

# Message from the Chairman and the Co-CEOs

## Dear clients, business partners and fellow shareholders,

2018 was a solid year for Partners Group in terms of the development of our financial performance and a highly successful year as regards our ability to deploy a significant amount of our clients' capital in attractive private markets assets.



André Frei Co-CEO, Steffen Meister Executive Chairman, David Layton Co-CEO

### Performance review

With EUR 73 billion in assets under management and over 1'200 professionals globally at the time of writing this letter, we operate a significant number of businesses and assets in various industries and sectors across the globe. Today, our professionals are responsible for over 220'000 employees who work for our largest portfolio companies and for creating long-term value for over 200 million beneficiaries who are served by our clients. Our focus on "business and ownership excellence" aims to realize the full development potential of the companies, real estate and infrastructure assets in which we invest.

Strong growth in our industry has increased competition for quality assets, applying upward pressure on valuations and increasing transaction speed.

In 2018, favorable, long-term underlying client trends, buoyed by the expectation of continued private markets outperformance over public markets, remained the driving force behind the demand for comprehensive private markets offerings. These industry dynamics, combined with our long-term track record, enabled us to generate client demand of EUR 13 billion during the year. We also demonstrated the strength of our investment platform in 2018, investing USD 19 billion on behalf of our clients in attractive private markets companies and assets, despite challenging market conditions.

Assets under management grew by 18%, net, to EUR 73 billion and management fees grew by 15% to CHF 1'002 million. Revenues and EBITDA increased in tandem by 7% year-on-year to CHF 1'326 million and CHF 882 million, respectively. 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 to shareholders at the next Annual General Meeting, representing a year-on-year increase of 16%.

### Complex dynamics ahead

Investment management in private markets has significantly increased in complexity in recent years. We believe there are four key dynamics that private markets managers should watch out for in particular.

*Economic challenges ahead:* Geopolitical and economic dynamics will come with significant headwinds and less predictable growth. Therefore, "understanding" sectors is no longer enough; Thematic Sourcing is the future. This approach identifies and targets the most promising companies in those sub-sectors that we believe offer significant potential for outsized growth in the medium-to-long term.

*Era of disruption:* At the same time, technological disruption can rapidly shift industry landscapes and threaten many businesses. In today's market, competition or industry disruption can come from completely unexpected directions, often leaving traditional operators blind-sided. In contrast, investing in disruption-based growth themes with highly specialized or category-leading businesses can provide substantial upside.

*Public market dynamics:* We are convinced that the historic benefits of a public listing have been somewhat eroded by the increasing burden of adherence to blanket corporate

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governance codes and industry "best practice." Selectively, this "governance fatigue" can also limit IPO exit options for private markets firms. We therefore see continued private markets ownership as an alternative for leadership teams that want to continue to realize potential within an entrepreneurial governance framework. In parallel, this will result in more public-to-private investments and only partial (public market) exits.

*Private markets challenges:* Strong growth in the private markets industry, evidenced by record fundraising over the last few years, has greatly increased competition for quality assets, applying upward pressure on valuations and increasing transaction speed. The ability of private markets managers to perform depends on their ability to respond to competitive dynamics. The only way to generate outperformance over the coming decades will be through highly resource-intensive "business and ownership excellence."

## Thematic Sourcing

While our relative value framework remains core to our process, we have also dedicated substantial time and resources to building out our Thematic Sourcing capabilities over the past year. We combine top-down sourcing themes with bottom-up insights from our platform and proprietary private markets database (PRIMERA), which allows us to develop hundreds of investment leads in parallel – sometimes building relationships with potential acquisition targets for several years before taking action.

One key focus of our Thematic Sourcing efforts is the industry disruption that we referenced earlier. An example of where we sought the proven disruptor within a particular sector in 2018 is our acquisition on behalf of our clients of Techem GmbH, a market leader in the provision of heat and water sub-metering services, based in Germany. Techem's smart sensors and meters aim to replace traditional metering services, enabling auto-reading at hourly intervals and contributing significantly to energy savings in buildings.

## Business excellence

Hands-on value creation throughout the life of an investment is the only way to generate outperformance now and in the future. Once we have invested in a company, we leverage our Industry Value Creation (IVC) team, which combines deep sector and functional expertise with long-term, business-oriented ownership to form our approach to value creation. Due to the emphasis we place on value creation as the core of our business, our IVC team continues to be the fastest-growing team within our investment platform.

In 2018, we were gratified to have our value creation efforts recognized for the second year running by Private Equity International's Operational Excellence Awards. We received the 2018 Operational Excellence award for the successful value creation program we led at Hong Kong-headquartered apparel label and brand identification solutions provider, Trimco International, which we exited at the start of 2018.

## Ownership excellence

Our view is that the role of the board is critical to value creation. Each board member, individually and as part of the combined leadership group, must be able to actively contribute to defining and driving forward company strategy. They must equally commit a meaningful amount of time to achieving ambitious business objectives by directing the company management's execution of the board strategy.

For this reason, we have focused on further formalizing our growing network of experienced Operating Directors to ensure an effective use of knowledge and the seamless implementation of our approach to portfolio governance. Partners Group Operating Directors are experienced industry experts with a track record of success in a sector that is an area of investment focus for us. We believe that our portfolio companies and assets are able to benefit from the hands-on approach to strategy implementation and value creation that the appointment of an Operating Director to their board provides.

Hands-on value creation throughout the life of an investment is the only way to generate outperformance now and in the future.

## Denver campus opens in 2019

We will see the fulfilment of an important milestone for Partners Group in 2019, with the completion of the construction of our corporate campus in Denver. The move to Denver, which was announced in 2016, is a strategic initiative to position our firm for long-term, sustainable success in the Americas.

The Denver campus will be a hub for our Americas business activities in the same way that our headquarters in Zug, Switzerland, and our office in Singapore serve as hubs for Partners Group in Europe and Asia. Recruitment in Denver has far surpassed the expectations we had at launch and we expect to have more than 200 professionals on the ground in the near term.

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## Outlook

We expect global demand for private markets investments to keep growing as these asset classes represent an increasingly important component in the portfolios of many leading institutional investors worldwide, which contribute substantially to the enhancement of their overall returns across economic cycles.

However, while the key structural growth drivers for the private markets industry remain intact, given the macroeconomic and market challenges ahead of us, we believe that private markets managers will only succeed over the long term if geared for "business and ownership excellence."

Partners Group's approach favors trusted, long-term relationships. As such, we believe that we are ideally positioned to be partners to, and successful entrepreneurial owners of, our investee businesses, now and in the future.

With that in mind, we would like to thank our clients, our business partners, our shareholders and – not least – our colleagues for their continued trust in Partners Group.

Yours sincerely,



**Steffen Meister**

Executive Chairman



**André Frei**

Co-Chief Executive Officer



**David Layton**

Co-Chief Executive Officer