# Message from the Chairman and Co-CEOs

*André Frei, Steffen Meister, David Layton*

We remain firmly committed to expanding our platform in order to ensure we can continue to generate attractive returns for our clients and their beneficiaries.

## Dear clients, business partners, shareholders and colleagues,

We are pleased to report a solid start to 2019. Clients across all regions entrusted us with EUR 7.4 billion in new commitments in the first half of the year. At the same time, we were able to invest USD 6.9 billion on behalf of our clients in attractive businesses and assets across all private markets asset classes.

Management fees grew by 14% to CHF 552 million in the first half of the year, in line with average AuM growth of 16%. Performance fees decreased and represented 19% of total revenues, around the lower end of our communicated full-year guidance of 20-30% of total revenues. Overall, total revenues increased by 4% to CHF 682 million. The continued build-out of our investment platform and intensified hiring activities over the last twelve months resulted in a disproportionate increase in (regular) personnel expenses for the period. Ultimately, our EBIT increased by 1% and amounted to CHF 432 million in H1 2019. Our EBIT margin stands at 63%.

As we have highlighted in the past, today's private markets investment environment is far from straightforward. If we take the macroeconomic environment, for instance, we are currently witnessing the longest (US) economic expansion on record. In turn, asset valuations have continued to rise and today stand at the upper end of historical ranges. At this late stage in the cycle, we might expect to see a pick-up in volatility and the Q4 2018 market correction, although short-lived, gave us a taste of what a world of increased volatility could be like.

Faced with these dynamics, many investors would naturally flock to assets that are considered more "defensive" because they offer cash flow security, such as big brands, large cap companies or core assets with a bond-like payout structure. However, it is our belief that investors need to re-evaluate this approach as these assets come at a significant premium at a time when yields are suppressed and valuations stretched. Barring another decade of multiple expansion and falling rates, expected returns for these assets are likely to be mediocre at best and the vulnerability of their valuations is often high.

Instead, we are re-thinking defensiveness by applying a proactive and deliberate approach to sourcing investment opportunities with growth potential and, once we have invested in an asset, focusing on building out cash flows and establishing resilience through value creation and strong governance. We remain convinced that this is the only way to achieve sustainable, long-term growth in private markets today.

Key to this philosophy is our continued emphasis on Thematic Sourcing. This approach maps out sub-sectors and investment themes with mid- to long-term growth prospects and then identifies acquisition targets within these segments, often tracking and developing relationships with businesses for several years before they become available for investment.

# Message from the Chairman and Co-CEOs

Our investment in Confluent Health, a leading US provider of physical therapy services, is one example. We identified physical therapy as a highly attractive sub-sector within the healthcare space that is ripe for expansion and continued consolidation. With an aging population in the US, chronic conditions are on the rise but are often best addressed through physical therapy instead of riskier and more expensive medical procedures. Confluent Health, a business we had been tracking for a long time, is well positioned to cater to, and benefit from, this long-term trend.

Our proactive approach to both sourcing and owning assets requires extensive resources and we remain firm in our commitment to expanding our platform to ensure we can continue to generate attractive returns for our clients and their beneficiaries. In this regard, we were proud to reach two important milestones in the first half of the year. In April, we expanded our North American presence with the opening of an office in Toronto, bringing our total number of offices to 20 worldwide. The office is our first on Canadian soil and allows us to cater to increasing investor demand for private markets offerings and intensifying investment activities in the region.

In May, we celebrated the completion and opening of the first phase of our new corporate campus in Denver, Colorado, which has become a hub for our business activities in North America. Since we first announced the campus construction in 2016, we have built a team of around 200 professionals in Denver, working across all business lines, and are committed to further growing our footprint there. Now that the team has had time to settle into the new campus, we are looking forward to inviting external stakeholders to explore the site at the official opening ceremony taking place at the end of October.

With milestones like these to look back on, we have moved confidently ahead into the second half of 2019. Based on a solid first half of the year, we reconfirm our guidance of EUR 13-16 billion in expected new client commitments for the full year.

As ever, we remain committed to creating long-term value for all our stakeholders – our clients, business partners, fellow shareholders and colleagues – and thank you for your continued trust in our firm.

**Steffen Meister**
Executive Chairman

**André Frei**
Co-Chief Executive Officer

**David Layton**
Co-Chief Executive Officer