2017 at a glance – Partners Group's business model and review of financial performance

Investments

USD 13 billion invested on behalf of our clients in a highly disciplined manner to create sustainable value.

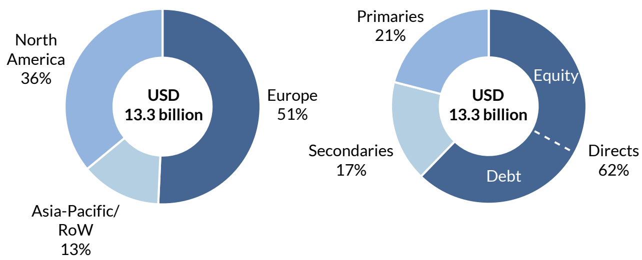
In 2017, we expanded our platform to 1'036 employees (2016: 930) across 19 offices with the aim of systematically sourcing and ultimately investing in an even larger opportunity set. We continued to pursue our highly disciplined and prudent approach to source and execute the most attractive investment opportunities in an uncertain market environment. With a focus on corporate, real estate and infrastructure assets where active value creation remains the key driver of returns, we invested a total of USD 13.3 billion (2016: USD 11.7 billion) on behalf of our clients during the period:

- Of this amount, a total of USD 8.3 billion (62% of all investments) was deployed in direct transactions across all asset classes: USD 4.1 billion in 30 individual assets across private equity, private real estate and private infrastructure and USD 4.2 billion in 47 private debt investments.
- Our secondaries investment teams invested a total of USD 2.2 billion (17% of all investments) in globally diversified private markets portfolios.
- To complement our direct and secondary investments, we committed USD 2.8 billion (21% of all investments) to select private markets managers.

2017 was characterized by a highly competitive market environment with high levels of dry powder fueling competition for investments and supporting high asset valuations, while also pushing down expected returns. In 2017, we overweighted credits and shifted our overall investment mix towards higher volume but lower return credit markets.

Investment activities continued to remain geographically diversified in 2017, with 51% of capital invested in Europe, 36% in North America and 13% in Asia-Pacific and emerging markets, reflecting our global reach and scope.

Private markets investments during 2017
(based on volumes)



Note: figures exclude investments executed for short-term loans, cash management purposes and syndication partner investments.

Highly selective screening and disciplined investment approach to create sustainable value

Our relative value investment approach endeavors to ensure that only the most attractive assets on a global basis are selected for investment. Moreover, for all investments we also follow a stringent ESG assessment according to our Responsible Investment Policy and Methodology.

In 2017, we screened 3'843 direct transactions across asset classes and invested in only 77 of them, resulting in a decline rate of 98%. Our secondary investment specialists screened USD 137 billion in private markets assets and invested in less than 2% of these. To complement our portfolio, we committed USD 2.8 billion to select private markets investment managers. We are invested in more than 700 private market funds and sit on over 250 advisory boards, which makes us a respected and appreciated global investor and business contributor to many private market managers.

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Deal flow 2017

	Directs	Secondaries	Primaries
Private equity	1'482	USD 88 billion	193
Private debt	424	n/a	n/a
Private real estate	1'084	USD 39 billion	204
Private infrastructure	853	USD 10 billion	77
Total	3'843	USD 137 billion	474
Executed	USD 8.3 billion 30 assets & 47 credits*	USD 2.2 billion 26 transactions	USD 2.8 billion 34 commitments

*USD 4.1 billion invested in 30 assets, USD 4.2 billion invested in 47 credits.
Note: figures exclude investments executed for short-term loans, cash management purposes and syndication partner investments. The number of credits does not include liquid loans in the syndicated debt market.

Private market investments in 2017

Private equity

In spite of the near-record pricing, our strategies to realize relative value potential in the private equity space remain unchanged and we continue to focus on companies with three defining characteristics. First, we acquire platform companies with a strong management team and infrastructure, and then purchase add-on companies to further grow the platform. Second, we actively screen sub-segments of the market and focus on identifying category winners that are leaders in the sub-segment in terms of market share or growth potential. Third, we search for niche leaders with value creation potential and strong defensive characteristics.

The transformative trends we are most focused on in the current market environment in North America are the specialization and digitalization of services offered by companies in the business services, technology, media and telecommunications (TMT), and consumer sectors as well as the Industry 4.0 trend. In Europe, one significant transformative trend we focus on is cost optimization across both the public and private sector, from corporates through healthcare providers to governments. Last but not least, we continue to see a compelling transformative trend in the emergence of a large middle class in emerging markets. We anticipate that this new middle class will initially direct its discretionary income towards personal health, education, and select consumer goods, largely mirroring the consumer spending patterns witnessed across developed markets.

Select 2017 investment examples are shown below:

In November 2017, we acquired **United States Infrastructure Corporation** (USIC), a leading provider of underground utility locating services in the US. The company employs more than 7'500 technicians and performs over 70 million utility locating services annually ahead of excavation or maintenance works. USIC currently serves around 1'000 customers in all major utility segments, including cable, telecommunications, electricity, gas, water and sewage. USIC is an example of a specialized market leader which has leveraged its digital mapping of the underground landscape of many high volume locate areas to make it the lowest cost and most reliable locate service in many geographic sub-markets. Moreover, the company uses telematics fleet tracking software to optimize its employee and fleet utilization. USIC is a great example of a company that has paired deep sector knowledge with digital solutions to become a category leader ten times the size of its next largest competitor. Our value creation strategy will focus on increasing organic growth by expanding USIC's service offering in adjacent markets, supporting its M&A strategy and improving key operational metrics.

United States Infrastructure Corporation

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In October 2017, we acquired **Civica**, a leading UK-based provider of business-critical software and technology-based outsourcing services to both public sector organizations and commercial organizations in highly regulated sectors. The company has a highly diversified customer base, including local and central governments, healthcare providers, housing associations, schools, and police and fire services, serving 2'000 major customers in ten countries. Civica's software offering is highly scalable as many public sector clients throughout the world face the same challenges in digitalizing their operations, which in turn requires minimal customization of Civica's current offering. We believe that increasingly, public sector entities will look to such software offerings in their quest to improve services while keeping costs under control. Our value creation strategy will be to work closely with management to help accelerate international growth and support the acquisition of complementary and accretive services as well as increase customer penetration with digital and outsourcing services and product innovation.

Private real estate

The real estate market continues to exhibit high levels of dry powder and the search for yield continues to drive up prices. Supported by the positive spreads between cap rates and long-term government bond yields, institutional investors have been incrementally raising their target allocations to real estate. In this competitive market environment, we continue to prefer properties and locations benefiting from social and demographic trends. In the office space, we focus on value-added properties in major tier 1 cities and economically vibrant tier 2 cities across all regions, with a view to creating the core assets that many investors are seeking. For logistics, we favor centralized and 'last mile' distribution properties that support demand from e-commerce. In the residential sector, we pursue opportunities in markets with strong population and employment growth where we seek to develop affordable Class A apartments and upgrade Class B apartments, catering to the need for affordable alternatives to traditional Class A apartments.

Our overarching strategy is to focus on special situations: we seek to unlock hidden potential and generate attractive risk-adjusted returns in today's competitive market environment with bespoke solutions. In addition, we believe that implementing specific value creation initiatives such as capex projects and rental growth initiatives is key to success.

Select 2017 investment examples are shown below.

In August 2017, we agreed to develop over **1'700 residential apartments in the Greater Stockholm area** in a joint venture with SSM, a leading Stockholm-based residential developer. The total value of the completed properties is expected to be in excess of EUR 700 million. The project comprises three separate residential developments, all located within a 15-minute train ride from central Stockholm. The developments seek to provide small, but fully functional residential units at a modest price where the need for affordable housing is significant. Tellus Towers will be the largest of the three projects and will include two high-rise residential towers, a hotel, retail space and a preschool over a total floor area of 57'000 square meters. At 78 stories, the taller of the two towers is expected to be among the highest residential buildings in Northern Europe.

Visualization of Tellus Towers

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In December 2017, we completed the acquisition of **73 Miller Street**, an office building in North Sydney, Australia, for a total transaction value of around AUD 205 million. The transaction involves a clear repositioning and active asset management strategy and is supported by strong, local growth trends. On the one hand, rents in Sydney's central business district have risen considerably, driving some tenants to search for more affordable office locations in other commercial districts including North Sydney. On the other hand, there have been substantial infrastructure upgrades in the North Sydney area, which have increased its connectivity. Following the acquisition, we will execute a value-added business plan involving the creation of an extra 13% of additional retail space and the refurbishment of the property to bring it to Grade-A standard.

Private debt

Private debt markets remain robust, both in terms of investment activity and fundraising levels. Demand for direct and subordinated loans remains strong on the back of significant amounts invested by private equity funds and a growing number of private equity transactions that require refinancing. Overall, given their bespoke nature, private direct loans continue to offer an additional premium over liquid loans and generally better downside protection compared to the liquid loans and high yield markets through tighter documentation, including maintenance covenants that protect buy-and-hold credit investors until repayment.

Subordinated debt financing solutions continue to be employed in the market, with second lien remaining a prevalent component. Return potential remains attractive in this space, where spreads offer more than a 400bps return difference compared to new issue first lien liquid loan spreads.

In the current market environment, we remain disciplined in our credit selection process and, within our key investment strategies (see page 30), continue to focus on companies with three defining characteristics: recession resilience, stable recurring cash flows, and high cash conversion levels. In particular, add-on acquisitions in fragmented sub-sectors, such as business software services and clinical trial outsourcing, can provide complementary services across regional platforms, vertical specialists, or fold-ins to platforms.

A 2017 investment example is shown below.

In June 2017, we structured and arranged a second lien investment, which allowed for the refinancing and separation of **VFS Global** from Kuoni Group, a service provider to the global travel industry. VFS Global manages administrative and non-judgmental tasks related to visa, passport, identity and citizen services on behalf of its government clients. The company has a strong track record as it operates close to 2'500 application centers in 130 countries and has processed over 160 million applications since its inception in 2001. It is a clear market leader with around 48% market share globally. The industry also has high barriers to entry due to the government tender process for these services and the high number of centrally awarded multi-country contracts. VFS benefits from positive drivers such as the growth in global travel volumes, the increased focus on border security and the growth of visa applications outsourcing. Our subordinated financing solved VFS Global's specific needs throughout a complex separation and also supported the company's acquisition of a complementary business in the emerging markets.

Private infrastructure

The record volume of capital available for private infrastructure is fueling competition for investments and bringing asset valuations to new highs, while also pushing down returns. In terms of deal origination, we continue to focus on building core assets or expanding infrastructure platforms. Our investment activity concentrates on the renewable energy, communications, and energy infrastructure sectors, all of which benefit from positive transformative trends. In the renewable energy sector, we focus on offshore wind, which we believe offers the most attractive opportunities based on a number of factors, including available investment sizes and expected returns. In wind energy alone, we have committed to invest in onshore and offshore projects totaling over 1.8GW in Europe, Asia and Australia since 2011. This highlights our continuous dedication and focus on responsible and sustainable investment.

A 2017 investment example is shown on the next page.

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Through our investment in **Merkur Offshore**, an offshore wind farm in Germany, and through our participation in several other European offshore wind processes, we have developed deep expertise in the sector, which we are currently using in our investment in **Borssele III/IV**, a 730MW construction-ready offshore wind farm in the Netherlands, which we signed in December 2017. With the Dutch government committed to achieving 16% of its energy production from sustainable sources by 2023 as part of a National Renewable Energy Action Plan, we believe the project is both timely and critical in helping the country achieve that aim. Once it is fully operational, Borssele is expected to generate about 3TWh per annum, enough electricity to power approximately 800'000 households. Borssele is a strong fit with our investment strategy due to its attractive relative value proposition and the opportunity to enter the project at an early stage, but without taking development risk. We will add value by shaping the debt process and final engineering, procurement, and construction negotiations.

Merkur Offshore

USD 12 billion in gross portfolio distributions in 2017

In 2017, we were able to realize a significant number of private markets assets on behalf of our clients, leading to a total of USD 11.8 billion in gross portfolio distributions. Some distributions to evergreen programs were re-invested for the benefit of the program's investment exposure. Other distributions enabled a number of mature closed-ended investment programs to pay out performance fees.

In 2018, we continue to take advantage of the benign environment to capture attractive returns through well-timed exits. Select examples, initiated towards the end of 2017 and completed in January 2018, are given opposite.

We acquired **VAT Group AG**, the leading global developer, manufacturer and supplier of high-end vacuum valves, in February 2014, together with our investment partner Capvis. With our support, VAT was able to grow its revenues by a CAGR of 11% between 2013 and 2015, eventually listing on the SIX Swiss Exchange in April 2016 (ticker: VACN) with an offer price of CHF 45. We completed the third placement of our shares in the third quarter of 2017 and sold our remaining stake in January 2018. The sale completed our exit from the company, which has generated a gross return of 6.0x on the original investment and a gross IRR of 74%.

In January 2018, we agreed to sell our investment in **Trimco International Holdings Limited**, a Hong Kong-headquartered global provider of labels and brand identification solutions to the apparel sector. The company was acquired for USD 520 million, generating a 3.4x return on the original investment. We acquired Trimco in May 2012 on behalf of our clients and subsequently worked closely with the senior management team to oversee a period of expansion in which the company quadrupled its business and grew from an Asia-centric manufacturing specialist into a global leader in its field. Our global footprint and expansive network enabled Trimco to fast-forward its international expansion strategy through targeted add-on acquisitions as well as organic growth.

In January 2018, we sold our investment in the **Victorian Comprehensive Cancer Centre** (VCCC), a cancer research, treatment and education centre in Melbourne, Australia. As Australia's first dedicated, state-of-the-art cancer research and treatment facility, the VCCC was envisaged to save lives through the integration of research, education and patient care. The completed centre has 13 levels, 160 inpatient beds, 110 day beds and eight operating theatres, and can host up to 1'200 researchers. The VCCC was completed on time and on budget at a total cost of AUD 1 billion and operations began seamlessly in June 2016. With the facility now fully operational, and having received strong interest from potential buyers, we decided to divest our stake in this groundbreaking centre ahead of the original investment plan.

In January 2018, we sold our stake in **Japan Solar**, a platform of Japanese solar power assets, generating a blended gross return of 3.2x on the original investment for Partners Group's programs. At the time of the sale, Japan Solar consisted of 27 secured projects totaling more than 610MW of capacity, of which over 200MW was operational and contracted into long-term power purchase agreements with Japanese electric utility companies. It is estimated that once Japan Solar's secured projects become operational, they will generate enough energy to power around 133'000 households.