H1 2020 at a glance - Investments

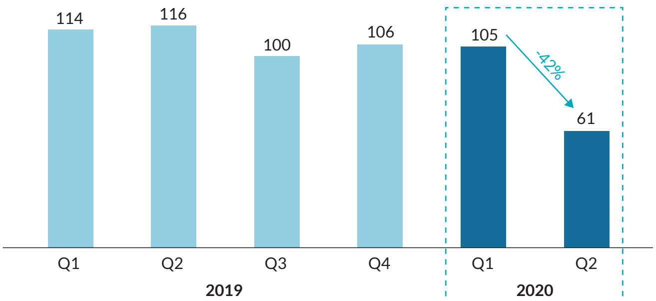
Investments

USD 4.3 billion invested on behalf of our clients in transformative businesses and assets.

Investments in H1 2020

With the COVID-19 global health crisis affecting almost every segment of the economy and temporarily causing unprecedented dislocation across financial markets, the first half of 2020 has been a complex and challenging period for investors globally. Driven by government-enforced lockdowns and social distancing, we observed many market participants adopting a more cautious investment approach. This resulted in private markets investment activity slowing substantially. In Q2 2020, global transaction value was at one of the lowest levels of the last decade[1].

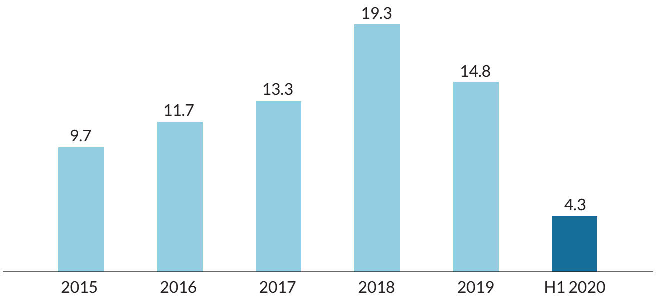
Global private equity buyout investments
(in USD bn)



Source: PreqinPro, 31 August 2020.

During H1 2020, we invested a total of USD 4.3 billion (H1 2019: USD 6.9 billion) on behalf of our clients across all private markets asset classes, with a significant proportion of these investments undertaken in the earlier part of Q1. Following the COVID-19 unfolding, in the second half of Q1 and in Q2, we focused on safeguarding the health of our portfolio companies' employees and initiated personal protection equipment sourcing initiatives for those portfolio assets that required the equipment to operate safely.

Private markets investments 2015-H1 2020
(in USD bn)



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

Furthermore, we shared best practices and successfully implemented COVID-19 action plans across our portfolio to maintain and drive performance by allocating leadership, operational and financial resources to ensure business continuity and preserve liquidity. As a multi-asset investor, we were well-positioned to offer guidance to our portfolio companies on topics such as debt capital structuring or real estate capital expenditure.

In order to support the most financially vulnerable employees at our portfolio companies during the crisis, we also rallied to raise a Portfolio Employee Support Fund. This fund already distributed CHF 5 million out of CHF 10 million in H1 to address the specific needs of the families and individuals in these distinct workforces, in particular for medical expenses, healthcare and childcare.

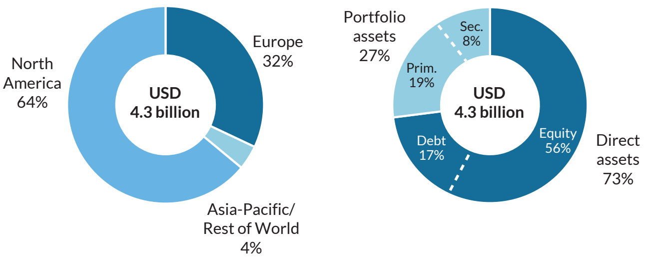
1 Source: PreqinPro, 31 August 2020.

H1 2020 at a glance - Investments

Out of the total amount invested in H1 2020, USD 3.1 billion (73% of total investment volume) was deployed in direct assets, of which USD 2.4 billion was invested as equity in individual businesses and real assets and USD 0.7 billion was invested in corporate debt.

Investment activity remained geographically diversified in H1 2020, with 32% of capital invested in Europe, 64% in North America and 4% in Asia-Pacific and emerging markets, reflecting our global reach and scope.

Private markets investments during H1 2020
(in USD bn)



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).

To complement our direct assets, we invested USD 1.2 billion (27% of total investment volume) in portfolio assets on behalf of our clients in H1 2020. These portfolio assets include secondary investments (USD 0.3 billion) in globally diversified private markets portfolios and select primary commitments (USD 0.8 billion) to other private markets managers.

Transaction volumes during periods of high market volatility and uncertainty tend to be at lower levels. However, the ability to close on new investments during these periods may generate more attractive returns, as demonstrated by the US private equity buyout market data shown below.

Investment portfolio performance H1 2020

Private equity

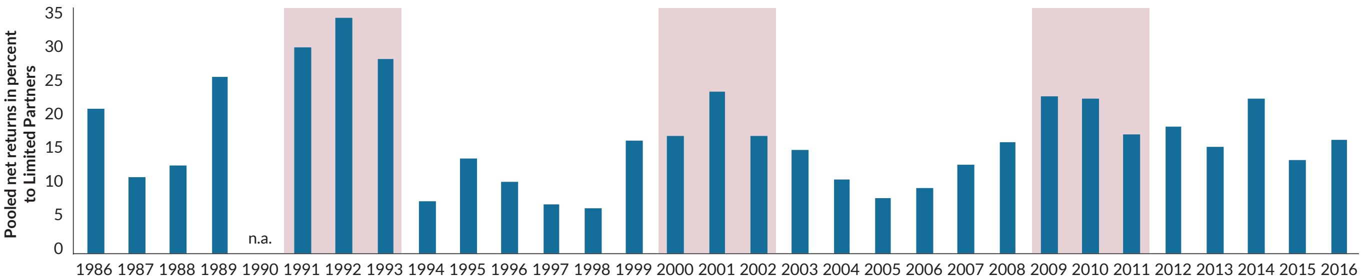
During the crisis, our greatest impact as an owner and operator within our lead and joint lead private equity investments has been the rapid mobilization of operating directors, industry specialists and investment professionals to work intensively with portfolio companies. This has provided relative stability in our portfolio, as has our focus on high-quality, resilient companies in the healthcare, information technology and business services sectors, which were identified by our thematic sourcing approach. As is common in an economic downturn, a small number of portfolio companies will require additional financing or equity over the next few months. While some of these companies demonstrated operational challenges pre-COVID-19, the overall additional capital[2] required to manage these assets through the crisis is currently expected to be insignificant compared to our firm's USD 45 billion AuM in private equity.

Private debt

Overall, our debt portfolio has proven to be resilient. We had only a limited number of credits that will require more substantial restructuring[3], incurring a modest level of aggregated impairments relative to our firm's overall private debt AuM of USD 22 billion. Our portfolio allocation has provided relative stability in this environment due to our focus on non-cyclical, larger-cap credits, combined with negligible energy exposure and substantial underweighting of the more challenged leisure, retail and transportation sectors. Our Collateralized Loan Obligations (CLOs) have continued to pay distributions to equity holders and have experienced no over-collateralization test breaches.

2 Valuation adjustments due to capital injections are already reflected in the private equity portfolio performance overview.
3 Valuation adjustments due to restructurings are already reflected in the direct lending and liquid loans portfolio performance overview.

Historical returns for US private equity buyout programs



Source: Cambridge Associates (Q3 2019). Returns represent pooled net internal rates of returns (IRR) to Limited Partners by vintage year. IRR are net of fees, expenses and carried interest. Benchmarks with "n.a." have an insufficient number of funds in the vintage year sample to produce a meaningful return. Shaded areas show periods of marked economic turbulence.

H1 2020 at a glance - Investments

Private real estate

Our private real estate portfolio has significantly outperformed its public market benchmark due to its limited exposure to retail, hospitality and student housing. Very limited short-term debt maturities combined with strong rent collection levels throughout the period further strengthened the liquidity profile on the investment level. Global diversification within our portfolio has limited its exposure to any one city or sector. Overall, with USD 15 billion AuM in private real estate, we are not currently experiencing significant challenges in our direct real estate portfolio.

Private infrastructure

Our firm's private infrastructure portfolio has substantially outperformed its public infrastructure benchmark and is expected to continue to perform relatively well compared to other private infrastructure portfolios, mainly due to the fact that it has minimal exposure to commodity prices, GDP, or traffic volumes. Our portfolio is characterized by a heavy overweight in long-term take-or-pay arrangements with creditworthy counterparties, broad diversification across sub-sectors, and a concentration on essential services, such as renewable power generation, gas transportation and data transmission. Our USD 14 billion AuM private infrastructure platform has to-date remained resilient in the face of market dislocations.

Performance for the six-month period ended 30 June 2020

While the mid-term outlook for the economy remains quite uncertain, our experience during H1 2020 has reassured us that the main themes underlying our investment approach should not only withstand the structural changes caused by the COVID-19 pandemic, but that these changes may in fact amplify the relevance of many of the businesses and assets in our investment portfolio.

The overall outperformance of our private markets portfolios during this period compared to their relevant public markets benchmarks was driven by our focus on attractive sectors, in particular, outsourced contract manufacturing, software product engineering, digital outsourcing solutions, renewable energy and last-mile logistics.

The portfolio performance overview for the six-month period ending on 30 June 2020 is provided below.

	YTD as of 30 June 2020	
	Partners Group*	Reference index**
Private equity (direct)	-0.5%	-5.8%
Direct lending	-4.1%	-3.9%
Liquid loans	-3.7%	-4.2%
Private real estate (direct)	-5.1%	-20.9%
Private infrastructure (direct)	-0.2%	-19.4%

*Partners Group shows performance as model net returns, which are based on gross investment performance and standard fee parameters for the six-month period ended 30 June 2020. All cash flows and valuations are converted to USD using fixed FX rates as of 30 June 2020. Return figures denote de-annualized pooled internal rates of returns (IRR). For liquid loans, performance refers to Partners Group Global Senior Loan Master Fund SICAV Class P (USD) D share class, which is not subject to any management or performance fees; return figures reflect time-weighted returns denominated in USD. Reference index returns denote time-weighted returns. Model net figures do not include the impact of other possible factors, such as any taxes incurred by investors, organizational and administration expenses or ongoing operating expenses incurred by the investment program (e.g. audit, hedging etc.). The performance presented reflects model performance an investor may have obtained had they invested in the manner and the time period shown and does not represent performance that any investor actually attained.

**For reference purposes, Partners Group private equity, direct lending, liquid loans, private real estate and private infrastructure performances are compared, respectively, to the following USD-denominated indices: MSCI World Net Total Return USD Index (ticker: NDDUWI); ICE BofA Global High Yield Index USD-hedged (ticker: HW00); a composite of 75% S&P/LSTA Leveraged Loan Index in USD (ticker: SPBDAL) and 25% S&P European Leveraged Loan Index USD-hedged (ticker: SPBDELUH); FTSE EPRA NAREIT Developed Total Return Index USD (ticker: RUGL); and S&P Global Infrastructure Total Return Index USD (ticker: SPGTINTR).

H1 2020 at a glance - Investments

Dry powder H1 2020

With about USD 15 billion of dry powder as of 30 June 2020, together with our deep sector insights, wide-ranging industry network and our proprietary private markets intelligence tools, we remain well-positioned to capitalize on attractive private markets investment opportunities across all asset classes. This is underpinned by recent investments[4] signed after the end of the reporting period. For example, in July 2020, we acquired **Rovensa**, a leading provider of specialty crop nutrition, protection and biocontrol products at an enterprise value of around EUR 1 billion. In August 2020, we invested AUD 0.2 billion in equity to acquire and construct the second stage of **Murra Warra**, a 209MW wind farm project in Australia.

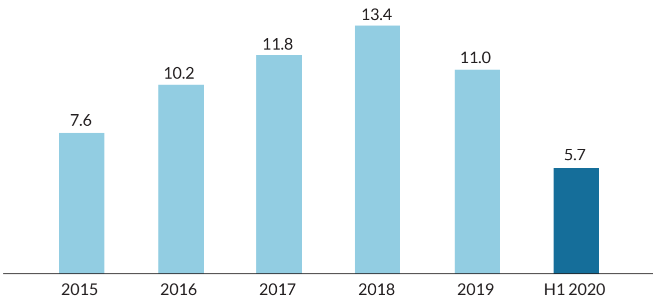
Divestments in H1 2020

We have always focused on creating value in our portfolio and elect not to sell fundamentally solid businesses into an unfavorable market environment where we believe we cannot optimize the returns for our clients. Therefore, we aim to drive growth and value creation initiatives in our portfolio companies and assets before we realize value for our clients, executing a carefully planned exit strategy at the right time. As such, due to the uncertainty and volatility caused by COVID-19, we decided to postpone some select divestments which were tabled for H1 2020.

Nevertheless, we realized a number of mature private markets assets on behalf of our clients, leading to a total of USD 5.7 billion in underlying portfolio distributions in H1 2020. These were skewed towards the first two months of the year before COVID-19 unfolded. Underlying portfolio realizations in the first half of the year were dominated by cash distributions from the closings of transactions for which the respective sales and purchase agreements were signed in Q4 2019 / early Q1 2020.

4 All Partners Group investments mentioned herein were made on behalf of the firm's clients, not on behalf of Partners Group Holding AG or any of its affiliates.

Partners Group's underlying portfolio realizations (in USD bn)



Looking ahead, we expect somewhat lower portfolio realizations in H2 2020 as we have deprioritized exits for the near-term. This is mainly due to impact of COVID-19 on the economy and the resulting uncertainty across global financial markets.