Portfolio Risk Management

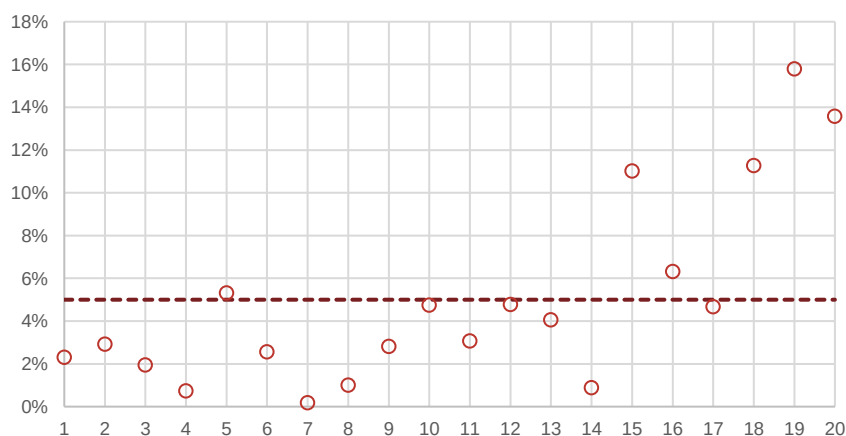
Our assessment of effective risk management for PCX considers both credit risk and liquidity risk. We view effective risk management to be key considering the asymmetric nature of credit investing. Our *Quantitative Analysis* is designed to simulate the portfolio quantitatively and complements our ex-post and qualitative assessment below.

Credit Risk

On an underlying asset basis, credit risk for this Fund is on the higher end of the credit spectrum relative to broader publicly traded credit. Importantly, the underlying loans held within the Fund are not rated by rating agencies, which makes thorough assessment and due diligence of credit risk even more imperative. Whilst the majority of the Fund is invested in bilaterally negotiated private credit loans which are senior in the capital structure, the Fund may hold exposures to subordinated loans, distressed investments and equity and equity-like investments, which exhibit greater credit risk relative to the broader fixed income market. We take comfort in the level of expertise of the underlying managers in managing credit risk, given the level of credit and workout experience across the cycle. This is evident in loss rates across a subset of the underlying managers being below the broader middle market direct lending space (see Figure 25).

Key to mitigating tail risks in credit is the level of diversification on an underlying asset basis. Given the negative skew return profile of credit investments with small upside and potentially large downside, asset and portfolio diversity is key to mitigating negative tail risk outcomes. The Master Trust offers wide diversification in this context across 20+ underlying Managers and over 2,000 underlying assets. This provides not only asset-level diversification, but also diversification from manager-specific idiosyncratic risk (i.e. poor manager performance, reputational risks, fraud, etc.)

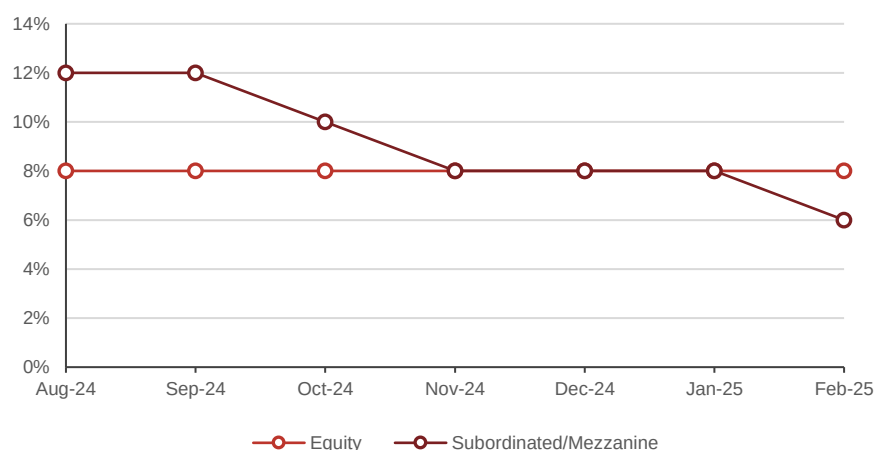
Figure 19. Underlying Fund Weightings



Source: BondAdviser, Pengana.

Given the fund-of-funds nature of PCX, neither Pengana nor Mercer take an active role in look-through credit positions and restructuring events. That said, we view Pengana's and Mercer's senior investment teams as having relevant experience to reasonably assess a Manager's ability to navigate workout situations. During the due diligence process, prospective Managers are assessed on their credit assessment and workout capabilities and the Manager would not invest with an underlying manager that does not have the requisite skills to navigate workouts when investing in bilateral loans.

Figure 20. Equity & Mezzanine Weightings



Source: BondAdviser, Pengana.

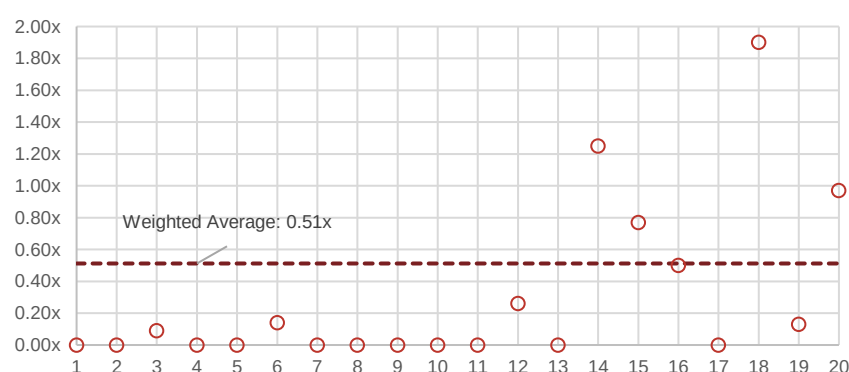
PCX has a notable exposure to mezzanine loans and equity exposure, accounting for ~14% of the portfolio. Mezzanine loans are subordinated to senior creditors in the capital structure, receiving priority only after repayment to senior creditors under insolvency events, and equity risk exposes the Fund to greater valuation-based risks. Additionally, the Fund may hold distressed credit investments, which exhibit materially higher credit risk relative to the broader credit spectrum. That said, we take comfort in the fact that these distressed exposures are relatively moderate (~8%) in the Fund. Underlying funds may periodically and without restriction invest in equity securities, emerging market debt, convertible securities, warrants, futures, and options. As a result, underlying manager selection is crucial to the success of the PCX funds-of-funds investment strategy, of which we are comfortable with Manager's robust framework and processes.

From a structural perspective, the Feeder Fund may incur secured debt that ranks ahead of the PPNs. In an enforcement event these lenders may exercise their right to the security of the Feeder Fund's assets and may liquidate or dispose of these assets as they see fit. As such, there is no guarantee that there will be sufficient funds to pay any amounts due to the owners of the PPNs. This does not form our base-case assumption but is a risk investors should be aware of.

Additional leverage may be introduced via an FX hedging facility to reduce short-term liquidity requirements or at the Trust level for the purpose of meeting short-term liquidity needs (e.g., to meet redemption obligations). Importantly, the Manager has outlined that leverage will not be introduced at the Trust level for long-term investments but instead for working capital purposes.

The Trust may also be exposed to leverage via the strategies of the underlying Managers. We note to investors that leverage within a fund and at the fund level magnifies credit risk, to both the upside and downside. There are no specific guidelines governing the use of leverage in the sub-strategies, however, this risk is managed in the initial due diligence and review process. The manager has a clearly articulated its intention to maintain leverage below 1.50x the NAV (vs ~0.51x currently) for its underlying portfolio. Inclusive of leverage at a Trust level, leverage is not intended to exceed 1.75x NAV. As seen below, the highest leveraged fund is 1.9x NAV, or ~66% of gross asset value, and makes up 11% of the Fund. Under a downside scenario this may produce a materially adverse outcome on the Fund given the level of leverage (the claims of which rank senior to the Fund's equity investment in the underlying fund) and weight of this position in the Trust.

Figure 21. Leverage of Underlying Managers (Debt/Equity)



Source: BondAdviser, Pengana.

Liquidity Risk

The Fund invests in a number of evergreen and closed ended private credit funds, which primarily hold illiquid bilateral loans. The Fund may choose to redeem its holdings in underlying evergreen funds if necessary within the liquidity windows specified by the underlying managers, or sell its holdings of closed ended funds in the secondary market. This makes liquidity management more difficult for the Fund relative to one that holds direct investments which roll off via maturity and can be used as a source of liquidity. That said, the Fund may pivot its allocation into the Enhanced Cash Master Fund for liquidity purposes, and utilise the prospective working capital facility that the Manager is currently arranging. Further income and returns of capital from funds can be also used as an additional source of capital. We expect that redemptions remain manageable for the Fund in the ordinary course of fund operations, further supported by a cap of 5% of NAV on a monthly basis as part of the monthly buy-back mechanism.

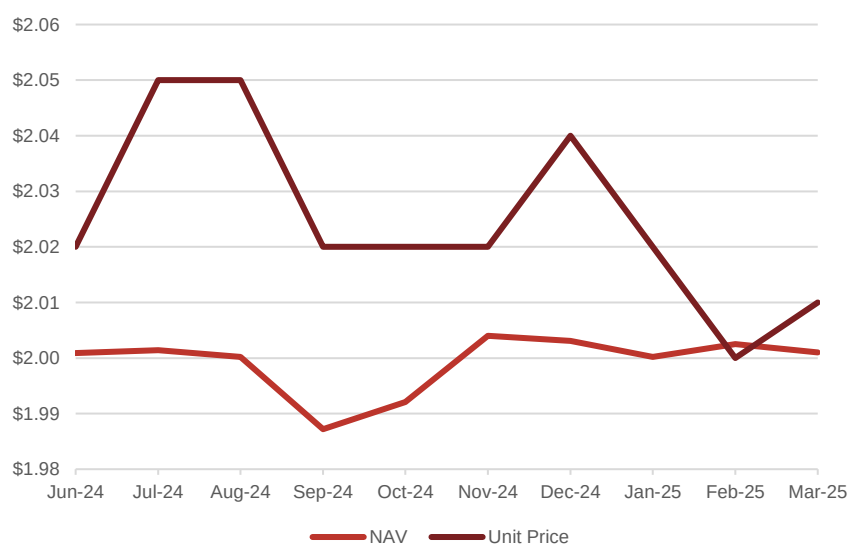
PCX is a closed-ended Trust with units trading on the ASX. Investors that no longer wish to be invested in the Trust are subject to ASX liquidity risk (i.e., the uncertainty associated with active trading volumes). As such, investors wishing to sell units in the Trust may be exposed to insufficient liquidity or market prices that are not representative of the NAV per unit.

In the past, a notable proportion of listed investment trusts (LITs) have traded at sustained discounts to NAV, generally reflecting poor market sentiment, supply/demand, and/or a lack of faith in the intrinsic value of the fund. PCX is not exempt from this risk, but we expect the buy-back mechanism to prevent material discounts to NAV, otherwise creating arbitrage opportunities for investors. This has been the case so far with PCX trading largely above NAV since launching since inception.

Under the quarterly off-market buy-back facility, each quarter, the Responsible Entity (RE) offers to repurchase up to 5% of the Trust's issued capital off-market at a price equal to the NAV per unit plus any accrued distributions. This gives investors an alternative means to exit their investment at NAV, avoiding potential discounts on the ASX.

Investors should be aware that the facility is subject to scaling. If the RE receives acceptances for more units than 5% of the total units of the Trust, subscribers will be scaled back by the same proportion needed to ensure no more than 5% of the Trust's units are redeemed. In the event of significant market stress, in our view, it is unlikely that the facility would prevent PCX from trading at a discount on the ASX given scaling, liquidity and market uncertainty.

Figure 22. PCX NAV versus Unit Price (Monthly)



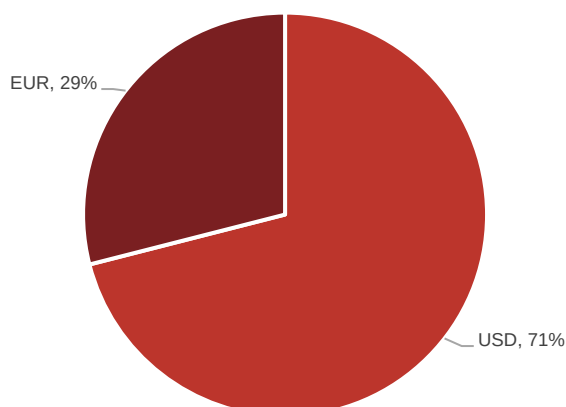
Source: BondAdviser, Pengana.

Currency Risk

Given units are AUD denominated, while the Fund invests in USD and euro-denominated assets, there is exposure to currency risk which is intended to be hedged primarily through the use of over the counter (OTC) forward foreign exchange contracts. The Manager uses one counterparty for its OTC foreign exchange forwards. Whilst we would prefer multiple counterparties, counterparty risk is somewhat offset by the one counterparty being investment grade.

The Manager has access to an FX hedging facility by a regulated bank, helping to short-term liquidity. This facility is especially important under periods of market volatility where extra collateral may be required to be provided by the Fund across OTC contracts.

Figure 23. PCX – Currency Exposure



Source: BondAdviser, Pengana. As at 31 March 2025. Currency exposure is hedged into AUD.

The key documents governing PCX are the product disclosure statement (PDS) and the Fund's constitution. Pengana Investment Management Limited is the Responsible Entity (RE) of the Fund and is ultimately responsible for the management and operation of the Trust. We prefer that the RE of the Fund remains independent of the Manager to mitigate any potential conflicts of interest, however any concerns here are somewhat mitigated by the board of the RE consisting of two independent members.

The RE uses a Key Performance Indicator (KPI) system that requires service providers to complete an attestation ensuring compliance with deliverables and applicable law. Non-related service providers (i.e., Mercer and BNP Paribas) are subject to regular reviews including on site due diligence with key staff.

The diagram illustrates the structure of the Pengana Private Credit Fund, showing the flow from Investors through various entities to Underlying Assets.

Investors (Dark Red Box) are the primary contributors. They invest into the **Pengana Global Private Credit Trust** (Red Box).

The **Pengana Global Private Credit Trust** is managed by **Pengana Investment Management** (Red Box), which is the **Responsible Entity**. **BNP Paribas** (Cyan Box) provides **Administration & Custody** services to the Trust.

The Trust invests into the **Pengana Private Credit Feeder Fund** (Red Box). This feeder fund is managed by **Pengana Capital** (Red Box) and **Pengana Credit** (Red Box). **Pengana Capital** is the **Manager**, and **Pengana Credit** is the **Investment Manager**. **Mercer Consulting (Australia)** (Cyan Box) acts as the **Investment Consultant** for Pengana Credit.

The **Pengana Private Credit Feeder Fund** invests into the **Pengana Private Credit Master Fund** (Red Box) **Through PPNs** (Pooled Payment Networks).

The **Pengana Private Credit Master Fund** is divided into four classes: **Enhanced Cash Class**, **Income Class**, **Balanced Class**, and **Total Return Class** (all in Grey Boxes).

These classes invest into **Underlying Funds** (Red Box), which then invest into **Underlying Assets** (Red Box).

```
graph TD
    Investors[Investors] --> PGPT[Pengana Global Private Credit Trust]
    PGIM[Pengana Investment Management] --> PGPT
    PGIM --> PC[Pengana Capital]
    PGIM --> BNP[BNP Paribas]
    PC --> PGPT
    BNP -- "Administration & Custody" --> PGPT
    PGPT --> PFCF[Pengana Private Credit Feeder Fund]
    PFCF --> PC
    PFCF --> PGCR[Pengana Credit]
    PGCR --> PFCF
    PGCR --> PPMF[Pengana Private Credit Master Fund]
    PGCR --> PGCR_IC[Mercer Consulting (Australia)]
    PGCR_IC -- "Investment Consultant" --> PGCR
    PFCF -- "Through PPNs" --> PPMF
    PPMF --> ECH[Enhanced Cash Class]
    PPMF --> INC[Income Class]
    PPMF --> BAL[Balanced Class]
    PPMF --> TRC[Total Return Class]
    ECH --> UF[Underlying Funds]
    INC --> UF
    BAL --> UF
    TRC --> UF
    UF --> UA[Underlying Assets]
```

Investors should be aware that the valuation of underlying assets are subjective and involve discretionary determinations. This is a function of the underlying assets being predominantly classed Level 3, which are opaque in nature with no (or very limited)

pricing available as well as observable valuation inputs. Third party pricing may also not be available for a significant portion (or almost all) of the underlying assets and information used to value such assets may be subject to pricing model subjectivity.

Compliance of the Trust's Investment Policy and Allocation Policy is overseen by the Pengana Credit Risk and Allocation Committee. The committee is comprised of the Chief Financial Officer, Chief Operating Officer, and Head of Risk and Performance of Pengana Capital Group Limited. The committee meets monthly and reports directly to the RE on a quarterly basis (or more frequently if required).

In terms of fee structure, PCX has disclosed fees and costs equating to 3.40% p.a. This includes a management fee of 1.20%; a RE fee of 0.05%; an estimated indirect cost of 1.34% p.a.; and an estimated performance fee of 0.71% (all fees related to NAV). The performance fee is calculated as 20% of returns greater than a hurdle rate of RBA +6% p.a. (with a hurdle floor of 7.5% p.a.). The total fee is an estimate and depends on various factors including (but not limited to) the performance fees incurred at the underlying manager level and at the Fund level. In our view, the level of fees charged is high but is reflective of (1) the fund of funds structure, (2) complexity of the underlying assets, and (3) added due diligence conducted by Mercer as investment consultant to the Fund. Whilst we view the level of fees appears high relative to a 7% distribution target, we expect a total net return to be closer to the hurdle return (RBA +6% p.a. net) over the medium term as capital appreciation begins to contribute to the return profile. We argue this supports justification for the fee structure where returns are close to or above the hurdle return.

Quantitative Analysis

In modelling the portfolio under our standard quantitative analysis simulations, we have made a number of assumptions based on the Underlying Funds held within the Fund, given the lack of data availability on a look through basis. We note that our assumptions have been relatively punitive to ensure conservative estimates of portfolio returns across both scenarios, including a 33% CCC allocation and 52% allocation to B credits.

Whilst imperfect, the analysis presented in this section is intended to simulate the portfolio under varying conditions based on empirically observed inputs, including historical data such as Jump to Default (JTD) and other credit rating migration probabilities, recovery rates across asset types, and yield curves. Our simulations show the probability of returns for expected gross capital loss/gain (grey curve) and total gross return (orange curve).

We have adopted the CreditMetrics framework for our analysis. This framework attempts to model credit migrations, including JTDs, that directly impact the valuation of the Fund. Based on historical and estimated fair value yield curves, we can revalue each individual holding for each derived credit rating. This is to simulate the likelihood and severity of deterioration in security values. The heart of the analysis is determined by the probabilities of a JTD, and the recovery given default (loss given default, LGD). Our analysis places no limit on adverse credit migration to model a possible worst-case scenario for investors. **We note that this approach makes no assumptions on the workout capabilities of the Underlying Managers** and instead applies standardised recovery rates across all managers within our Fund Research universe.

Whilst our modelling is based on the historical data from 2009 and 2018, for context we list the average migration rates and recovery rates observed over 1970-2022 in the two tables below. The first table displays the probability of an issuer moving from its current credit rating over a one-year period, whilst the second displays the average recovery based on seniority in the capital structure for different time periods.

Table 1. Average Migration Rates (1970-2022)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	91.5%	7.9%	0.6%	0.1%	0.0%	0.0%	0.0%	0.0%
AA	0.8%	90.0%	8.7%	0.4%	0.1%	0.0%	0.0%	0.0%
A	0.0%	2.5%	91.7%	5.2%	0.4%	0.1%	0.0%	0.0%
BBB	0.0%	0.1%	3.9%	91.5%	3.5%	0.6%	0.1%	0.2%
BB	0.0%	0.0%	0.4%	6.4%	83.9%	7.4%	0.8%	0.9%
B	0.0%	0.0%	0.1%	0.4%	5.3%	82.7%	7.5%	3.4%
CCC	0.0%	0.0%	0.0%	0.1%	0.3%	6.8%	81.9%	8.0%

Source: BondAdviser, Moody's. Withdrawn ratings and ratings that have moved to CC or below are excluded from totals.

For each rating, an instrument's credit rating is likely to remain the same over the modelled timeframe, with some probability of an adverse movement. Our analysis builds on the principles behind Merton's structural credit model to randomly generate a series of credit ratings in one year's time. This is based on stochastic principles, with no Gaussian (Normal distribution) assumptions being made. Asset returns are derived from coupon and fee income, credit rating migrations and loss given default. **Impacts of duration and liquidity are ignored.** The main assumption is that asset returns are determined by the yield curve and credit rating or default, and recovery of the security at that time.

We simulate 10,000 scenarios for each set of assumptions, where each portfolio asset has an end credit rating which is defined by transition probabilities. Mapping valuation

changes, or loss given default, to these hypotheticals, allows us to derive a probability distribution of portfolio valuation. The revaluation overlay allows us to estimate (unrealised) mark-to-market losses over a one-year horizon. The primary driver of our scenarios is dependent on JTD and LGD rates.

Additionally, in select figures (curves labelled *Gross E(r)*) we have included the estimated impact of coupon carry for the year. These curves reflect the offset coupon payments have against credit migration losses. In a highly diversified portfolio, a single default has an impact that is insignificant compared to the income generated. This is not present in less diversified portfolios where credit counterparty risk is more material.

When an individual asset jumps to default in any scenario, we assume that no interest payments are made. In evaluating a recovery value in a JTD event, we simulate a random variable utilising a beta distribution. Distributions change by seniority and are constructed using mainly historical data (Table 2-3).

Table 2. Recovery Rate Inputs (Bonds and Loans)*

	1983 - 2022 Average**	GFC Scenario	2022
First Lien Loans	69%	70%	70%
Senior Secured	58%	43%	61%
Senior Unsecured	44%	27%	31%
Subordinated	36%	22%	18%
Equity***	10%	5%	15%

Source: BondAdviser, Moody's, S&P

* Individual recovery rates will vary, based on a simulated random variable utilising a beta-distribution, using mean and variance parameterisation. ** First Lien Loans long-term average from 1990 - 2022, not 1983 - 2022.

*** Not empirically based, standardised across all BondAdviser QA testing as a punitive input. Constant standard deviation of 10% used for equity.

Table 3. Scenario 1 - Bond & Loan* Migration Rates (2018)

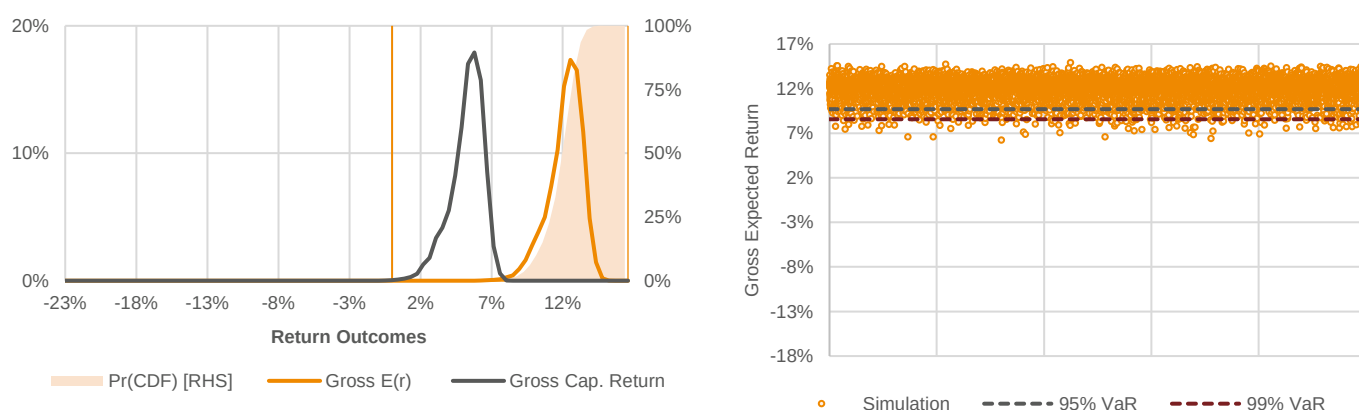
FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	96.1%	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.3%	94.1%	3.8%	0.4%	0.4%	0.4%	0.3%	0.3%
A	0.3%	3.8%	89.9%	4.2%	0.6%	0.5%	0.4%	0.4%
BBB	0.0%	0.0%	3.6%	92.4%	2.2%	0.4%	0.8%	0.5%
BB	0.0%	0.0%	0.2%	7.7%	80.1%	6.3%	3.0%	2.6%
B	0.0%	0.0%	0.3%	1.5%	6.8%	79.2%	7.9%	4.2%
CCC	0.0%	0.0%	0.4%	2.2%	2.3%	7.0%	79.5%	8.7%

Source: BondAdviser, Moody's

* Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.

The portfolio performs well under our benign scenario modelling, with a median pre-fee return of 12.2%, and subtracting all fees this comes to around a median net return of 9.1%, above the 7% target distribution return. We note that this analysis includes capital returns from equity performance, which is not certain to contribute to returns over a year. That said, despite our shadow credit rating allocations of B to CCC, the secured nature of the majority of the portfolio, provides strong downside protection during benign economic conditions. This is demonstrated by a simulated 99% and 95% VaR of 8.56% and 9.69% during benign market conditions.

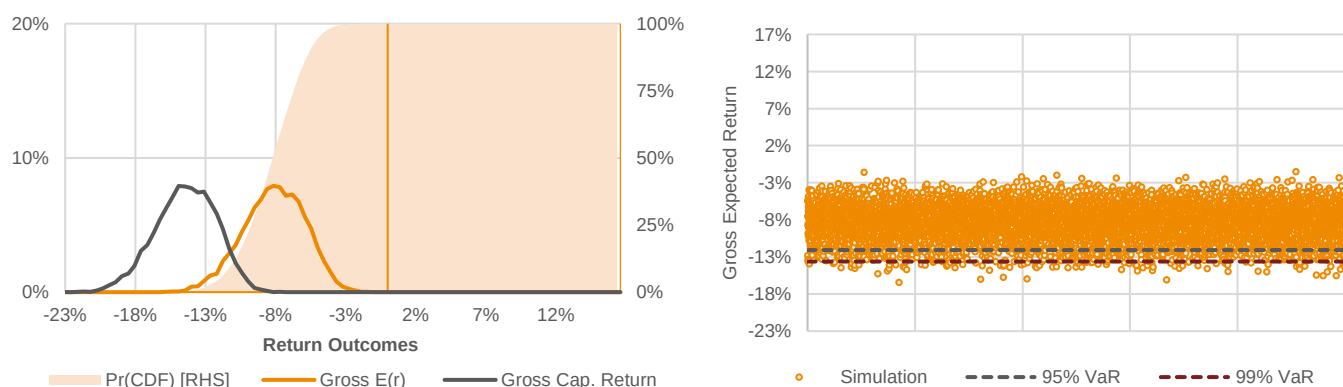
Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates. **Excludes impact of management and other fees.** Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. For a more detailed explanation of the methodology, please [contact](#) BondAdviser.

To test the portfolio under stressed conditions, we use migration rates from 2009, the worst recorded year for global default rates due to the GFC. Our 2nd scenario models against identical assumptions to the 1st scenario but is substituted with 2009 credit rating migration and corporate yield curve data.

Scenario 2. Stressed Asset Assessment



Source: BondAdviser Estimates. **Excludes impact of management and other fees.** Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on underlying fund REDF.

Whilst under benign conditions the simulated performance of the portfolio was strong, under a distressed environment the modelled performance was poor as a result of more frequent defaults, downgrades and lower recovery levels (consistent with empirical results during the GFC). We note that this modelling puts the portfolio under GFC-like conditions, which as expected drove quite poor loss-given default outcomes due to the level of risk in the portfolio during systemically poor economic conditions. The median simulated 1-year return of the portfolio was -8.3%, with a 99% and 95% VaR of -13.62% and -12.07% respectively.

Table 4. Scenario 2 - Bond & Loan* Migration Rates (2009)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	64.9%	35.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.5%	71.6%	23.3%	1.9%	0.9%	0.7%	0.7%	0.5%
A	0.6%	0.9%	80.9%	13.6%	1.2%	1.3%	0.7%	0.8%
BBB	0.0%	0.1%	1.3%	87.8%	6.5%	1.5%	1.3%	1.6%
BB	0.0%	0.0%	0.2%	4.8%	72.5%	14.3%	3.1%	5.1%
B	0.0%	0.0%	0.2%	1.0%	3.9%	69.4%	15.9%	9.7%
CCC	0.0%	0.0%	0.3%	1.4%	1.4%	9.0%	52.2%	35.8%

Source: BondAdviser, Moody's.

* Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.

Whilst this modelling is standardised across our fund research platform, we note that there are deficiencies to our approach, including, but not limited to, the following:

- The rating migrations are dependent on the credit rating of the individual underlying assets, which we have done our best to estimate based on spreads/yields and asset classifications (e.g. distressed credit) given the underlying loans are unrated.
- It does not consider the additional protections implemented by the underlying managers to mitigate credit migration or default risks. Borrowers are actively researched, followed, and subjected to many levels of examination and oversight, and underlying managers have extensive workout experience. We expect that assets would be managed prior to such an event occurring, resulting in actual returns differing to our scenario modelling. As seen in the below figure, annualised loss rates across the track record of a subset of underlying managers of the Fund have been lower than both the broader BDC middle market direct lending space, and the broader US high yield bond market, reflecting managerial skill and the level of security across direct lending investments.

Figure 25. Annualised Long-Term Loss Rates – Subset of Underlying Managers



Source: BondAdviser, Pengana, Bloomberg. Unless otherwise stated, reflects since manager inception loss rates. High Yield Bonds reflects loss rate of the US Bloomberg High Yield index. Chart only reflects a subset of the underlying managers. *Since 2004. **Since 2005.

- Our modelling contains assumptions, several of which, are subjective and may have otherwise material impacts to the modelling output.

The quantitative structuring defines the forward-looking risk score for our product assessment of the Fund. This is consistent with the BondAdviser Fund Research Methodology and overlays an objective evaluation to our recommendation. Based on our analysis, **we assign the Fund a risk score of Very High / B.** This reflects the credit quality of the underlying assets and construction of the current portfolio.

Research Methodology - Overview

Overview

At BondAdviser, our focus is on delivering the highest quality data, research and insights so that investors can make intelligent decisions about the fixed income market. At the centre of our approach is a proprietary 5-pillar process for analysing fixed income funds in a rigorous and disciplined manner. Our approach results in a recommendation scale that investors can readily use to identify the most attractive investment opportunities.

Our ability to provide a clear and concise investment recommendation from the very diverse and unique fixed income portfolios and funds within our coverage universe is a key benefit of our research process. We simplify an otherwise complex procedure for investors into a simple, recognisable and consistent recommendation scale.

We use a bespoke combination of qualitative assessments and forward-looking quantitative analysis. In our experience, most other research is backwards looking, which naturally limits its usefulness. By combining our deep understanding of fixed income markets and their emergent trends with our extensive modelling and forecasting capabilities, we aim to solve this limitation and output meaningful, risk-adjusted prospective recommendations for investors.

Research Approach

BondAdviser has adopted a multi-pillar, risk-based approach to the assessment of funds. In our opinion, an investor's exposure to credit risk is not uniform and can be well mitigated by manager skill, experience and supporting governance structures. We identify 5 key pillars of credit risk mitigation and these then form sections of analysis in our reports:

- Investment Objectives, Strategy and Performance
- Portfolio Construction and Investment Process
- Liquidity, Operating & Financial Risk Management
- Governance, Asset Stewardship and Compliance
- Quantitative Analysis

Research Process

The initial screening of funds and assets is based on a globally recognised best practices approach to alternative assets as defined by the Alternative Investment Managers Association (AIMA) and risk management as identified by the International Organisation of Securities Commissions (IOSCO).

All assets and managers must meet minimum requirements as outlined in our initial due diligence questionnaires. Detailed interviews, operational checks, process documentation and data collection then follow. Each of these steps helps to ensure that our recommendations are consistent and are based on a comprehensive understanding of the key drivers of the underlying market segment and asset class(es), the investment manager and broader portfolio.

Classification

We broadly adhere with international and Australian accounting standards and global best practice in designating assets according to their place in the fair value hierarchy defined in International Financial Reporting Standard 13 (IFRS13) - Fair Value Measurement (Australian version – AASB 13). All assets designated as “Credit” fall under three categories based on market observability as outlined below:

- **Level 1 (Active Markets)** - assets that have quoted prices in active markets, providing the most reliable evidence of fair value. As a result, transactions for these assets can generally occur at this price as at the measurement date. Domestically, typical examples of Level 1 assets include Australian Government Commonwealth bonds, listed debt and hybrid instruments and RBA repo-eligible financial instruments.

- **Level 2 (Non-Active Markets)** - assets that have observable prices (directly or indirectly), not included within the Level 1 category (i.e. not quoted on an exchange). Assets referencing credit spreads and interest rates would qualify if the input is observable for the full tenor. This category generally encompasses credit markets which have limited secondary market activity such as corporate bonds, subordinated debt and syndicated loans.

- **Level 3 (Illiquid and Alternative Credit)** – assets that have mostly unobservable inputs and hence valuation models are used, driven in part by assumptions and expectations. There may be an independent overlay and a model risk adjustment to derive an exit (market) price. A limited secondary market is typical and these assets are often referred to as alternative credit. Examples of this segment include “structured” credits such as RMBS, CMBS, ABS and private debt investing.

Product Assessment

The BondAdviser Product Assessment is the culmination of our research process applied to our pillar-based research approach. We conclude whether a fund is screened-out, approved, recommended or highly recommended as broadly defined below:

- **Screened Out** – The fund does not (or no longer) satisfies our minimum criteria for research inclusion.

- **Approved** – Our research allows us to conclude that the fund manager, governance structure, policies and procedures appear to be sound and capable of managing the fund adequately to target its benchmark.

- **Recommended** – We have a reasonable expectation that the fund will achieve its target benchmark.

- **Highly Recommended** – We believe that superior skills, systems and processes mean that the fund has a high likelihood of meeting and probably exceeding its benchmark target. Note that we only Highly Recommended assessments after issuing multiple reports over an extended period of time

Risk Score

Our Risk Score is aligned to the same methodology that is utilised in BondAdviser's single-instrument reports. It is not a credit rating and should not be used as such.

- AAA – Very Low
- AA – Low
- A – Lower Medium
- BBB – Upper Medium
- BB – High
- B – Very High
- CCC – Extreme
- D – Default (Fund Closed)

Our overall Risk Score is driven by the underlying credits of a fund coupled with our quantitative analysis. It is mutually exclusive to the Product Assessment. For example, it is possible for a fund to be Highly Recommended and have a risk score of CCC. This could occur where the fund invests in riskier credit assets but we are very confident of its capability to meet or exceed its benchmark target. Conversely, a fund comprising mostly of government bonds may hold a Risk Score of AAA but its governance processes, history and controls are not as strong as peers and warrant only an Approved assessment.

Alternative Investment Fund Research Methodology

[Click here to view](#)

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