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

Investments

USD 19.3 billion invested on behalf of our clients in attractive and resilient businesses and assets.

Entrepreneurial governance and hands-on value creation are key to growth

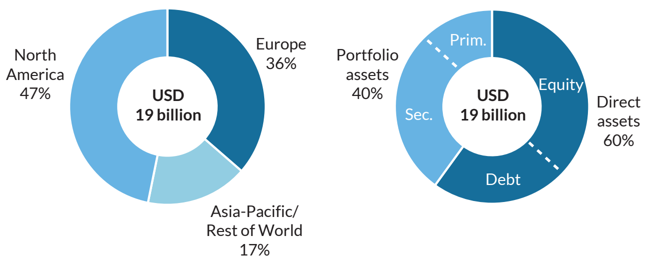
In 2018, we expanded our platform to 1'203 employees (2017: 1'036) across 19 offices with the aim of systematically sourcing, investing and developing an even larger set of businesses and assets. We continued to pursue our highly disciplined and prudent approach to source and execute the most attractive investment opportunities in a competitive market predominantly characterized by high valuations.

Guided by this approach, we invested a record amount of USD 19.3 billion (2017: USD 13.3 billion) on behalf of our clients across all private markets asset classes in 2018, including the reinvestment of distributions in evergreen investment programs. Of the total amount invested in 2018, USD 11.5 billion (60% of total investment volume) was deployed in direct assets, of which USD 6.3 billion was invested as equity in individual businesses and USD 5.2 billion in corporate debt. These equity investments are underpinned by our focus on the entrepreneurial ownership of businesses and assets, whereby business-oriented governance and hands-on value creation remain the key to generating strong outperformance.

To complement our direct assets, we invested USD 7.7 billion (40% of total investment volume) in portfolio assets. These portfolio assets include USD 5.2 billion of secondary investments in globally diversified private markets portfolios and USD 2.5 billion of primary commitments to select best-in-class managers in the private markets industry.

Investment activities continued to remain geographically diversified in 2018, with 36% of capital invested in Europe, 47% in North America and 17% in Asia-Pacific and emerging markets, reflecting our global reach and scope.

Private markets investments during 2018
(based on volumes)



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

Only the most attractive assets on a global basis are selected for investment

The potential for more challenging macroeconomic conditions demands careful asset selection for downside protection. We therefore remained highly disciplined in assessing risk/return parameters in our investment selection process during the period. In addition, in this late stage of the economic cycle, we are focusing on businesses and assets that are well positioned to withstand a variety of alternative economic scenarios and include prudent assumptions that market valuation multiples will come down in our underwriting for new investments.

On many occasions, we did not win a transaction because we did not compromise on pricing. This is important to us as we have to adhere to the target underwriting returns communicated to our clients and only select the most attractive assets with long-term potential.

When searching for new opportunities, our investment professionals are guided by well-developed investment themes and target the most promising companies in those sub-sectors that we believe offer significant potential for outsized growth over the mid- to long-term in today's market.

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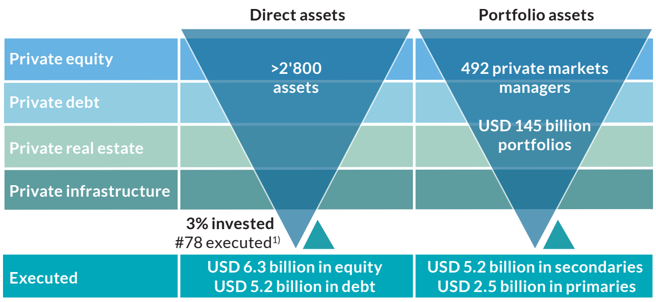
Target assets are developed over very long periods of time, which means that it can be difficult to precisely predict when they will become actionable. We therefore focus on deepening our understanding of and relationships with these target assets by tracking them over several months and years ahead of a potential sales process. This allows us to develop an investment thesis for these assets early on and be ready to act in a reasonably short timeframe when they become available for investment. While transaction speed can be a decisive factor in winning competitive situations, we are also seeing businesses become more demanding and look for partners with deep sector and functional knowledge that have the capabilities to propel growth.

In 2018, we screened over 2'800 direct transactions across asset classes. Of these, we invested in only the most attractive 3%, resulting in 78 completed transactions and a decline rate of 97%. Furthermore, our integrated investment professionals generated USD 145 billion in secondary private markets assets deal flow, investing in less than 4% of this, and screened over 490 fund offerings by leading private markets managers.

Deal flow 2018



1) USD 6.3 billion invested in 31 equity investments and USD 5.2 billion invested in 47 debt investments; debt investments exclude investments executed for short-term loans, cash management purposes and syndication partner investments.

Our success is driven by "business and ownership excellence"

As a partner to business, we have a bias towards trusted, long-term relationships to develop businesses and real assets with a long-term perspective. For that purpose, we leverage our global reach and local expertise across private markets to grow these businesses and real assets in an active and systematic manner. Beyond the deep sub-sector experience and research insights of our large Industry Value Creation team, our global platform, portfolio and network provide extensive synergies and opportunities for owners and entrepreneurs.

Long-term entrepreneurial governance is at the heart of our investment approach. This means that once we have invested in an asset, our focus is on active value creation. As part of this approach, we ensure that our portfolio company boards are the center of vision, strategy and accountability for the business. Our portfolio companies can thus leverage and benefit from our network of experienced Operating Directors, who have a hands-on approach to strategy and value creation. In addition, through our strong governance structures and incentive schemes, we ensure strong alignment between all stakeholders for the ultimate purpose of advancing businesses and assets.

Looking ahead, we will continue to build out our Thematic Sourcing and research capabilities to access a greater set of leading businesses and attractive assets. With the aim of cutting through the competition for such assets in this crowded market, we will dedicate substantial resources to further strengthen our platform, our Industry Value Creation team and network of Operating Directors in 2019.

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Private markets investments in 2018

An overview of our current investment themes for each asset class can be found in the market commentary section on page 24 of this report. Select 2018 investment examples for each asset class are shown below.

Techem

Private equity

In May 2018, we acquired Techem, a global market leader in the provision of heat and water sub-metering services, based in Germany, for an enterprise value of EUR 4.6 billion. Techem provides services and devices for the metering and billing of energy and water, plus device sales, hire and maintenance. In addition, it delivers heat, cooling, flow energy and light, as well as the planning, set-up, financing and operation of energy systems and energy monitoring and controlling services.

Techem is currently one of the market leaders in Germany, the largest sub-metering market in the world, and holds a leading position in other European markets. Techem's footprint comprises over 400'000 customers with 58 million devices installed in 11 million apartments across more than 20 countries. The business operates in a non-cyclical market with high customer stickiness, long-term contracts and high barriers to entry. In addition, as sub-metering reduces energy consumption by 20-30% on average, Techem solutions today account for 6.9 million tons of CO_2 emission savings per year, thus contributing to global climate protection objectives.

Techem's business benefits from increasing awareness of the need for energy efficiency solutions, as well as from regulatory incentives and the trend towards home automation. Going forward, together with our consortium investors, we will support the development of the company in its existing markets and aim to expand its presence geographically. We will focus on introducing new technologies to enhance its current offering and consolidate its position as a leading energy efficiency provider.

Private debt

One example that illustrates our ability to offer individual solutions and back successful companies in our debt portfolio with add-on acquisition financing is our investment in Independent Vetcare. Headquartered in the UK, Independent Vetcare is a veterinary platform specializing in the treatment of smaller animals for both routine and complex treatments. Founded in 2011, the company is one of the leading consolidators in the industry. Since 2017, under its current ownership, the company has increased its footprint via acquisitions, expanding beyond the UK. We have supported the company's growth ambitions by providing follow-on debt financing and have participated in multiple debt raises since our initial investment.

Independent Vetcare operates in a highly attractive sub-sector. A prominent theme we expect the company to benefit from is the continued adoption of specialized pet care, which is a by-product of the megatrend toward the humanization of pets, whereby pet owners are increasingly treating their pets like family members. The proportion of dog and cat ownership within the population is generally stable and is driven by underlying human population growth. The percentage of pets under insurance coverage is expected to increase, benefiting the company as a specialty care provider. The number of pets in households without children is increasing more rapidly, and there is a willingness to pay for care along with more advanced treatments and early diagnosis.

Our financing structure provided the company with the flexibility to use a revolving credit line for acquisitions and then subsequently repay the credit line with an additional term loan, enabling speed of execution. The target return for the first lien financing is 5.7% (GBP).[1] The loan also benefits from a financial maintenance covenant providing downside protection.

1 For illustrative purposes only. There is no assurance target returns will be achieved.

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Private real estate

In September 2018, we agreed to develop Block E Belleview Station, located in the Denver Tech Center (DTC) submarket of Denver. DTC was formed in 1962 as a masterplanned business center and is home to approximately 10 million square feet of office space and a very diverse set of companies. The DTC submarket is well connected to Denver CBD and the airport by a rail and bus system. The daytime employment base is rapidly increasing in the area and now stands at over 100'000 people, making it one of Denver's biggest employment hubs.[2] Moreover, DTC is close to affluent residential neighborhoods and benefits from low vacancy rates of around 5% for Class A developments that are easily accessible by public transport.[3]

Block E Belleview Station, which is part of a 2.2 million square feet planned development, will consist of 408'000 square feet of office space and was acquired at a 25% discount relative to comparable market prices today. The value creation plan for the project involves a lease-up strategy, which will bring the development from 40% pre-leased to a stabilized occupancy level of 96%.

This example illustrates our strategy of focusing on properties in major Tier 1 and economically vibrant Tier 2 cities located outside of CBD areas, offering relative discounts to rents in CBD locations.

2 CBRE, May 2018.
3 Costar, May 2018.

Murra Warra Wind Farm

Private infrastructure

In September 2018, we agreed to invest over AUD 200 million in equity to acquire and construct the first stage of Murra Warra Wind Farm (Murra Warra I) in Australia. Murra Warra I will comprise 61 Senvion 3.7MW turbines with a total nameplate capacity of 226MW, located north of Horsham in the state of Victoria. Construction of the wind farm started in March 2018 and completion is expected in mid-2019.

This opportunity has allowed us to acquire a significantly de-risked asset that is already under construction and which has a substantial portion of generation capacity already contracted through long-term power purchase agreements (PPAs). Once completed, Murra Warra I will generate enough clean energy to power 220'000 Australian households and offset over 900'000 tonnes of carbon emissions every year.

We will support the growth of the asset by leveraging the expertise gained from our existing substantial portfolio of renewable energy assets. Our value creation strategy will focus on project execution to ensure that construction is successfully completed on time and on budget. Furthermore, we will secure PPAs for the remaining uncontracted capacity.

Australia remains an attractive market for onshore wind and one where we can build on our experience from prior investments. In fact, the Murra Warra I investment follows our recent AUD 700 million commitment to develop Grassroots Renewable Energy Platform ("Grassroots"), a large-scale platform that aims to construct over 1.3GW of new wind power, solar power and battery storage assets across Australia within the next four years.

Once operational, Grassroots is expected to become a category leader in the Australian power market as one of the country's largest independent power producers in the renewables sector. Also in the Australian renewable energy sector, in June 2015, we invested in the development of the 240MW Ararat Wind Farm, which started supplying clean energy to the Australian national grid in mid-2017.

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Divestments in 2018

2018 was also a solid year for realizations. During the period, we continued to make active use of the supportive exit environment and were able to realize a number of mature private markets assets on behalf of our clients, leading to a total of USD 13.4 billion in underlying portfolio realizations. Some distributions to evergreen programs were re-invested for the benefit of the program's investment exposure. Select exit examples for each asset class are shown below.

Trimco	**Country**	Hong Kong	Founded in Hong Kong in 1978, Trimco provides a full range of garment labels, tags and trimming products to blue chip apparel brands and retailers worldwide. We acquired Trimco on behalf of our clients in May 2012 and subsequently worked alongside the 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. We sold the company to funds advised by Affinity Equity Partners for a total consideration of USD 520 million, generating a 3.4x return on our original investment.
	Asset class	Private equity	
	Sector	Consumer	
	Exit	January 2018	
Alltub	**Country**	France/ Netherlands	Alltub is a global leader in the production of aluminum and laminate specialty packaging, typically used to produce "squeezable" packaging for semi-liquid products in end markets such as cosmetics, pharmaceuticals and food. In June 2015, we provided EUR 74 million in unitranche financing to fund a broader refinancing of the company's capital structure and support its expansion plans, including the purchase of a small manufacturer based in Germany (Karl Hoell) in August 2016. The debt investment was fully repaid in conjunction with the acquisition of Alltub by One Equity Partners in October 2018, generating a 1.33x return. Based on the further development potential of the company, we decided to continue our support of Alltub, providing EUR 87 million in unitranche financing to support the new acquisition and expansion plan, which includes further buy-and-build opportunities in a consolidating market.
	Asset class	Private debt	
	Sector	Industrials	
	Exit	October 2018	
Pacific Century Place	**Country**	China	Pacific Century Place in Beijing is a 185'980 square meter, mixed-use complex comprising two office towers and two serviced apartment blocks atop a six-story retail podium. Acquired in 2014, the investment strategy for the property involved renovating and repositioning the office and serviced apartment portions, and converting the largely vacant retail space into office units to cater to the limited office supply in Beijing's CBD area. The property was awarded Best Refurbished Building at the 2017 MIPIM Asia Awards. In order to protect investor returns in a volatile Chinese yuan environment, our asset management team initiated Chinese yuan hedging on the expected exit proceeds when the sale was confirmed in March 2018. The sale was completed in September 2018 and generated a gross IRR of 17.0%.
	Asset class	Private real estate	
	Sector	Mixed-use	
	Exit	September 2018	
Silicon Ranch Corporation	**Country**	US	In January 2018, we sold our stake in Silicon Ranch Corporation, a developer, owner and operator of solar energy facilities in the US. Since our investment into Silicon Ranch in April 2016, the company has quadrupled its operating portfolio of commercial- and utility-scale solar projects. It now has approximately 880MW of contracted, under construction, or operating solar PV systems across 14 US states, as well as close to 1GW of additional development pipeline. With our support, the company has been able to execute its growth plan faster than expected and we took the opportunity to divest our equity stake to a strategic investor ahead of the original investment plan. The gross IRR on the original investment stands at 27.4% as of 31 December 2018. The final return will be dependent on the company achieving predetermined milestones.
	Asset class	Private infrastructure	
	Sector	Renewables	
	Exit	January 2018	