Investment environment
Against a challenging backdrop of low growth and geopolitical uncertainty, we believe “offense is the new defense” in private markets investing. The main driver of returns in private markets today is growth. Therefore, we seek opportunities to build resilience instead of buying it. We do this by focusing on assets with value creation potential in sub-sectors with above-average growth rates. Paying close attention to market dynamics and applying a hands-on approach to governance and value creation are key to growing these assets during our ownership and positioning them to withstand business cycles. Our strategy in this environment is to leverage secular versus macro trends, focusing on sub-sector trends generating higher top-line growth and identifying opportunities to create value at the asset level.

On the investment side, 2019 proved to be another solid year for us. After a record investment year in 2018, we invested a total of USD 14.8 billion (2018: USD 19.3 billion) on behalf of our clients across all private markets asset classes, maintaining our highly disciplined and selective approach.

Out of the total amount invested in 2019, USD 10.1 billion (68% of total investment volume) was deployed in direct assets, of which USD 6.3 billion was invested as equity in individual businesses and infrastructure or real estate assets and USD 3.8 billion was invested in corporate debt. For our equity investments, our entrepreneurial ownership approach, with its focus on value creation through strong governance structures and deep industry expertise, remains the key to generating sustainable outperformance.

Investment activity remained geographically diversified in 2019, with 33% of capital invested in Europe, 50% in North America and 17% in Asia-Pacific and Rest of World, reflecting our global reach and scope. This was broadly in line with our long-term average and strategy of deploying 40% of capital in Europe, 40% in North America and 20% in Asia-Pacific and Rest of World.

Private markets investments 2015-2019 (in USD bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>9.7</td>
<td>11.7</td>
<td>13.3</td>
<td>19.3</td>
<td>14.8</td>
</tr>
<tr>
<td>H2</td>
<td>7.9</td>
<td>6.9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: figures include add-on investments but exclude investments executed for short-term loans, cash management purposes and syndication partner investments. Direct equity investments include all direct private equity, direct infrastructure and direct real estate investments (including direct secondary transactions where Partners Group has a controlling interest).
2019 at a glance – Investments

To complement our direct assets, we invested USD 4.7 billion (32% of total investment volume) in portfolio assets in 2019. These portfolio assets include secondary investments (USD 2.7 billion) in globally diversified private markets portfolios and select primary commitments (USD 2.0 billion) to other private markets managers.

While we continue to overweight direct opportunities from a relative value perspective, we now also see an increasingly attractive outlook for the secondaries segment in Europe and the US. We look for a high degree of overlap with our existing private equity portfolio, which allows for greater insights into the underlying assets. Infrastructure secondaries are also becoming more attractive as a result of a maturing market: secondary volume in infrastructure is expected to increase on the back of record primary fundraising over the past four to five years.

2019 deal flow remained attractive; investment process remained highly selective

Our global platform of over 1’400 talented professionals across 20 offices in key investment regions, together with our focused investment strategies, deep sector insights, wide-ranging industry network and our proprietary private markets intelligence tool PRIMERA1 provide us with a unique ability to originate and access attractive investment opportunities around the globe while maintaining our rigorous due diligence standards in a competitive market.

In 2019, we screened around 2’600 potential direct transactions across all private markets asset classes. Of these, we invested in only the most attractive 3%, resulting in 77 direct transactions completed and a decline rate of 97%. Furthermore, our integrated investment professionals generated approximately USD 165 billion in secondary private markets assets deal flow, investing in less than 2% of this, and screened around 500 fund offerings by leading private markets managers.

Deal flow 2019

<table>
<thead>
<tr>
<th>Direct assets</th>
<th>Portfolio assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private equity</td>
<td>~2’600 assets</td>
</tr>
<tr>
<td>Private debt</td>
<td>~500 private markets managers</td>
</tr>
<tr>
<td>Private real estate</td>
<td></td>
</tr>
<tr>
<td>Private infrastructure</td>
<td>3% invested</td>
</tr>
</tbody>
</table>

1) USD 6.3 billion invested in 40 equity investments and USD 3.8 billion invested in 37 debt investments; figures include add-on investments but exclude investments executed for short-term loans, cash management purposes and syndication partner investments. Direct equity investments include all direct private equity, direct infrastructure and direct real estate investments (including direct secondary transactions where Partners Group has a controlling interest).

Partners Group’s investment performance

For more than two decades, our relative value approach has been our firm’s principle investment philosophy when it comes to portfolio construction and investment selection.

Changing market conditions, as well as transformative and regional trends, can significantly affect the attractiveness of different sectors and industries. We therefore conduct regular analysis to identify those (sub-) sectors, regions and industry strategies likely to offer higher value relative to other segments at that time. We combine this top-down perspective with the bottom-up selection of specific assets with value creation/upside potential (see Thematic Sourcing on page 12). This approach to investment has led to a solid, long-term track record across asset classes.

In private equity direct investments, we pursue control-oriented investments in platform companies, niche winners and defensive companies and leverage our inherent governance strengths to develop these companies and systematically create value. Our mature buyout funds have made 67 investments to date, of which 51 are fully or partially-realized with an average of 3.2x gross TVPI and 29.7% gross IRR2.

1 PRIMERA is Partners Group’s proprietary private market database.

2 Past performance is not indicative of future results. For illustrative purposes only. There is no assurance that similar investments will be made. Figures as of 31 December 2019 and include investments made in the Partners Group Direct Investments 2009 and Partners Group Direct Investments 2012. “Mature buyout funds” represent pooled average for 2009 and 2012 programs. Aggregated performance is calculated on a pooled basis. All cash flows and valuations have been converted to USD using fixed exchange rates as of report date of the track record. Figures are gross of fees to Partners Group. The performance presented reflects model performance and does not represent performance that any investor actually attained.
2019 at a glance – Investments

With our direct private infrastructure strategy, we target control investments in infrastructure assets and infrastructure-related businesses globally. We have an 18-year track record encompassing 56 direct infrastructure investments (34 realizations) and an average gross IRR of 19.7%3 since-inception.

In private real estate, we have deployed more than USD 11 billion in more than 236 investments generating an investment IRR in excess of 14.7%4 since-inception.

In private debt, we have a differentiated investment strategy and over 16 years of investment experience. Our solutions range from subordinated to senior financing (direct lending and broadly syndicated strategies). Since 2014, we have invested USD 9.1 billion in subordinated debt and generated an average IRR of 11.1%5.

Partners Group’s Thematic Sourcing approach

Our Thematic Sourcing approach enables us to build a strong conviction for selected sub-sectors and remain more deliberate and disciplined in our sourcing efforts compared to a traditional top-down approach. In private equity, for example, we think about the attractiveness of sub-sectors according to multiple dimensions, including secular growth prospects and consolidation potential.

The sourcing of assets within sub-sectors is the result of a collaborative approach between our dedicated research team, which sits within our Industry Value Creation team, and our investment teams. While our research team is responsible for mapping out attractive sub-sectors and the most promising companies within them, our investment professionals play a key role in identifying actionable investment targets. Our Industry Value Creation team then identifies and implements operational and financial value creation initiatives at the asset level.

Our Thematic Sourcing approach results in a steady near-term to mid-term pipeline of lead direct investment opportunities, which currently stands at around USD 100 billion for private equity. We typically perform at least one-to-two years of work, and selectively much more than that, before a desired asset becomes available for sale. We develop a deep understanding of the industry, often in an open dialogue with management teams and industry experts who can help us with due diligence and value creation early on. During this time, we also develop an in-depth understanding of the industrial logic behind the asset and establish a solid investment hypothesis. These will serve as a basis for outlining our transformation plan and composing an effective board for the asset.

An overview of the attractive sub-sectors that our research team has mapped out for each asset class and the tangible results that we have achieved with this approach can be found in our 2020 Private Markets Navigator, which can be downloaded here: www.partnersgroup.com/navigator

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3 Past performance is not indicative of future results. For illustrative purposes only. Figures as of 31 December 2019. Includes all direct investments with an infrastructure focus completed since inception. All cash flows and valuations have been converted to USD using fixed exchange rates as of report date of the track record. Figures are gross of fees to Partners Group. The performance presented reflects model performance and does not represent performance that any investor actually attained. Realisations refer to fully and partially realized investments.

4 Past performance is not indicative of future results. For illustrative purposes only. Figures as of 31 December 2019. Represents all real estate investments (excluding primaries) that Partners Group made on behalf of its clientele since inception. All cash flows and valuations have been converted to USD using fixed exchange rates as of report date of the track record. Figures are gross of fees to Partners Group. The performance presented reflects model performance and does not represent performance that any investor actually attained.

5 Past performance is not indicative of future results. For illustrative purposes only. Figures as of 31 December 2019. All cash flows and valuations have been converted to USD using fixed exchange rates as of report date of the track record. Figures are gross of fees to Partners Group. The performance presented reflects model performance and does not represent performance that any investor actually attained.
2019 at a glance – Investments

Select private markets investments in 2019*

Private equity
In December 2019, we made a significant equity investment in EyeCare Partners LLC (ECP), the largest vertically integrated medical vision services provider in the US. Founded in 2015 and headquartered in St. Louis, Missouri, ECP has an extensive network of full-scope medical optometry and ophthalmology practices, with over 450 locations across 13 states throughout the US. The company employs over 500 optometrists and 85 ophthalmologists who, together with over 4,400 clinic staff, offer patients end-to-end services covering medical optometry, ophthalmology and sub-specialties, and vision correction products. ECP’s model provides an integrated network of services that cover the entire lifecycle of a patient’s eye care needs, which results in increased patient and physician satisfaction and retention.

Over a period of two years, our Thematic Sourcing efforts identified the medical vision segment as a highly attractive sub-sector within the healthcare sector, ripe for organic growth, expansion, and consolidation.

We will work closely with ECP’s management team on strategic initiatives to support ongoing organic and acquisitive growth. Key areas of focus for these initiatives will include the following: increasing the recruitment of high-quality ophthalmologists and optometrists; optimizing the network model; expanding and maximizing ambulatory surgical center utilization; enhancing administrative processes and operating efficiencies; investing in clinical technologies that enhance patient care; and pursuing select M&A partnership opportunities that provide world-class medical vision care and patient experience.

Private debt
In August 2019, we committed a unitranche debt financing to Gong Cha Group (Gong Cha), a leading global provider of premium quality bubble and milk tea. The transaction, which also includes a significant equity kicker, supports the strategic growth investment in Gong Cha by the private equity firm TA Associates.

Founded in 2006 in Southern Taiwan, Gong Cha offers consumers a variety of seasonal and specialty tea-based drinks. Its main offering is Taiwanese-style bubble tea, a sweet milk tea infused with tapioca pearls. Primarily utilizing a franchise model, Gong Cha reaches consumers through a variety of retail store formats, with more than 1,000 outlets in 17 countries across the globe, including Korea, Japan, Taiwan, the Philippines, Malaysia, Mexico, Australia, Canada, the UK and the US. Our debt investment supports the further expansion of the company and enhances its ability to pursue further growth.

We continue to draw upon the global presence of our private debt team to source and execute cross-border financings. In this space, our deal flow benefits from the significant volume of buyouts in the US and Europe by Asian sponsors.

The investment in Gong Cha follows an earlier investment into the unitranche debt of AGS Health, a provider of clinical documentation and revenue-cycle management solutions to healthcare providers. Including transactions in Australia, Partners Group has invested more than USD 600 million in unitranche investments over the last two years across the Asia-Pacific region.

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* All Partners Group investments and divestments mentioned herein were made on behalf of the firm's clients, not on behalf of Partners Group Holding AG or any of its affiliates.
2019 at a glance – Investments

Private infrastructure
In September 2019, we agreed to acquire a 50% stake in EnfraGen, LLC (EnfraGen), a leading developer, owner and operator of power generation assets in investment grade countries in Latin America. Glenfarne Group, the US-based industrial owner and operator that founded EnfraGen, has retained the remaining 50% of the business.

EnfraGen specializes in providing back-up power for grid stability and baseload renewable power generation through a portfolio of thermal, solar, and hydropower assets. Overall, EnfraGen has 1.4GW in power generation capacity across its platform, plus an executable growth pipeline. The investment in EnfraGen is supported by structural market tailwinds, namely the continued build-out of renewable power generation capacity across Latin America, and benefits from long-term stable revenues derived from a mix of regulated and contracted USD-linked cash flows. Back-up power generators such as EnfraGen play a critical role in reducing load imbalance in Latin America, and EnfraGen also provides reliable renewable energy to local communities.

One of the reasons we secured the acquisition through a bilateral transaction was our proven experience in the construction and operation of power generation assets globally, particularly renewable generation assets. Going forward, we will leverage this experience to drive improvements across the existing EnfraGen platform and to further the development and construction of new projects as we continue to invest in the renewables space across the globe.

Private real estate
In April 2019, we completed the acquisition of a portfolio of 14 Spanish real estate assets, totaling over 91,000 sqm in gross leasable area. The assets are diversified across Spain’s major cities, including Barcelona and Madrid, and sectors, including office, hotel, retail and residential. The two largest assets in the portfolio, an office building and a hotel, make up around 60% of the portfolio and are located in Barcelona. Barcelona has seen outsized job growth in the period between 2011 and 2017, with a CAGR of 1.5%7, compared to the Spanish average of 0.8%8.

During this period, this growth was driven by job creation in the services and tech-oriented sectors, with a CAGR of 5.2% in the information and communications technology sector specifically9.

The value creation plan for these assets consists primarily of enhancing occupancy and raising rental incomes. For the office building, a capex renovation project and lease renewals are expected to capture rental uplifts and extend weighted average lease terms. The value creation plan for the hotel will stabilize occupancy and daily room rates at market levels. Although we are cautious on hospitality in general given the sector’s cyclicality, a license ban on new hospitality supply in Barcelona introduced in 2017 supports our investment thesis for this specific property in terms of occupancy and valuation resilience.

The investment was sourced outside of a competitive process through our existing relationship with the seller via a fund investment. Given our familiarity with the portfolio, we were well positioned to provide swift underwriting and execution, and managed to exclude a number of weaker retail assets, where we had concerns on location, lease terms, and liquidity. The portfolio’s relatively high occupancy at entry and the existing cash flows provide appealing downside protection.

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7 Barcelona Activa, Barcelona City Council, 2018.
8 Instituto Nacional de Estadística, 2018.
9 Barcelona Activa, Barcelona City Council, 2018.
2019 at a glance – Investments

Divestments in 2019

We are cognizant of the fact that the correlation of valuation levels across different market segments tends to increase during volatile times. Due to the pick-up in volatility caused by the Q4 2018 market correction, we observed many investors adopting a more cautious approach in the beginning of the year, in particular in Q1 2019. However, we observed a reasonably benign exit environment throughout the rest of the year. Nevertheless, with macroeconomic factors and geopolitical uncertainty impacting a range of investment markets, successfully navigating private markets is becoming more challenging and resulted in an overall lower global exit activity in 2019 (-28% compared to 2018).

Global private equity buyout exit activity (in USD bn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>311</td>
<td>363</td>
<td>410</td>
<td>508</td>
<td>430</td>
</tr>
<tr>
<td>H1</td>
<td></td>
<td></td>
<td></td>
<td>430</td>
<td>311</td>
</tr>
<tr>
<td>H2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Preqin Quarterly Update, Q3 2019; Preqin Pro, Q4 2019.

Investors’ more cautious behavior in Q1 2019 led us to postpone select divestment decisions and, ultimately, resulted in a lower number of realizations in the beginning of the year. However, as we moved past Q1, the rest of 2019 provided us with a reasonably stable environment in which we were able to execute our planned divestment decisions. We successfully realized a number of mature private markets assets on behalf of our clients, leading to a total of USD 11.0 billion in underlying portfolio distributions in 2019 (2018: USD 13.4 billion). Some distributions to evergreen programs were re-invested for the benefit of the program’s investment exposure.

Our work is guided by an entrepreneurial mindset. We aim to propel growth and drive value creation initiatives in our portfolio companies and assets and then realize value for our clients with a carefully planned exit strategy.

Partners Group’s underlying gross portfolio realizations (in USD bn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.6</td>
<td>10.2</td>
<td>11.8</td>
<td>13.4</td>
<td>11.0</td>
</tr>
<tr>
<td>H1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A good example of this approach is the sale of our stake in Billy Bishop Toronto City Airport’s (BBTCA’s) passenger terminal at the beginning of 2019. We acquired the BBTCA passenger terminal together with our partners in the Nieuport Aviation consortium in January 2015. Over the last few years, Nieuport Aviation has added significant value to the terminal, including helping to secure key approvals to facilitate building a US border pre-clearance facility, as well as completing a major upgrade of the terminal. The latter added more spacious passenger lounges; new food, beverage and retail concessions; and an additional gate. With the completion of the terminal upgrade project, we concluded a major value creation program and therefore felt the time was right to divest our stake and realize a 1.81x return on our original investment.

Billy Bishop Toronto City Airport

Image: Aerial view of Billy Bishop Toronto City Airport with cityscape in the background.

Billy Bishop Toronto City Airport
Another noteworthy example represents the sale of Vermaat Groep B.V. (Vermaat), the Dutch market leader in high-end catering and hospitality services, which we announced in October 2019. We acquired Vermaat from its founding family in 2015, when it had a total of 231 outlets in the Netherlands and generated annual sales of EUR 138 million. We have added significant value to Vermaat through active ownership, with initiatives including the implementation of a new brand concept and strengthening of the management team. Additionally, ten synergistic add-on acquisitions were completed under our ownership, strengthening Vermaat’s market leadership in its core customer segments of Corporate, Leisure, Hospitals and Travel, and expanding its geographical coverage. At the time of the sale, Vermaat had around 350 premium food and beverage outlets across the Netherlands, including restaurants, bistro's, cafes and canteens, and a growing presence in Germany. The Company employed over 4,000 people and generated close to EUR 300 million of sales in 2019. Vermaat was acquired by Bridgepoint at the end of 2019. We retain a minority position following the transaction. The sale generated a 2.75x return on our original investment.

In December 2019, we successfully sold the “City Campus” office complex, situated on Saatwinkler Damm in the Charlottenburg district of Berlin, for a transaction value of around EUR 200 million. We were able to source the asset off-market in March 2018, given our relationship with key members of the selling consortium following a failed sale. The property includes 55,640 sqm of rental area and 479 parking spaces across six buildings. During our ownership period we leased up 80% of the space and increased average rents by 66%. The sale generated a return in excess of 3.0x on our original investment.

In December 2019, we agreed to sell our stake in Merkur Offshore (Merkur), a 396MW offshore wind farm located in the North Sea. We, together with the consortium of Merkur shareholders, acquired Merkur in August 2016, in line with our firm’s relative value strategy of proactively building core assets. Over the last three years, Merkur has been transformed from a construction-ready development site to a utility-scale wind farm within the German exclusive economic zone off the North Sea coast. Now fully operational, Merkur comprises 66 General Electric (GE) Haliade-150 6MW offshore wind turbines, which are capable of supplying green energy to approximately 500,000 households. The project benefits from a guaranteed feed-in-tariff until 2033 and has a ten-year operations and maintenance agreement with GE Renewable Energy for the service and maintenance of the turbines. Partners Group and the consortium worked closely with Merkur’s management team over the last three years to create value, including delivering the construction in line with budget, optimizing the operations for the next 30 years, building a strong in-house team for Merkur and strengthening the capital structure with a refinancing. We are proud to have supported Merkur through its key value creation period, from development project to fully operational core asset and to have realized a return of more than 2.0x on our original investment.

In November 2019, we agreed to sell our equity stake in Action, Europe’s leading non-food discount retailer. The stake was acquired by Hellman & Friedman. Partners Group has held its position in the company since 2011. The transaction valued Action at an enterprise value of EUR 10.25 billion. Established in 1993, Netherlands-headquartered Action operated 1,325 stores across seven countries and employed around 46,000 staff as of 2018. Its core product assortment includes decoration, DIY, garden and outdoor, household goods, multimedia, sports, stationery and hobby, toys and entertainment, food and drink, laundry and cleaning, personal care, pets, clothing and linen. Action uses large-scale procurement, flexible assortment, optimal distribution and a cost-conscious corporate culture to ensure very low prices for its customers. Action generated net sales of over EUR 4 billion in 2018. We are pleased to have been able to support the company through its rapid expansion across Europe over the past eight years. Action has been able to generate extraordinary growth by combining an entrepreneurial culture with a unique retail format. While the sale of our stake in Action generates a very attractive return for our clients, we leave the company extremely well-positioned for continued future growth.
2019 at a glance – Clients

The global fundraising environment remained generally supportive and continued to attract a wide and growing range of investors who are looking for the higher returns that can be found in private markets. Private markets investments play an ever-increasing role in the portfolio construction of investors as they also provide the benefits of diversification and risk/return enhancement.

A broad range of investors are seeking to further build out their exposure to private markets and we aim to meet this demand with our traditional private markets programs and via our bespoke solutions. These range from mandates for large institutions, which allow us to steer investment exposure across multiple private markets asset classes in line with clients’ longer-term investment horizons, to evergreen programs for private individuals who are increasingly recognizing the benefits of private markets.

**AuM grew to USD 94 billion**

We aim to mirror the fee basis for our various investment programs and mandates when calculating AuM. As such, AuM covers investment programs, mandates and select assets to which we provide fee-paying investment management or advisory services. In 2019, we received USD 16.5 billion in new commitments from our global client base across all private markets asset classes (guidance provided at the beginning of the year: USD 14.5 to 18.0 billion). This demand for programs and mandates brings total AuM to USD 94.1 billion as of 31 December 2019 (31 December 2018: USD 83.3 billion), representing a net growth of 13%.

As of 31 December 2019, we have aligned our AuM reporting currency with our investment activity reporting currency by switching to USD. This reflects the growing importance of USD-denominated assets as a proportion of AuM. As of the end of the year 2019, USD-denominated AuM already represented 38% of total AuM, with the remainder denominated in a variety of other currencies.

**Total AuM (in USD bn)**

<table>
<thead>
<tr>
<th>Year</th>
<th>AuM (USD bn)</th>
<th>CAGR 2009-2019</th>
<th>#employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>18.3</td>
<td></td>
<td>504</td>
</tr>
<tr>
<td>2009</td>
<td>23.7</td>
<td></td>
<td>736</td>
</tr>
<tr>
<td>2011</td>
<td>31.3</td>
<td></td>
<td>974</td>
</tr>
<tr>
<td>2013</td>
<td>43.5</td>
<td></td>
<td>1,036</td>
</tr>
<tr>
<td>2015</td>
<td>50.0</td>
<td></td>
<td>1,074</td>
</tr>
<tr>
<td>2017</td>
<td>74.4</td>
<td></td>
<td>1,036</td>
</tr>
<tr>
<td>2019</td>
<td>94.1</td>
<td></td>
<td>1,464</td>
</tr>
</tbody>
</table>

Note: assets under management exclude discontinued public alternative investment activities and divested affiliated companies held up to 2013. Growth rate equals the compound annual growth rate. Please refer to the “Alternative Performance Metrics” section on page 32 of this annual report for more information about the definition of AuM.

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10 For more information on our AuM please see our definition in the section “Alternative Performance Metrics” on page 32.
11 EUR guidance for the full-year was EUR 13-16 billion; in USD, guidance translates into USD 14.5-18.0 billion, rounded to the nearest 0.5 billion (average EUR/USD FX-rate of 1.12).
2019 at a glance – Clients

The breakdown of total AuM as of 31 December 2019 is as follows: USD 45 billion private equity, USD 22 billion private debt, USD 15 billion private real estate, and USD 12 billion private infrastructure. It is noteworthy to mention that our AuM have become increasingly diversified. As of end 2019, our combined AuM in Private Debt, Private Real Estate and Private Infrastructure represented for the first time more than 50% of our total AuM.

**AuM by asset class**

Alongside new commitments received during the period, tail-down effects from mature private markets investment programs and redemptions from evergreen programs amounted to a total of USD -7.1 billion (full-year guidance for tail-downs and redemptions: USD -7.5 to -8.5 billion). These were skewed towards the second half of the year as a number of larger closed-ended programs reached the end of their lifetime. A positive contribution of USD +1.8 billion stemmed mainly from performance- and investment-related effects from a select number of investment programs. The remaining USD -0.4 billion was driven by foreign exchange effects. Overall, this resulted in net AuM growth of USD 10.8 billion during the period.

**Total AuM development in 2019**
(in USD bn, except where stated otherwise)

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>Net AuM growth (in USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New money/commitments</td>
<td>83.3</td>
<td>+16.5</td>
</tr>
<tr>
<td>Tail-downs &amp; redemptions</td>
<td>-7.1</td>
<td>-5.8</td>
</tr>
<tr>
<td>FX &amp; others</td>
<td>-0.4</td>
<td>+1.8</td>
</tr>
<tr>
<td></td>
<td>94.1</td>
<td>+9%</td>
</tr>
</tbody>
</table>

1) EUR guidance for the full-year was EUR 13-16 billion; in USD, guidance translates into USD 14.5-18.0 billion, rounded to the nearest 0.5 billion (average EUR/USD FX-rate of 1.12).
2) EUR guidance for the full-year was EUR -6.5 to -7.5 billion; in USD, guidance translates into USD -7.5 to -8.5 billion, rounded to the nearest 0.5 billion (average EUR/USD FX-rate of 1.12).
3) Tail-downs & redemptions: tail-downs consist of maturing investment programs (typically closed-ended structures); redemptions stem from semi-liquid evergreen programs.
4) Others consist of performance and investment program changes from select programs.

**Client demand across all asset classes**

**Private equity** was the largest contributor to assets raised in 2019, representing 43% of all new commitments (USD 7.1 billion). Demand was tilted towards the first half of the year and split across a wide range of different programs and mandates, with our next-generation private equity flagship program and our evergreen programs being the main contributors. Our private equity AuM grew by 9% in 2019.

**Private debt** saw strong inflows in 2019, which represented 30% of all new commitments (USD 5.0 billion). Demand was spread over several different programs and mandates focused on our direct lending activities, which contributed about three quarters of the assets raised, and our collateralized loan obligation (CLO) business, which contributed about one quarter of assets raised. Today, our CLO business represents around 4% of our AuM, but this proportion is expected to grow in the years to come, depending on market receptiveness to CLOs. Private debt AuM grew by 25% in 2019, making it the fastest-growing business line within our firm.

**Private real estate** new commitments represented 15% of overall new client demand (USD 2.5 billion). Almost half of our new assets raised stemmed from our real estate opportunities investment strategy. The year-on-year growth rate of private real estate AuM amounted to 8% in 2019.

Client demand for **private infrastructure** made up 12% of all new commitments (USD 1.9 billion). Client demand was predominantly driven by our diversified global infrastructure offering and mandates. We started marketing our new direct flagship offering towards the end of 2019 and we expect that to make a meaningful contribution to fundraising in 2020. Private infrastructure AuM increased by 14% in 2019.

**Net AuM growth by asset class**
(in USD bn)

- **Private equity**: +14% from USD 94.1 bn to USD 108.1 bn
- **Private real estate**: +20% from USD 15 bn to USD 18 bn
- **Private debt**: +19% from USD 12 bn to USD 14.5 bn
- **Private infrastructure**: +14% from USD 12 bn to USD 13.8 bn

1) EUR guidance for the full-year was EUR 13-16 billion; in USD, guidance translates into USD 14.5-18.0 billion, rounded to the nearest 0.5 billion (average EUR/USD FX-rate of 1.12).
2) EUR guidance for the full-year was EUR -6.5 to -7.5 billion; in USD, guidance translates into USD -7.5 to -8.5 billion, rounded to the nearest 0.5 billion (average EUR/USD FX-rate of 1.12).
3) Tail-downs & redemptions: tail-downs consist of maturing investment programs (typically closed-ended structures); redemptions stem from semi-liquid evergreen programs.
4) Others consist of performance and investment program changes from select programs.
2019 at a glance – Clients

Client demand by region
We have an international client base of over 900 institutions around the world. In 2019, client demand was again well-diversified across regions: North America accounted for the largest share of client demand, with 19% of new inflows, followed by the United Kingdom and Switzerland, which represented 16% of client demand each. Notably resilient countries were Germany and Australia, which contributed 12% and 10% of total inflows, respectively. The remainder stemmed from all other regions, with Asia and France making strong contributions.

Following these inflows in 2019, our total AuM by region as of 31 December 2019 stands as follows.

AuM by region

Client demand by type
The USD 16.5 billion inflows in 2019 stemmed from a broad and diverse range of clients, as outlined below.

In 2019, corporate, public and other pension funds continued to be the key contributors to AuM growth, representing 42% of total client demand. These investors typically seek to further enhance the risk/return profile of their portfolios by increasing their private markets exposure.

We saw continued demand from distribution partners (banks and others), which accounted for 20% of client demand in 2019. They represent private individuals and smaller institutional investors, who increasingly recognize the benefits of private markets and aim to mirror the allocations of institutional investors in their own investment portfolios. Usually, they seek to access private markets through semi-liquid evergreen programs, which offer quarterly, limited monthly and, in some cases, limited daily liquidity.

Insurance companies accounted for 7% of overall inflows in 2019, displaying particular appetite for yield-generating private debt offerings as well as renewed interest for equity investments.

Sovereign wealth funds and endowments accounted for approximately 7% of total assets raised in 2019 and generally engage with us seeking highly tailored private markets solutions to complement their existing portfolios.

Banks also supported our fundraising, with a focus on our CLO offerings. They strengthened our position in the European and US broadly syndicated debt markets and made up 7% of our total fundraising in 2019.

A further 17% of total client demand stemmed from asset managers, family offices and other investors.

Following these inflows in 2019, our total AuM by investor type as of 31 December 2019 stands as follows.

AuM by type
2019 at a glance – Clients

Client demand by product structure
In 2019, client demand derived from a wide spectrum of offerings across all private markets asset classes, with many of our more sizable clients requesting the creation of tailored programs, either through single or multi-asset class mandates, confirming the preference for tailored solutions to meet the specific client needs of larger institutional investors. Our mandate business concentrates on building up a client’s private markets exposure on an ongoing basis. Capital is committed via long-term partnerships, which often are not limited to a specific contractual life. Some 32% (USD 5.3 billion) of our client commitments in 2019 stemmed from relationships with clients through such mandates.

An additional 29% (USD 4.8 billion) of new commitments stemmed from our evergreen programs. These open-ended vehicles cater mostly to private individuals who are increasingly recognizing the benefits of private markets; they have no contractual end, but are subject to potential redemptions (initially provided via their allocation to more liquid assets). We have been a pioneer in the structuring of such evergreen programs for investors. We currently manage 26% of our AuM (USD 24.0 billion) in evergreen programs, of which USD 21.6 billion are subject to potential redemptions.

Gating provisions are a standard feature of these evergreen programs in order to protect remaining investors as well as performance; net redemptions in these investment programs are typically limited to 20-25% p.a. of the prevailing net asset value, depending on the investment strategy and content of the program. When deemed in the best interest of the investment program, stricter gating rules can be enforced for select share classes for a period of up to two years.

The remaining 39% (USD 6.4 billion) of overall inflows in 2019 was raised via traditional private markets programs, typically limited partnerships, with a pre-defined contractual life of often with an initial term of 10-12 years for closed-ended equity offerings and 5-7 years for closed-ended debt offerings.

Following these inflows in 2019, our total AuM by product structure as of 31 December 2019 stands as follows.

Around 300 portfolios under management
Managing complex private markets portfolios is our strength and a key differentiator for our firm. We currently manage around 300 diverse private markets portfolios in different stages of their lifecycle and across all private market asset classes. These encompass traditional private markets vehicles such as comingled, closed-ended limited partnerships; mandates for large institutions, which allow us to steer investment exposure across multiple private markets asset classes in line with clients’ longer-term investment horizons; and evergreen programs.

As of 31 December 2019, our two largest investment programs, which are both globally diversified, accounted for 12% of our AuM. While the largest program combines private equity and private debt investments and caters to private investors in the US, the second largest program offers investors exposure to all private equity investment strategies.

Private market programs and mandates relative to AuM

Note: total AuM of USD 94 billion as of 31 December 2019.
Based on robust client demand for programs and mandates and facilitated by the solid increase in our investment capacity, we confirm our guidance of USD 15-19 billion for the anticipated bandwidth of gross client commitments for the full-year 2020. This guidance assumes that the fundraising environment will remain benign, which is our base case scenario.

Our full-year estimates for tail-down effects from the more mature Partners Group programs and potential redemptions from semi-liquid programs have not changed and amount to USD -7.5 to -9.0 billion.

Fundraising will be spread across a variety of programs spanning all private markets asset classes, including flagship programs, customized mandates and the firm’s extensive range of innovative evergreen programs.

Based on our strong track record of investment performance, as well as client service excellence, we believe that we are well positioned to continue to be a strong partner to global investors.

Client outlook

Solid gross client demand expected for 2020; confirmed guidance of USD 15-19 billion.

AuM, client demand and other effects
(in USD bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tail-downs &amp; redemptions</th>
<th>FX &amp; others</th>
<th>Full-year 2020 expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>-4.0</td>
<td>+15.0</td>
<td>57.2</td>
</tr>
<tr>
<td>2018</td>
<td>-5.6</td>
<td>+15.7</td>
<td>74.4</td>
</tr>
<tr>
<td>2019</td>
<td>-7.1</td>
<td>+16.5</td>
<td>83.3</td>
</tr>
<tr>
<td>2020</td>
<td>-7.5 to -9.0</td>
<td></td>
<td>94.1</td>
</tr>
</tbody>
</table>

1) Tail-downs & redemptions: tail-downs consist of maturing investment programs. (typically closed-ended structures); redemptions stem from evergreen programs.
2) Others consist of performance and investment program changes from select programs.
2019 at a glance – Financials

Financials

EBIT reached CHF 1 billion in 2019; proposed dividend of CHF 25.50 per share.

Strong client demand and the continued success of our investment activities enabled us to generate a solid 13% increase in AuM in 2019. During the same period, underlying portfolio realizations amounted to USD 11.0 billion (2018: USD 13.4 billion). The market uncertainty at the beginning of the year, caused by the market correction in Q4 2018, led us to postpone certain divestment decisions and, ultimately, resulted in a lower number of realizations in the first half of the year. However, supported by a benign exit environment in the second half of the year, we successfully exited many mature assets and saw a disproportional increase in performance fees from CHF 130 million in H1 2019 to CHF 343 million in H2 2019, bringing full-year performance fees to CHF 473 million.

As a result, total revenues rose 21% to CHF 1’610 million during the period. To support underlying business growth, we have intensified the build-out of our teams across the entire platform over the last twelve months. The growth in average number of FTEs was 20% in 2019 (2018: +14%), partially driven by delayed hires for approved 2018 positions, which were carried over into 2019. This resulted in an increase of regular personnel expenses of 24% in 2019 (2018: +17%), which compares to an increase in management fees of 14% (2018: +15%). Further to this, the strong increase in performance fees (+46%) led to a corresponding increase in performance fee-related compensation, lifting total personnel expenses disproportionally by +30% compared to the 21% increase in management fees.

Key financials

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>AuM as of the end of year</td>
<td>83.3</td>
<td>94.1</td>
<td>+13%</td>
</tr>
<tr>
<td>AuM as of 31 December</td>
<td>82.1</td>
<td>91.1</td>
<td>+11%</td>
</tr>
<tr>
<td>Average AuM</td>
<td>77.6</td>
<td>88.4</td>
<td>+14%</td>
</tr>
<tr>
<td>Revenue margin</td>
<td>1.71%</td>
<td>1.82%</td>
<td></td>
</tr>
<tr>
<td>Attributable to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>management fee margin</td>
<td>76%</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Attributable to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>performance fee margin</td>
<td>24%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Revenues (in CHF m)</td>
<td>1’326</td>
<td>1’610</td>
<td>+21%</td>
</tr>
<tr>
<td>Management fees (in CHF m)</td>
<td>1’002</td>
<td>1’138</td>
<td>+14%</td>
</tr>
<tr>
<td>Performance fees (in CHF m)</td>
<td>324</td>
<td>473</td>
<td>+46%</td>
</tr>
<tr>
<td>EBIT (in CHF m)</td>
<td>865</td>
<td>1’008</td>
<td>+17%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>65%</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>Profit (in CHF m)</td>
<td>769</td>
<td>900</td>
<td>+17%</td>
</tr>
</tbody>
</table>

1) As of 31 December 2019, we have aligned our AuM reporting currency with our investment activity reporting currency by switching to USD. 2) Based on average AuM, calculated on a daily basis. 3) Revenues from management services, net, and including other operating income. 4) Management fees and other revenues, net, and including other operating income. 5) EBIT has replaced EBITDA as the Firm’s key performance indicator as it will be a more suitable measure of operating performance going forward.
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2019 at a glance – Financials

growth in total revenues. As a result, total EBIT increased by 17% to CHF 1’008 million (2018: 865 million). The EBIT margin stands at 63% (2018: 65%). Profit increased by 17% year-on-year to CHF 900 million (2018: CHF 769 million), in line with EBIT growth.

Management fees grow in line with AuM

Management fees increased by 14% in 2019, amounting to CHF 1’138 million (2018: CHF 1’002 million), in line with average AuM growth of 14%. We generated other management fee-related revenues of CHF 94 million (2018: CHF 84 million), which included income earned for fundraising and investment services amounting to CHF 31 million (2018: CHF 38 million), as well as other operating income earned for treasury management and short-term financing services amounting to CHF 63 million (2018: CHF 46 million).

Revenue development (in CHF m)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management fees (1)</td>
<td>873 (70%)</td>
<td>1’002 (84%)</td>
<td>1’138 (71%)</td>
</tr>
<tr>
<td>Performance fees (1)</td>
<td>324 (16%)</td>
<td>315 (31%)</td>
<td>473 (35%)</td>
</tr>
<tr>
<td>Other revenues from management services &amp; other operating income</td>
<td>125 (11%)</td>
<td>130 (13%)</td>
<td>154 (12%)</td>
</tr>
<tr>
<td>Total Revenues (1)</td>
<td>1’245</td>
<td>1’326</td>
<td>1’910</td>
</tr>
</tbody>
</table>

1) Revenues from management services, net, and other operating income.

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, management fees are expected to make up around 70-80% of total revenues in a calendar year. In 2019, total management fees represented 71% of total revenues (2018: 76%).

- Management fees will be recurring as they are based on long-term client contracts, often with an initial term of 10-12 years for closed-ended equity offerings and 5-7 years for closed-ended debt offerings. Such closed-ended offerings represented 34% of our total AuM as of the end of 2019.

- Management fees from mandates are to be considered as contractually recurring as capital is committed via long-term partnerships, which are often not limited to a specific contractual life and will continue for a perpetual term, unless new commitments are discontinued. Mandates represented 40% of our AuM as of the end of 2019.

- Management fees can also derive from our evergreen programs. These are predominantly semi-liquid investment programs that have no contractual end and cater predominantly to retail clients/high-net-worth individuals; they represented 26% of AuM as of the end of 2019\(^{13}\).

Management fees are contractually recurring

In 2019, performance fees amounted to CHF 473 million (2018: CHF 324 million) and represented 29% of total revenues for the full-year (2018: 24%). The expected full-year guidance for performance fees as a proportion of total revenues was 20-30%, assuming that the market remained favorable to exits.

Performance fees contributed meaningfully to our total revenues in the second half of the year and amounted to CHF 343 million in H2, as compared to CHF 130 million in H1. The significant increase in performance fees in H2 2019 was due to a combination of strong underlying portfolio performance and successful divestment activity.

13 Gating provisions are a standard feature of these evergreen programs in order to protect remaining investors as well as performance; net redemptions in these investment programs are typically limited to 20-25% p.a. of the prevailing net asset value, depending on the investment strategy and content of the program. When deemed in the best interest of the investment program, stricter gating rules can be enforced for select share classes for a period of up to two years.
As of 2019, more than 85 investment programs and mandates were contributing to performance fees. 2019 performance fees were driven by dozens of underlying assets. The largest contributing investment program was an evergreen program catering to US investors. It contributed 16% of the total amount of performance fees. The largest single exit in 2019 was the sale of our stake in Action, Europe’s leading non-food discount retailer (refer to page 16), which accounted for 24% of total performance fees.

Performance fee contribution by number of investment programs and mandates

Performance fee outlook

In the long term, future performance fee potential is expected to grow in line with AuM. We currently manage around 300 diversified investment programs and mandates at different stages of their lifecycle. Most of these vehicles entitle the firm to a performance fee, typically subject to pre-agreed return hurdles (see performance fee recognition further below). Due to this diversification, we anticipate that performance fees will be earned regularly from a wide range of investment vehicles going forward, making them a “quasi-recurring” source of income, assuming market conditions remain broadly supportive.

Performance fee development

Significant performance fee potential embedded

Future performance fees cannot be estimated reliably. If value creation in clients’ portfolios is strong, investment performance for clients should improve, which will ultimately result in a higher amount of performance fees being generated. On the other hand, should there be limited value creation during the holding period of an investment, performance fees could be significantly lower (or even zero).

Between 2007-2012, we invested around USD 25 billion in private markets, which generated the majority of performance fees between 2016-2019 (in sum CHF ~1.5 billion). Since 2012, we invested a further USD 84 billion in private markets assets and have so far created substantial value in our client portfolios. We believe that this value creation within our current portfolio translates into significant mid- to long-term performance fee potential, assuming that the market remains favorable to exits.
2019 at a glance – Financials

Performance fee recognition

In private markets, performance fees are designed to remunerate investment managers for the long-term value creation for their clients. They are a profit-sharing incentive for investment managers when their investment programs outperform a pre-agreed return hurdle, typically defined over the lifetime of such program. In closed-ended investment programs, 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 illustrative example below shows the performance fee model of a typical limited partnership program. It shows how distributions in private markets portfolios bring forward the maturity profile of an investment program and increase the likelihood that the required return hurdle is reached.

Illustrative example of a closed-ended private markets program over its lifetime

This illustrative example assumes an initial client commitment of 100 into a closed-ended investment program. It is agreed that the investment manager shall receive 20% of profits over time and that the return hurdle shall translate to distributions to the client of 140.

After a few years the investment manager generates realizations in the portfolio and starts making distributions to the client. After 6-9 years, the cumulative distributions (blue triangle) received by the client exceed 140, i.e. the hurdle rate. In a first step, the investment manager is entitled to receive subsequent distributions above the return hurdle as performance fees, until the investment manager “catches-up” on past performance in excess of the client investment (“catch-up” on 140-100 = 40, and 40 x 20% performance fees = 8).

In a second step the investment manager and the client will share any additional distributions stemming from the sale of the remaining portfolio over time according to the pre-defined performance-sharing mechanism. In our example the client receives 80% of distributions and the investment manager receives 20%. The example assumes 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.

Total performance fees received is 20 (20% of 40 + 20% of 60 = 8 + 12) and clients receive 80% of profits (80% x (200 – 100)).

Performance fee recognition rules

The timing and amount of performance fee payments depends on several factors, including the pace of deployment, performance of investments and pace of realizations (cash distributions). Partners Group recognizes performance fees once it is highly probable that performance fees will be received and retained permanently, irrespective of subsequent performance of that program. This is described through the following steps:

• Step 1, we consider performance fees which would be due to realized investments only, taking into account the agreed profit-sharing mechanism, including the agreed hurdle return.

• Step 2, we consider performance fees expected on the aggregate program, i.e. on the combination of realized and unrealized investments. We include the value of unrealized investments with a significant discount (typically 50%, depending on the investment strategy). This discount is chosen such that performance fees are highly likely to be permanent, including in case of subsequent negative program development, i.e. such that the likelihood of a potential clawback situation is minimal.

Note: performance fees of performance fee generating investment programs and mandates typically range between 5-20% over a hurdle of 4-8% IRR on invested capital, depending on the program and instruments. For illustrative purposes only.
Step 3, performance fees are only recognized on the lower of either realized investments (Step 1) or the combination of realized and stress-tested unrealized investments (Step 2).

The illustrative example below explains the conservative approach for performance fee recognition described above.

**Illustrative example of performance fee recognition in a closed-ended program**

This simplified example assumes that with initial client commitments of 450, a fund made only two acquisitions: investment Y for 100 and investment Z for 350. Furthermore, it is assumed that the value of investment Y increases to 200 and the value of investment Z increases to 800 for Scenarios 1 and 2, and to 500 for Scenario 3.

The performance fee recognition under these three scenarios would be as follows:

**Scenario 1: No realizations (hurdle rate met)**

- Investment Y increases to 200
- Investment Z increases to 800
- Remaining NAV 1'000

  - Step 1: as there were no realized investments, we would not be entitled to a performance fee. Performance fees = 0.
  - Step 2: NAV stress-test: 1'000 x 50% = 500; 500 (stress-tested NAV) – 450 (cost of investments Y and Z) = 50 (value gain); 50 (value gain) x 20% = 10 in performance fees.
  - Step 3: as performance fees can only be recognized on the lower of realized investments (step 1: performance fee = 0) vis-à-vis the combination of realized and stress-tested unrealized investments (step 2: performance fee = 10), we would not recognize any performance fees.

**Scenario 2: Investment Y realized (hurdle rate met)**

- Investment Y realized for 200
- Investment Z increases to 800
- Remaining NAV 800

  - Step 1: as investment Y realized for 200, we would be entitled to a performance fee as hurdle rate at asset level is met. 200 – 100 = 100 (value gain); 100 (value gain) x 20% = 20 performance fees.
  - Step 2: stress-test on remaining NAV: 800 (unrealized investment Y) x 50% = 400; 400 (stress-tested NAV) + 200 (realized investment Y) – 450 (cost of investment Y and Z) = 150 (value gain); 150 (value gain) x 20% = 30 performance fees.
  - Step 3: as performance fees can only be recognized on the lower of realized investments (step 1: performance fee = 20) vis-à-vis the combination of realized and stress-tested unrealized investments (step 2: performance fee = 30), we would recognize 20 performance fees.

**Scenario 3: Investment Y realized (hurdle rate not met)**

- Investment Y realized for 200
- Investment Z increases to 500
- Remaining NAV 500

  - Step 1: as investment Y realized for 200, we would be entitled to a performance fee as hurdle rate at asset level is met. 200 – 100 = 100 (value gain); 100 (value gain) x 20% = 20 performance fees.
  - Step 2: stress-test on remaining NAV: 500 (unrealized investment Y) x 50% = 250; 250 (stress-tested NAV) + 200 (realized investment Y) – 450 (cost of investment Y and Z) = 0 (value gain); as the stress-test brings the overall return hurdle of the program in this example below the pre-agreed threshold, no performance fees can be recognized.
  - Step 3: as the hurdle rate has not been met, we will not recognize any performance fees, despite there being realized investments.
2019 at a glance – Financials

Stable revenue margin from management fees

The majority of our revenue base is still recurring and based on long-term contracts with our clients, providing highly visible cash flows. In 2019, the management fee margin remained stable, amounting to 1.29% (2018: 1.29%). Total revenue margin, including performance fees, amounted to 1.82% (2018: 1.71%).

Revenue margin development

<table>
<thead>
<tr>
<th>Year</th>
<th>Management fees</th>
<th>Performance fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1.26%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>1.30%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.33%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.29%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1.24%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>1.29%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1.23%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1.25%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>1.18%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1.82%</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>1.74%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>1.89%</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>1.91%</td>
<td></td>
</tr>
</tbody>
</table>

Platform build-out intensified in 2019; personnel expenses grew disproportionally

In 2019, we hired and onboarded a total of 261 net new professionals across the entire platform to increase our investment capacity and to support major business, corporate and organizational initiatives. This included the delayed hiring of certain positions from our 2018 hiring pool. Our focus on expanding the investment platform resulted in stronger growth in the number of investment professionals compared to other departments. As of 31 December 2019, we counted 1’464 professionals globally.

Strong team growth globally in 2019

<table>
<thead>
<tr>
<th># of professionals</th>
<th>Americas</th>
<th>Europe</th>
<th>APAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>+47</td>
<td>+58</td>
<td>+23</td>
</tr>
<tr>
<td>Clients</td>
<td>+7</td>
<td>+16</td>
<td>+13</td>
</tr>
<tr>
<td>Services</td>
<td>+8</td>
<td>+9</td>
<td>+41</td>
</tr>
<tr>
<td>Corporate</td>
<td>+12</td>
<td>+2</td>
<td>+25</td>
</tr>
<tr>
<td>Total (+261)</td>
<td>+74</td>
<td>+85</td>
<td>+102</td>
</tr>
</tbody>
</table>

The average number of FTEs grew by 20% to 1’337 (2018: 1’110 average FTEs), while regular personnel expenses grew by 24% to CHF 306 million (2018: CHF 247 million). With the disproportionate increase of performance fees of 46% to CHF 473 million (2018: CHF 324 million) and the related up to 40% allocation to our professionals, performance-fee-related expenses grew by 43% to CHF 185 million (2018: CHF 129 million). This resulted in an increase in total personnel expenses at a higher rate (+30%) than total revenues (+21%).

Personnel expenses outgrew revenues (in CHF m)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>+21%</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1’326</td>
<td></td>
<td>1’610</td>
</tr>
<tr>
<td>Total operating costs, of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>-377</td>
<td>+30%</td>
<td>-490</td>
</tr>
<tr>
<td>Personnel expenses (regular)</td>
<td>-247</td>
<td>+24%</td>
<td>-306</td>
</tr>
<tr>
<td>Personnel expenses (performance-fee-related)</td>
<td>-129</td>
<td>+43%</td>
<td>-185</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>-68</td>
<td>+16%</td>
<td>-79</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>-17</td>
<td>+101%</td>
<td>-34</td>
</tr>
<tr>
<td>EBIT</td>
<td>865</td>
<td>+17%</td>
<td>1’008</td>
</tr>
</tbody>
</table>

Note: revenues include management fees and other revenues, net, performance fees and other operating income. Regular personnel expenses exclude performance fee-related expenses. Performance fee-related personnel expenses are calculated on an up to 40% operating cost-income ratio on revenues stemming from performance fees.

Other operating expenses grew by 16% to CHF 79 million (2018: CHF 68 million) mainly due to the growth of the overall platform internationally and the build out of our local premises. Depreciation & amortization increased to CHF 34 million (2018: CHF 17 million), driven by the depreciation impact of our newly built Denver campus and by the application of new requirements for the recognition of leases (IFRS 16). In 2019, these included CHF 13 million of depreciation expenses on newly recognized right-of-use assets in relation to lease contracts which were previously reported as part of other operating expenses.
We remain disciplined in our approach to cost management and continue to steer the firm based on our targeted up to 40% operating cost-income ratio on newly generated management fees (assuming stable foreign exchange rates). We also allocate up to 40% of revenues stemming from performance fees to our teams through our long-term incentive programs and/or bonus payments. The remainder (~60%) will be allocated to the firm and its shareholders.

**EBIT is our new key operating performance indicator**

In 2019, we changed our primary key operating performance indicator from EBITDA to EBIT. The application of IFRS 16 Leases as of 1 January 2019 resulted in the recognition of right-of-use assets and lease liabilities on the balance sheet. As a result, a lessee recognizes depreciation expenses of the right-of-use assets, whereas, before IFRS 16 became effective, leasing expenses (for Partners Group this was predominantly office rents) were included in other operating expenses. This change in accounting policy supported the development of our EBITDA with a CHF 13 million contribution, resulting in total EBITDA of CHF 1’041 million in 2019 (2018: CHF 882 million), an increase of 18%. EBIT has therefore replaced EBITDA as the firm’s key operating performance indicator as it will be a more suitable (and conservative) measure of operating performance going forward.

In 2019, EBIT increased by 17%, amounting to CHF 1’008 million (2018: CHF 865 million) and the EBIT margin decreased to 63% (2018: 65%). We steer the operating margin towards a target EBIT margin of ~60% for newly generated management fees (assuming stable foreign exchange rates), as well as for performance fees on existing and new AuM.

**Continued diversification of AuM, revenues and cost base**

Some 84% of our revenues derive from EUR- and USD-denominated investment programs and mandates, reflecting our international clientele. However, 38% of our cost base is still CHF-denominated. In recent years, though, our teams have grown at a higher rate outside Switzerland as we have built out our investment presence around the world, in particular with strategic initiatives such as the establishment of Denver as our Americas hub. This international expansion continues to diversify our cost base further and will reduce our CHF-denominated cost base in relative terms over time.

**Currency exposure in 2019**

Fluctuations in the EUR or USD against the CHF can affect the absolute amount of revenues and costs, causing our total EBIT margin to deviate from its target on incremental revenues. In particular, the currency composition of our management fees (typically representing 70-80% of our total revenues) differs from the currency composition of our recurring cost.

During the period, the EUR depreciated by 4% against the CHF and therefore negatively affected management fees in CHF (46% of AuM are EUR-denominated vs. 4% of cost), partially offset by a weakening of the average GBP-rate against the CHF. Overall, currency movements throughout 2019 negatively impacted the EBIT margin by approximately 1.0 percentage point.

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**FX fluctuations negatively impacted EBIT margin by approximately 1.0 percentage point**

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Given that performance fee revenues and performance fee-related costs are similarly affected by currency movements, they are largely EBIT margin-neutral.
2019 at a glance – Financials

Financial result driven by value creation in client portfolios; negative foreign exchange result; taxes in line with growth
The financial result amounted to CHF 30 million (2018: CHF 23 million), of which the main contributors are mentioned below:

- CHF +61 million (2018: CHF 35 million): we invest into our own investment programs alongside our clients (see detailed description of balance sheet investments further below). Another period of solid performance for these investments was the main contributor to the financial result. Overall, the average return across all stages and asset classes of our portfolio was 10% in 2019 (2018: 7%). For further information see note 5.3.2. of the notes to the consolidated financial statements.

- CHF -31 million (2018: CHF -12 million): the negative contribution stemmed from foreign exchange, hedging and other costs. For our short-term loans outstanding (treasury management and short-term financing services) we hedged our exposure in currencies other than CHF. In particular, the interest differential between the USD and the CHF drove our hedging cost.

Corporate taxes increased to CHF -137 million (2018: CHF -118 million), broadly in line with our growing profitability. In summary, the firm’s profit increased by 17% year-on-year to CHF 900 million (2018: CHF 769 million), in line with EBIT growth.

Profit development (in CHF m)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>865</td>
<td>1'008</td>
</tr>
<tr>
<td>Total financial result, of which</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio performance</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>Portfolio performance, of which</td>
<td>35</td>
<td>61</td>
</tr>
<tr>
<td>Foreign exchange, hedging &amp; others</td>
<td>-12</td>
<td>-31</td>
</tr>
<tr>
<td>Taxes</td>
<td>-118</td>
<td>-137</td>
</tr>
<tr>
<td>Profit</td>
<td>769</td>
<td>900</td>
</tr>
</tbody>
</table>

Proposed dividend of CHF 25.50 per share (+16%)
Based on the strong development of the business in all asset classes and regions, the operating result and their confidence in the sustainability of the firm’s growth, Partners Group’s Board of Directors will propose a dividend of CHF 25.50 per share (2018: CHF 22.00 per share) to its shareholders at the Annual General Meeting on 13 May 2020. This represents a dividend increase of 16% and a payout ratio of 76% (2018: 77%).
Balance sheet
As of 31 December 2019, our balance sheet remains strong with total assets amounting to CHF 3.9 billion (31 December 2018: CHF 2.9 billion). We have net liquidity of CHF 1.0 billion (31 December 2018: CHF 1.2 billion) and hold our own investments amounting to a total of CHF 0.7 billion (31 December 2018: CHF 0.6 billion).

The firm’s balance sheet investments consist of its financial investments/GP commitments, seed investments and investments in associates. Financial investments/GP commitments (i.e. our obligation to fund investments alongside clients) typically represent about 1% of assets invested in a closed-ended limited partnership structure and have an aggregated net asset value of CHF 605 million (31 December 2018: CHF 554 million) as of 31 December 2019.

Investments in associates amounted to CHF 42 million (31 December 2018: CHF 55 million), which mainly represent a stake in Pearl Holding Limited, a mature investment program managed by the firm.

Partners Group also provides seed financing to certain early stage investment programs managed by the firm based on its risk framework. The underlying assets of these investment programs are typically financial assets valued at the (cash-flow-adjusted) net asset value and amount to (net) CHF 61 million (31 December 2018: CHF 37 million).

Investments alongside clients
(in CHF m)

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial investments / GP commitment ¹</td>
<td>605</td>
<td></td>
</tr>
<tr>
<td>Investments in associates ²</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Seed investments ³</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td><strong>Total investments alongside clients from balance sheet</strong></td>
<td><strong>708</strong></td>
<td><strong>1'035</strong></td>
</tr>
</tbody>
</table>

¹ NAV excluding CHF 250 million of commitments that were not yet called but may be called over time, typically between one to five years following the subscription of the commitment.
² Investments in associates described in detail in note 6 of 2019 Annual Report.
³ Seed investments presented in the annual report as assets and liabilities held for sale.

Net liquidity
We ensure that we always have sufficient cash available to meet expected operational expenses, as well as to service short-term financial obligations. We furthermore target an available liquidity level that would enable us to sustain the firm’s operations with minimal disruption in a financial crisis scenario and/or a depressed economic environment.

Net liquidity of CHF 1.0 billion on balance sheet (in CHF m)

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>933</td>
<td></td>
</tr>
<tr>
<td>Short-term loans</td>
<td>900</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>799</td>
<td></td>
</tr>
<tr>
<td><strong>Total net liquidity</strong></td>
<td><strong>1'035</strong></td>
<td><strong>1'035</strong></td>
</tr>
</tbody>
</table>

Note: as of 31 December 2019.

The firm maintains a diverse range of unsecured credit facilities with Swiss and international banks amounting to a total of CHF 865 million (31 December 2018: CHF 430 million). These credit facilities can be used for general corporate purposes and/or to provide fixed advances, with a primary focus on working capital financing. The facilities are subject to maximum debt covenants which were met throughout the current and prior year. As of 31 December 2019, no credit facility was drawn (31 December 2018: no credit facility drawn).

In June 2019, we successfully issued Partners Group’s second corporate bond, raising CHF 500 million through a fixed-rate senior unsecured CHF-denominated issue. The bond was issued with an eight-year term and a coupon of 0.40% and matures on 21 June 2027 (ISIN CH0419041287). It followed a fixed-rate senior unsecured issuance of CHF 300 million in June 2017 (ISIN CH0361532895), which was offered with a seven-year term and a coupon of 0.15% and which matures on 7 June 2024.

As of 31 December 2019, our long-term debt outstanding amounted to CHF 799 million (31 December 2018: CHF 299 million).
The proceeds of the bonds further strengthen the sustainability of our operations in a financial crisis scenarios and enable us to optimize the management of our liquidity, in particular, for short-term financing needs arising from our treasury management services to our clients. These services allow for efficient use of capital within our investment programs by bridging capital drawdowns and distributions where beneficial for clients (e.g. netting cash-flows to reduce the number of drawdowns and distributions).

As of 31 December 2019, 278 short-term loans (31 December 2018: 267) were outstanding, amounting to a total of 900 million (31 December 2018: CHF 1’113 million) with an average outstanding loan amount of CHF 3.2 million (31 December 2018: CHF 4.2 million). The duration of these loans amounted to 1-3 months. These loans are secured against unfunded commitments and are, in addition, subject to strict loan-to-value (LTV) rules.

Financial outlook

- **Management fees**: we are moving confidently into 2020 and see solid demand for our traditional and tailored private market programs, as well as for our evergreen programs, from clients across the globe. We expect this demand to translate into additional management fees and therefore guide towards an increase of management fees alongside an increase of AuM.

- **Performance fees**: we continue to expect full-year performance fees to remain within our guidance of around 20-30% as a proportion of total revenues, assuming the market remains favorable to exits. However, due to the market circumstances and visibility we have on our exit pipeline in 2020, we estimate that performance fees will be significantly skewed to the second half of 2020.

- **Target EBIT margin**: we continue to steer the operating margin towards our target EBIT margin of ~60% for newly generated management fees (assuming stable foreign exchange rates), as well as for performance fees. This means that we anticipate the number of professionals and personnel expenses to return to growing more in line with AuM in 2020 and beyond, after 2019’s outsized hiring year.

- **Balance sheet**: our balance sheet remains strong. With CHF 2.3 billion in shareholder equity and CHF 1.0 billion net liquidity, we feel well-equipped to realize the potential of private markets in different economic environments.