2018 at a glance – Partners Group's business model and review of financial performance

Financials

Profit reached **CHF 769 million** in 2018; **dividend** of **CHF 22.00** per share proposed.

Solid fundraising and realizations continued to drive financial performance in 2018

Favorable, long-term underlying client trends, buoyed by the expectation of continued private markets outperformance over public markets, are the driving force behind the demand for comprehensive private markets offerings now and in the future. These structural industry dynamics combined with our long-term track record enabled us to generate solid financial performance across the board.

Revenues increased by 7% year-on-year to CHF 1'326 million, attributable to an increase in revenues from management fees and continued solid performance fee development. EBITDA increased by 7% year-on-year, in line with revenues, to CHF 882 million. Profit increased by only 2% year-on-year to CHF 769 million due to a slightly lower financial result and higher taxes. These achievements, combined with our stable margins and balance sheet-light approach to business, also translated into an attractive dividend proposal for the year 2018.

Key financials

	2017	2018	Growth
AuM as of the end of the year (in EUR bn)	61.9	72.8	+18%
AuM as of the end of the year (in CHF bn)	72.5	82.1	+13%
Revenue margin[1),2)]	1.89%	1.71%	
Attributable to management fee margin[3)]	*70%*	*76%*	
Attributable to performance fee margin	*30%*	*24%*	
Revenues (in CHF m)[2)]	1'245	1'326	+7%
Management fees (in CHF m)[3)]	*873*	*1'002*	*+15%*
Performance fees (in CHF m)	*372*	*324*	*-13%*
EBITDA margin	66%	66%	
EBITDA (in CHF m)	825	882	+7%
Profit (in CHF m)	752	769	+2%

1) Based on average AuM of CHF 77.6 billion in 2018 (2017: CHF 65.8 billion), calculated on a daily basis. 2) Revenues from management services, net, including other operating income. 3) Management fees include recurring management fees and other revenues, net, and other operating income.

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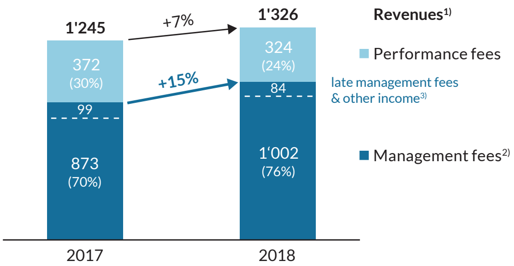
Management fee growth in line with AuM growth

In 2018, total revenues rose to CHF 1'326 million (2017: CHF 1'245 million) and increased by 7%. Management fees[4] increased by 15%, amounting to CHF 1'002 million (2017: CHF 873 million), broadly in line with the growth of average AuM[5] in CHF.

Due to the absence of significant closings of flagship programs in 2018, late management fees and other income[6] decreased by 15% compared to the previous year, amounting to CHF 84 million (2017: CHF 99 million).

Performance fees decreased but continued to remain at a solid level and amounted to CHF 324 million (2017: CHF 372 million). We continued to make active use of the supportive exit environment, divesting businesses and assets that had reached a mature stage and realized their targeted value creation potential.

Revenues
(in CHF m)



1) Revenues include management fees and performance fees.
2) Management fees include recurring management fees and other revenues, net, and other operating income.
3) Excluding recurring (full or partial) advisory services on assets amounting to CHF 17 million in 2018 (2017: CHF 7 million).

Management fees will continue to be the main source of revenues

Management fees will continue to dominate our firm's revenues in the years to come. Given the anticipated growth in the firm's AuM in combination with a structural delay in performance fee realization, management fees are expected to make up around 70-80% of total revenues and will be recurring based on long-term client contracts, often with an initial term of 10-12 years for equity and 5-7 years for debt offerings.

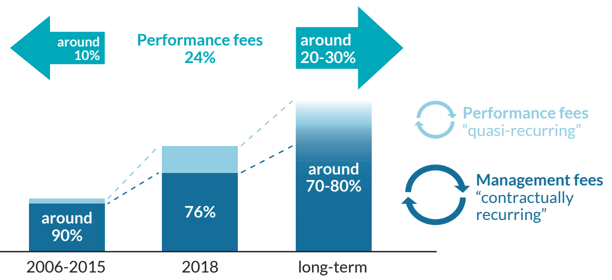
4 Management fees include recurring management fees and other revenues, net, and other operating income.
5 Based on average AuM of CHF 77.6 billion in 2018 (2017: CHF 65.8 billion), calculated on a daily basis.
6 Late management fees occur in limited partnership structures, which typically have a contractual life of 10-12 years. At the very beginning of this contractual life, these structures go through a fundraising period of 12-24 months. All clients who commit to open investment programs during this period owe management fees for the entire lifetime of the fund, irrespective of when the commitment was made. This is based on the fact that the firm has already commenced investment management services for these programs from the day of their initiation. Clients who join an investment program at a later stage of the fundraising period are required to pay retrospectively for these previously delivered management services. Any management fee payments relating to prior accounting years are called late management fees. A period in which older programs complete fundraising is more likely to lead to higher late management fees in the same period.

We currently manage over 300 diverse investment programs and mandates at different stages of their lifecycle. Our established approach of launching investment programs and mandates to enable clients to capitalize on specific private markets investment opportunities at different points in the market cycle means that there will typically be several investment vehicles maturing at each stage of the cycle. Many of these vehicles entitle the firm to a performance fee, typically subject to pre-agreed return hurdles.

Due to this diversification, we anticipate that performance fees will be earned regularly from a wide range of vehicles going forward, making them a "quasi-recurring" source of income, assuming market conditions remain broadly supportive.

In 2018, more than 50 investment programs and mandates from a wide range of vintages commenced to pay out or continued to pay out performance fees. Investment programs with vintages between 2008 to 2012 were the main contributors to our 2018 performance fees.

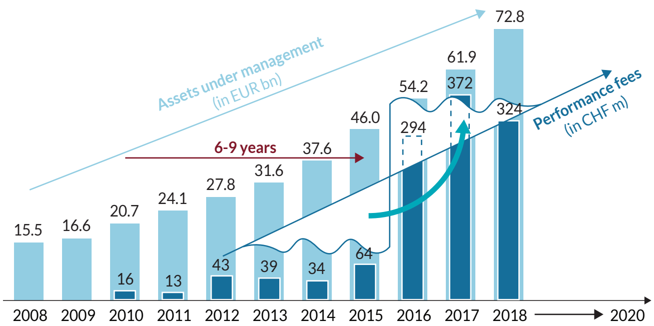
Management fees are contractually recurring



Note: assuming that the market remains favorable to exits, Partners Group expects to continue to generate significant performance fees from its underlying client portfolios; management fees include recurring management fees and other revenues, net, and other operating income; typical duration is 10-12 years for equity offerings and 5-7 years for debt programs.

We expect to continue to generate significant performance fees from underlying client portfolios. The expected bandwidth for performance fees as a proportion of total revenues remains at around 20-30%, assuming that the market remains favorable to exits.

Performance fee development



Note: assuming that the market remains favorable to exits, Partners Group expects to continue to generate significant performance fees from its underlying client portfolios.

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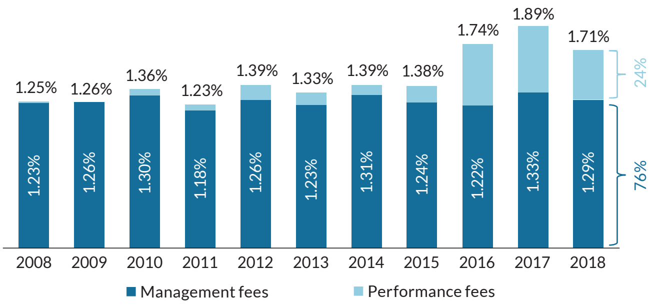
Stable revenue margin on management fees

The dominant part of our revenue base is still recurring and based on long-term contracts with our clients, which provides highly visible cash flows. The management fee margin remained largely stable despite lower late management fees and other income, amounting to 1.29% (2017: 1.33%). Total revenue margin, including performance fees, amounted to 1.71% (2017: 1.89%) in 2018.

Stable management fee margin



Note: management fees include recurring management fees and other revenues, net, and other operating income; calculated as revenues divided by average assets under management (in CHF), calculated on a daily basis.

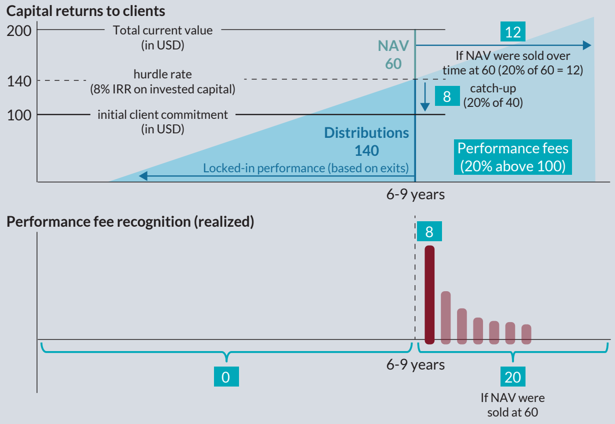
Performance fee mechanism

In private markets, performance fees are designed to remunerate investment managers for their long-term value creation results. They are a profit-sharing incentive for managers that outperform an agreed hurdle over the lifetime of an investment program. Performance fees are typically only charged once investments are realized and a pre-defined return hurdle has been exceeded. Because the value creation period lasts for several years, performance fees often only start to be earned six to nine years after an investment program commences its investment activities, and only if these are successful.

The chart below shows the performance fee recognition model of a typical limited partnership program. It shows how distribution activities in client portfolios bring forward the maturity profile of an investment program and increase the likelihood that the required return hurdle is reached.

This illustrative example assumes an initial client commitment of 100. After a couple of years the portfolio generates distributions to the client based on ongoing exit activities. After 6-9 years, the cumulated distributions received by the client are assumed to exceed 140, i.e. the hurdle rate. At this point in time, the investment manager catches up on past performance in excess of the initial client commitment ("catch-up" on 140-100 = 40, and 40 x 20% performance fees = 8).

Performance fee recognition model



Note: performance fees of performance fee generating investment programs and mandates typically range between 10-20% over a hurdle of 4-8% IRR on invested capital, depending on the program and instruments. For illustrative purposes only.

The investment manager will share any additional distributions stemming from the sale of the remaining portfolio over time, according to a pre-defined performance-sharing mechanism with clients (typically 80% to clients; 20% to the investment manager). It is assumed that the remaining NAV equals 60 and this entitles the investment manager to an additional performance fee of 12 (60 x 20%) should the portfolio be sold at the indicated value of 60.

In summary, due to the investment manager's long-term value creation, the initial client commitment of 100 has grown in value to 200, which entitles the investment manager to a performance fee of 20 (200 –100 = 100 value gain, then 100 value gain x 20% performance fees).

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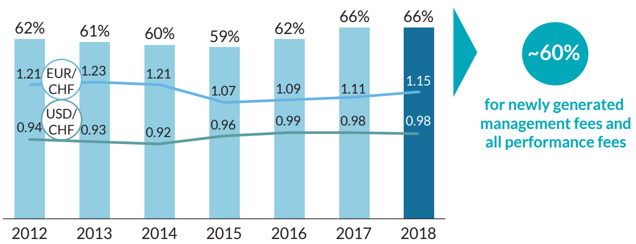
EBITDA margin remains stable

In 2018, EBITDA increased by 7%, amounting to CHF 882 million (2017: CHF 825 million). The EBITDA margin remained stable at 66% (2017: 66%). The firm targets an EBITDA margin of ~60% for newly generated management fees (assuming stable foreign exchange rates), as well as for performance fees on existing and new AuM.

With the build out of our investment platform, we aim to continuously hire highly skilled professionals in order to systematically increase our investment capacity, to expand our client relationships globally and to further strengthen our corporate and services teams.

EBITDA margin development and outlook



Note: foreign exchange rates in daily averages in respective years/periods.

Personnel expenses grew broadly in line with revenues

Total personnel expenses – the main driver of our costs – increased in 2018 (+5%), broadly in line with revenue growth (+7%). Our regular personnel expenses (+17%) increased in line with the overall growth in management fees (+15%) and average number of professionals (+14%) in the year under review. At the same time, our performance-fee related personnel expenses decreased in 2018 (-13%), in line with the decrease in overall performance fees (-13%). We allocate 40% of revenues stemming from performance fees to our teams and 60% to the firm and its shareholders.

Operating expenses grew by 13% to CHF 68 million (2017: CHF 60 million), in line with the growth of the platform.

Costs grew in line with revenues

	2017		2018
Revenues	**1'245**	**+7%**	**1'326**
Total costs, of which	-420	+6%	-444
Personnel expenses	-359	+5%	-377
Personnel expenses (regular)	*-210*	*+17%*	*-247*
Personnel expenses (performance-fee-related)	*-149*	*-13%*	*-129*
Operating expenses	-60	+13%	-68
EBITDA	**825**	**+7%**	**882**
EBITDA margin	66%	+0%-points	66%

Note: revenues include management fees and performance fees. Management fees include recurring management fees and other revenues, net, and other operating income. Regular personnel expenses exclude performance fee-related costs.

Continued diversification of AuM, revenues and cost base anticipated

86% of our revenues derive from EUR- and USD-denominated investment programs and mandates, reflecting our international clientele. However, nearly half of our cost base is still CHF-denominated. In recent years, though, our team has grown at a higher rate outside Switzerland as we have built up our investment presence around the world. This international expansion continues to diversify our cost base further and will reduce our CHF-denominated cost base in relative terms over time.

Fluctuations in the EUR or USD against the CHF can affect the absolute amount of revenues and costs and cause our EBITDA margin to deviate from its mid-term target. In 2018, currency movements throughout the year lifted the EBITDA margin by approximately 1%:

- Management fees (76% of revenues in 2018): currency fluctuations directly affect management fees and related costs. During the period, the EUR appreciated by 4% against the CHF (average rate). This positively affected management fees in CHF (49% of AuM are EUR-denominated) but did not materially affect the firm's cost base (~5% of costs are EUR denominated and ~40% are CHF-denominated).

- Performance fees (24% of revenues in 2018): the impact of currency fluctuations on performance fees and performance fee-related costs, respectively, is largely EBITDA margin-neutral.

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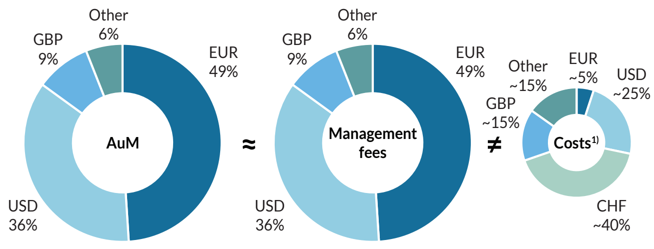
Currency exposure in 2018



1) Includes regular personnel expenses (excluding performance fee-related expenses) and other operating expenses.
Note: all figures are based on estimates and the currency denomination of underlying programs; revenues include revenues from management services, net, and other operating income.

Financial result driven by value creation in client portfolios; negative foreign exchange result and higher taxes

The financial result amounted to CHF 23 million in 2018 (2017: CHF 36 million). We invest into our own investment programs alongside our clients (typically around 1% of the program's size). The positive performance of these investments was again the main contributor to the financial result and amounted to CHF 35 million in 2018 (2017: CHF 50 million). Foreign exchange, hedging & others amounted to CHF -12 million in 2018 (2017: CHF -14 million). Corporate taxes increased to CHF -118 million in 2018 (2017: CHF -95 million), reflecting our growing international setup.

In summary, the firm's profit increased by 2% year-on-year to stand at CHF 769 million (2017: CHF 752 million).

Profit development
(in CHF m)

	2017		2018
EBITDA	**825**	**+7%**	**882**
Total financial result, of which	36	-36%	23
Portfolio performance	*50*		*35*
Foreign exchange, hedging & others	*-14*		*-12*
Taxes	-95		-118
Profit	**752**	**+2%**	**769**

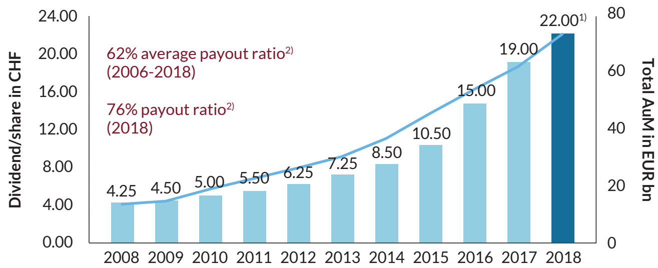
Net liquidity of CHF 1.2 billion

Partners Group's balance sheet remains strong. After a dividend payment of CHF 506 million in May 2018, we hold a current net liquidity position of about CHF 1.2 billion as of 31 December 2018. The net liquidity position comprises cash & cash equivalents and short-term loans facilities for investment programs provided by the firm, net of long-term debt.

Proposed dividend of CHF 22.00 per share (+16%)

Based on the solid development of the business in all asset classes and regions, the operating result and confidence in the sustainability of the firm's growth, Partners Group's Board of Directors will propose a dividend of CHF 22.00 per share (2018: CHF 19.00 per share) to its shareholders at the Annual General Meeting on 15 May 2019. This represents a dividend increase of 16%.

Dividend payments since IPO



1) The Board of Directors proposes that a dividend of CHF 22.00 per share be paid for the financial year 2018 at the Annual General Meeting of shareholders to be held on 15 May 2019.
2) The dividend payout ratio is defined as the (proposed) dividend per share divided by earnings per share.
Note: assets under management exclude discontinued public alternative investment activities and divested affiliated companies.

Financial outlook

We are moving confidently into 2019 and see solid demand for our new programs and mandates from clients across the globe.

- We expect **management fees** to continue to grow alongside AuM.
- We continue to expect **performance fees** to remain within the expected bandwidth of around 20-30% as a proportion of total revenues, assuming that the market remains favorable to exits.
- We expect **personnel expenses** to increase broadly in line with AuM and management fees as we continue to sustainably invest in the build-out of our investment platform and hiring of dedicated professionals. Performance-related compensation will continue to depend on performance fee development.
- Our **balance sheet** remains solid. With CHF 2.0 billion in shareholders' equity and CHF 1.2 billion net liquidity, we feel well-equipped to realize the potential of private markets in different economic environments.