H1 2020 at a glance - Financials

Financials

Management fees up +3%;
EBIT margin stable at 63%.

The continuation of strong client demand amidst somewhat lower investment activities in H1 2020 resulted in an increase in management fees of 3%. However, performance fees decreased by 57% compared to H1 2019 as we postponed several divestments, which had been tabled for H1 2020, due to the weak exit environment. Consequently, total revenues decreased by 9% to CHF 623 million during the period.

In H1 2020, we slowed our hiring efforts, resulting in 3% FTE growth for the six-month period ended 30 June 2020, which is largely in line with AuM development. In 2019, we intensified the build-out of our teams across the entire organization in order to support underlying business growth, meet increasing investment demand, and properly service our clients. As a result of this intensified hiring effort throughout 2019, our average number of FTEs grew by 19%.

Conversely, total personnel expenses decreased by 11% during the period, mainly due to the fall in performance-fee related personnel expenses, which decreased in line with the negative development of performance fees.

As a result, the EBIT margin remained stable and stands at 63% (H1 2019: 63%), confirming our disciplined approach to cost management. Total EBIT decreased by 10% to CHF 390 million (H1 2019: 432 million), mainly due to lower performance fees during the period. Profit decreased by 21% year-on-year to CHF 313 million (H1 2019: CHF 397 million), driven by the negative (unrealized) valuation adjustments of our private market investments alongside clients due to COVID-19.

Key financials

	H1 2019	H1 2020	Δ in %
AuM as of the end of the period (in USD bn)	90.8	96.3	+6%
AuM as of the end of the period (in CHF bn)	88.6	91.2	+3%
Average AuM as of 30 June (in CHF bn) [1]	86.0	92.2	+7%
Revenues (in CHF m) [2]	682	623	-9%
Management fees (in CHF m) [3]	*552*	*567*	*+3%*
Performance fees (in CHF m)	*130*	*56*	*-57%*
EBIT (in CHF m)	432	390	-10%
EBIT margin	63%	63%	
Profit (in CHF m)	397	313	-21%

1) Calculated on a daily basis.
2) Revenues from management services, net, including other operating income.
3) Management fees and other revenues, net, and other operating income.

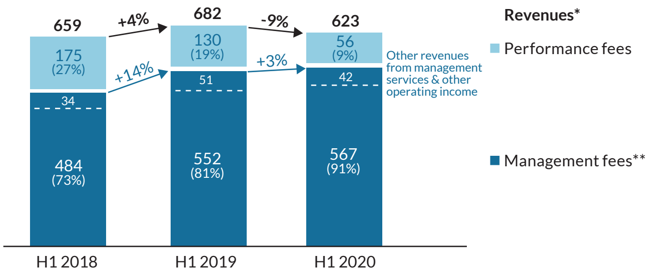
H1 2020 at a glance - Financials

Stable management fee development

Average AuM grew by 7% in H1 2020. Over the same period, management fees increased by 3% to CHF 567 million (H1 2019: CHF 552 million). The difference in growth can be largely explained by two factors. First, the payment of management fees on some recently raised assets of traditional private markets programs will only commence in H2. Second, other management fee-related revenues decreased by CHF 9 million to CHF 42 million (H1 2019: CHF 51 million). These consist of the following:

- CHF 19 million (H1 2019: CHF 29 million): other operating income earned for treasury management and short-term financing services; this income was impacted by the reduced investment activity during Q2 as a result of COVID-19;
- CHF 23 million (H1 2019: CHF 22 million): revenues relating predominately to late management fees and other income.

Revenues
(in CHF m)



*Revenues from management services, net, and other operating income.
**Management fees and other revenues, net, and other operating income.

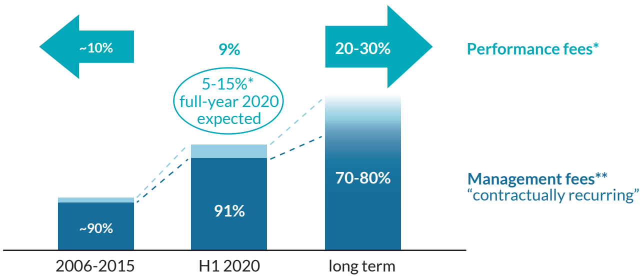
Management fees will continue to be the main source of revenues

Management fees represented 91% of total revenues (H1 2019: 81%) and are expected to remain a substantial part of our firm's revenues in the years to come. Below are some characteristics of the management fees generated by our different offerings:

- **Closed-ended offerings:** management fees are 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 37% of our total AuM as of the end of June 2020.
- **Mandates:** management fees from mandates stem from capital that 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 39% of our AuM as of the end of June 2020.
- **Evergreen programs:** management fees predominantly stem from semi-liquid investment programs that have no contractual end and cater predominantly to high-net-worth individuals and smaller investors; they represented 24% of AuM as of 30 June 2020[5].

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 the mid to long term with the remainder of revenues stemming from performance fees, assuming a favorable environment for exits.

Management fees are contractually recurring



*Assuming that the market is favorable to exits, Partners Group expects to continue to generate significant performance fees from the underlying client portfolios due to the visibility that it has on the life cycles of its programs.
**Management fees and other revenues, net, and other operating income.

Performance fees in H1 and full-year 2020 impacted by weak exit environment

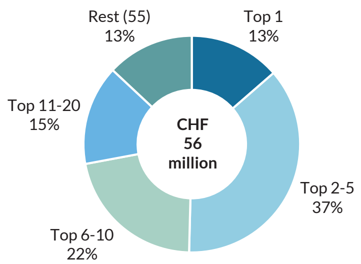
As a result of the market volatility and generally weak exit environment caused by COVID-19, we postponed a number of divestments that were originally tabled for H1 2020. This resulted in performance fees decreasing year-on-year by 57% to CHF 56 million (H1 2019: CHF 130 million) and representing 9% of total revenues (H1 2019: 19%). While exit markets have largely stabilized for now and divestitures are planned for many assets, the actual timing of the more material realizations is not yet fully predictable and may extend into next year. As a result, the firm estimates that performance fees will amount to 5-15% as a proportion of total revenues for the full-year 2020. This compares to our expected mid- to long-term range of 20-30% of total revenues, when exit markets are more supportive.

In total, about 75 investment programs and mandates with portfolios diversified across many vintage years contributed to performance fees in H1 2020. A mature private equity evergreen program contributed the most during the period, representing 13% of the total performance fees in H1 2020.

5 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.

H1 2020 at a glance - Financials

Performance fee contribution by investment programs & mandates in H1 2020

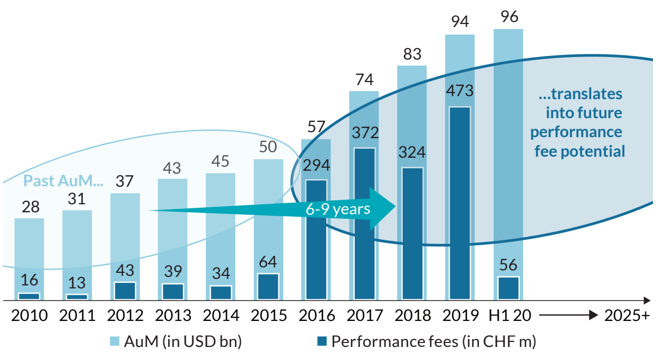


We follow a conservative approach when recognizing performance fees. In closed-ended programs, we typically charge performance fees once investments are realized and a pre-defined return hurdle has been exceeded and consider unrealized investments only with a 50% discount. This approach significantly reduces the risk of a potential future claw back, making it highly unlikely that we would have to reverse already recognized performance fees. The performance fee recognition methodology is explained in detail in the appendix on page 20.

Mid- to long-term performance fee outlook unchanged

In the mid to long term, our performance fee potential will 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. 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 within a range of 20-30% of total revenues in the mid to long term, assuming market conditions and the exit environment are broadly supportive.

Performance fee development

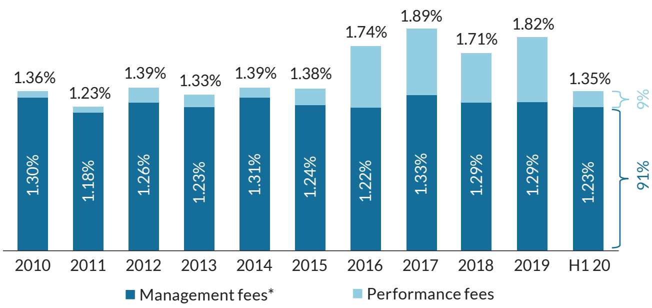


Note: assuming that the market is favorable to exits, Partners Group expects to continue to generate significant performance fees from the underlying client portfolios due to the visibility that it has on the life cycles of its programs.

Continued stable revenue margin on management fees

A substantial part of our revenue base is recurring and based on long-term contracts with our clients, providing highly visible cash flows. In H1 2020, the management fee margin decreased due to lower other operating income, amounting to 1.23% (full-year 2019: 1.29%). Total revenue margin, including performance fees, amounted to 1.35% (full-year 2019: 1.82%).

Revenue margin development



Note: calculated as revenues divided by average assets under management, calculated on a daily basis.
*Management fees and other revenues, net, and other operating income.

Disciplined cost management and continued platform build-out

In 2018 and 2019, we intensified the build-out of our teams across the entire organization to increase our investment capacity and to support major business, corporate and organizational initiatives.

In H1 2020, we prioritized business continuity and the onboarding of recent joiners over the hiring of new employees. As a result, hiring efforts temporarily slowed and resulted in a 3% FTE growth for the six-month period ended 30 June 2020[6], largely in line with the development of AuM. While the slowdown of hiring confirmed our cost discipline, the average number of FTEs grew by 19% to 1'492 in H1 2020 (H1 2019: 1'254 average FTEs).

Our regular personnel expenses grew by 5% to CHF 156 million (H1 2019: CHF 149 million). However, during the same period, our performance-fee related personnel expenses decreased by 57%, in line with the development of overall performance fees (-57%). As a result, total personnel expenses – the main driver of costs for the firm – decreased by 11%, at a higher rate than total revenues (-9%).

6 As of 30 June 2020, FTEs amounted to 1'501 (31 December 2019: 1'452).

H1 2020 at a glance - Financials

EBIT decreased in line with revenues
(in CHF m)

	H1 2019		H1 2020
Revenues	682	-9%	623
Total operating costs, of which	-250	-7%	-232
Personnel expenses	-201	-11%	-178
Personnel expenses (regular)	*-149*	*+5%*	*-156*
Personnel expenses (performance fee-related)	*-52*	*-57%*	*-22*
Other operating expenses	-35	+2%	-35
Depreciation & amortization	-15	+24%	-19
EBIT	432	-10%	390
EBIT margin	*63%*	*0%-points*	*63%*
Average FTEs	1'254	+19%	1'492

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

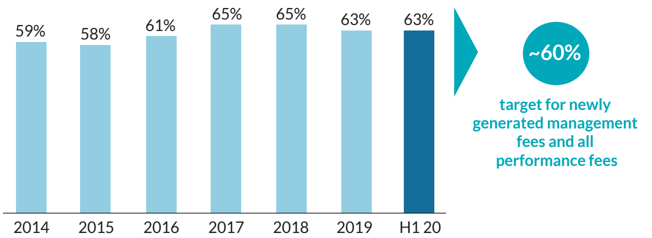
Other operating expenses were stable and amounted to CHF 35 million (H1 2019: CHF 35 million). During the period, restricted travel activity due to COVID-19 reduced expenses by around CHF 6 million. This saving was offset by the firm's contribution of CHF 5 million to the Portfolio Employee Support Fund alongside the partners and employees of the firm. This fund aims to support the most financially vulnerable employees at our portfolio companies during the COVID-19 crisis.

Depreciation & amortization increased to CHF 19 million (H1 2019: CHF 15 million), mainly driven by the depreciation impact of our newly built Denver campus.

Sustained target of 40% cost-income-ratio on new business

In H1 2020, EBIT decreased by 10%, amounting to CHF 390 million (H1 2019: CHF 432 million) and the EBIT margin remained flat at 63% (H1 2019: 63%), confirming our disciplined approach to cost management. As in the past, we continue to steer the firm based on our targeted 40% cost-income ratio on newly generated management fees (assuming stable foreign exchange rates). We also allocate up to 40% of revenues that stem 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 margin development

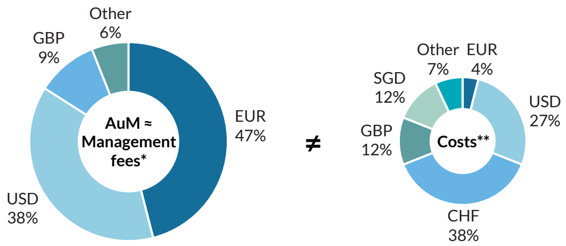


Note: for 2014, non-cash items related to the capital-protected product Pearl Holding Limited were excluded from depreciation & amortization.

Diversified FX exposure

As a globally diversified firm, fluctuations in, predominantly, the EUR or USD against the CHF affect the absolute amount of revenues and costs, causing our total EBIT margin to deviate from its target on incremental revenues.

Currency exposure in H1 2020



Note: all figures are based on estimates and the currency denomination of underlying programs.
*Includes management fees and other revenues, net, and other operating income.
**Includes regular personnel expenses (excluding performance fee-related expenses), other operating expenses as well as depreciation and amortization.

Our management fees and operating costs (excluding performance-fee related expenses) are particularly affected by such currency movements. Performance fee revenues and performance fee-related expenses are largely EBIT margin-neutral as both are affected by similar currency movements.

H1 2020 at a glance - Financials

Compared to the prior year, the USD depreciated by ~3% against the CHF on average, while the EUR, the GBP and SGD depreciated by ~6% against the CHF on average. As a result, currency movements throughout the period negatively impacted total EBIT margin by approximately -3%:

- Approximately -4% negative impact on management fees: 85% of our revenues derive from EUR- and USD-denominated investment programs and mandates, reflecting our international clientele. The main driver was the depreciation of both the EUR and USD against the CHF.
- Approximately -1% reduction in costs (excluding performance-fee related expenses): 38% of these costs are CHF-denominated, 27% are USD-denominated, 12% are GBP-denominated, 12% are SGD-denominated and 4% are EUR-denominated.

The negative FX-impact on the EBIT margin was mitigated by lower personnel expenses, resulting in a stable EBIT margin development.

Average FX rates development in H1 2020

FX rates (average)	H1 2019	H1 2020	Delta
EURCHF	1.1291	1.0640	-5.8%
USDCHF	0.9997	0.9660	-3.4%
GBPCHF	1.2935	1.2179	-5.8%
SGDCHF	0.7356	0.6908	-6.1%

Financial result driven by COVID-19 impact

The financial result amounted to CHF -24 million (H1 2019: CHF 23 million):

- CHF –25 million (H1 2019: CHF 33 million): we invest into our own investment programs alongside our clients (see detailed description of balance sheet investments further below). COVID-19 resulted in negative (unrealized) valuation adjustments for these investments, which was the main contributor to the financial result. Overall, the average return[7] across all stages and asset classes in our portfolio was -3% (H1 2019: +6%) for the six-month period ended 30 June 2020. For further information see notes 4.1. and 4.2. of the notes to the condensed interim consolidated financial statements.
- CHF +2 million (H1 2019: CHF -10 million): the small positive contribution stemmed from foreign exchange, hedging and other costs. Note that for our outstanding short-term loans (treasury management and short-term financing services), we hedged our exposure in currencies other than CHF. In particular, the decreasing interest differential between the USD and the CHF reduced our hedging costs during the period.

Corporate taxes amounted to CHF -53 million (H1 2019: CHF -57 million). In summary, the firm's profit decreased by 21% year-on-year to CHF 313 million (H1 2019: CHF 397 million).

Profit development
(in CHF m)

	H1 2019		H1 2020
EBIT	432	-10%	390
Total net financial result, of which	23		-24
Portfolio performance	*33*		*-25*
Foreign exchange, hedging & others	*-10*		*2*
Taxes	-57		-53
Profit	397	-21%	313

Strong balance sheet

After a dividend payment of CHF 0.7 billion in May 2020, we hold cash & cash equivalents of about CHF 0.8 billion (31 December 2019: CHF 0.9 billion). With this we have sufficient cash available to meet expected operational expenses, as well as to service short-term financial obligations.

Additional liquidity of CHF 0.6 billion was invested in short-term loans (31 December 2019: CHF 0.9 billion). These short-term loans enable us to optimize liquidity management, particularly for short-term financing needs arising from our treasury management services to our clients and 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 30 June 2020, 177 short-term loans (31 December 2019: 278) were outstanding with an average loan amount of CHF 3.3 million (31 December 2019: CHF 3.2 million). The duration of these loans amounted to 1-3 months. The loans are typically secured against unfunded commitments and are, in addition, subject to strict loan-to-value (LTV) rules.

Our long-term outstanding debt amounted to CHF 0.8 billion (31 December 2019: CHF 0.8 billion). The proceeds of the bonds further strengthened the sustainability of our operations in a financial crisis scenario and enable us to optimize liquidity management.

7 See financial instruments (note 4.2. to the interim consolidated financial statement): changes in fair value of investments held at period end divided by the sum of financial investments as of 1 January 2020, including additions and distributions in H1 2020.

H1 2020 at a glance - Financials

The firm also maintains a diverse range of unsecured credit facilities with Swiss and international banks, amounting to a total of CHF 0.9 billion (31 December 2019: CHF 0.9 billion) as of 30 June 2020. These credit facilities can be used for general corporate purposes and/or to provide fixed advances, with a primary focus on working capital financing (including the grant of short-term loans). The facilities are subject to maximum debt covenants, which were met throughout the current and prior year. As of 30 June 2020, no credit facility was drawn (31 December 2019: no credit facility drawn).

As such, after taking into account our net debt and drawn credit facilities (drawn as of 30 June 2020: none), we hold a current net liquidity position of about CHF 0.6 billion (31 December 2019: CHF 1.0 billion). Next of having sufficient liquidity available at all times, we target an available liquidity level that would enable us to sustain the firm's operations also in a financial crisis scenario and/or a depressed economic environment. As of 30 June 2020, we have CHF 2.3 billion of gross available liquidity.

Gross available liquidity of CHF 2.3 billion

(in CHF m)

Cash & cash equivalents	819
Short-term loans	589
Undrawn credit facilities	865
Total gross available liquidity	**2'273**

Continued balance-sheet light approach

As of 30 June 2020, we hold own investments amounting to a total of CHF 0.7 billion (31 December 2019: CHF 0.7 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 0.6 billion (31 December 2019: CHF 0.6 billion) as of 30 June 2020.

Investments in associates amounted to CHF 29 million (31 December 2019: CHF 42 million), which mainly represent a stake in Pearl Holding Limited, a mature investment program which continues to wind down via ongoing distributions.

Partners Group also provides seed financing to certain early stage investment programs managed by the firm. The scope of these investments is limited due to the firm's strict balance sheet risk management framework. The underlying assets of these investment programs are typically private market assets valued at the (cash-flow-adjusted) net asset value and they amounted to (net) CHF 49 million (31 December 2019: CHF 61 million) as of 30 June 2020.

Investments alongside clients

(in CHF m)

Financial investments / GP commitment[1]	572
Investments in associates[2]	29
Seed investments[3]	49
Total investments alongside clients from balance sheet	**650**

1) NAV excluding CHF 271 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 5 of the Interim Report 2020.
3) Seed investments presented in the annual report as assets and liabilities held for sale.
Note: as of 30 June 2020.

Next to investing into investment programs alongside clients from our balance sheet, we further align the interests of clients with those of the firm's employees by offering all employees preferential terms to invest alongside our private markets programs via a global employee commitment plan. In line with standard industry practice, such investments charge no management fees and no performance fees.

In total, commitments by the firm's Board of Directors and employees amounted to approximately USD 1.2 billion as of 30 June 2020 (31 December 2019: USD 1.2 billion).