2021 at a glance – Financials

Financials

Higher management fees and significant performance fees supported by record exit activity; EBIT margin stable at 63%.

Management fees grew by 25%, ahead of average assets under management in CHF growth of 17% as the firm benefited from higher late management fees[5] received following the final close of several traditional closed-ended programs. Record portfolio realizations amounting to USD 29 billion translated into exceptionally high performance fee growth. Over the period performance fees represented 46% of total revenues, slightly above our 2021 guidance of 40-45%. The substantial increase was also driven in part by a "catch-up" in exit activities that had been postponed from 2020 following the outbreak of the COVID-19 pandemic, and select realizations originally planned for 2022 that were brought forward because the firm had already met its value creation targets. Following the exceptional 2021, we guide performance fees to account for 20-30% of total revenues over the mid- to long-term.

As a result of a strong year, total revenues rose 86%. Total costs grew in line with revenues and EBIT increased by 89%. Profit increased in line with EBIT by 82% year-on-year. The Board proposes a dividend increase of 20% to CHF 33.00 per share based on continued AuM growth and a confident growth outlook across all business lines.

5 Late management fees typically arise when clients join a commingled closed-ended investment program at a later stage of the fundraising period and are required to pay retrospectively for previously delivered management services to this respective program. Any such payments relating to prior accounting years are called late management fees.

Key financials

	2021	2020	Growth
AuM as of the end of the period (in USD bn)	127.4	109.1	+17%
AuM as of the end of the period (in CHF bn)	116.0	96.4	+20%
Average AuM as of 31 December (in CHF bn)1)	**109.3**	**93.8**	**+17%**
Revenue margin1),2)	2.41%	1.51%	
Revenues (in CHF m)2)	**2'629**	**1'412**	**+86%**
Management fees (in CHF m)3)	1'432	1'146	+25%
In proportion of total revenues3)	*54%*	*81%*	
Performance fees (in CHF m)	1'197	266	+349%
In proportion of total revenues	*46%*	*19%*	
EBIT (in CHF m)	**1'650**	**875**	**+89%**
EBIT margin	62.8%	62.0%	
Management Fee EBIT (in CHF m)4)	895	711	+26%
Profit (in CHF m)	**1'464**	**805**	**+82%**

1) Based on average AuM, 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.
4) Management fee EBIT is defined in the "Key definitions and alternative performance metrics" section of the Annual Report 2021.

2021 at a glance – Financials

Strong increase in management fees due to AuM growth and higher late management fees

Average AuM in CHF grew by 17% in 2021. Over the same period, management fees increased by 25%, amounting to CHF 1'432 million in 2021 (2020: CHF 1'146 million). The disproportional increase in management fees is mainly due to late management fees received following the final close of a number of traditional programs such as the latest Private Equity Direct IV flagship fund. As a result, other revenues and other operating income increased 115% amounting to CHF 132 million in 2021 (2020: CHF 61 million).

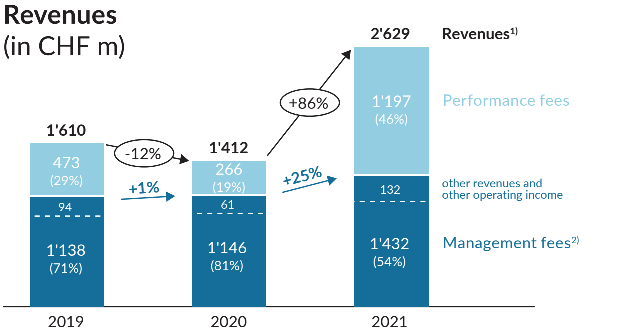
Management fees deviated from the mid- to long-term target range of 70-80%, making up 54% of total revenues (2020: 81%), due to the substantial increase in performance fees. Management fees are expected to make up the majority of total revenues in a calendar year in the medium- to long-term, with the remainder of revenues stemming from performance fees, assuming a favorable market environment for exits.

Below are some characteristics of the management fees generated by our different offerings:

- **Closed-ended programs:** 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 34% of our total AuM as of the end of 2021.
- **Mandates:** management fees 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 37% of our AuM as of the end of 2021.
- **Evergreen programs:** management fees stem from investment programs with limited liquidity that have no contractual end and cater predominantly to high-net-worth individuals and smaller institutional investors; they represented 29% of AuM as of the end of 2021[6].

6 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.

Revenues
(in CHF m)

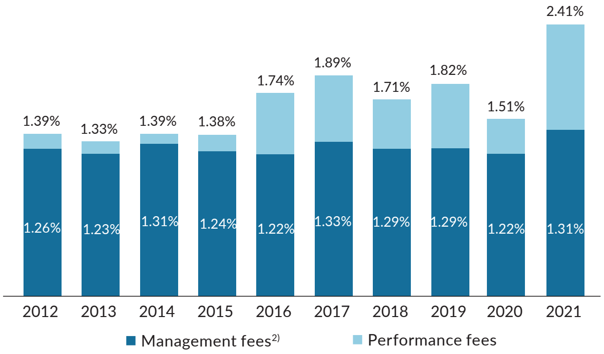


1) Revenues from management services, net, and other operating income. Due to rounding numbers might not add up.
2) Management fees and other revenues, net, and other operating income. Due to rounding numbers might not add up.

Management fee margin underpinned by long-term stability and pricing discipline

The majority of our revenues are recurring and based on long-term contracts with our clients, providing highly visible cash flows. Our management fee margin has been stable since 2012 and ranged between 1.22% and 1.33%. It benefited from long-term price stability in client contracts and consistent pricing discipline. In 2021, the management fee margin increased, driven by higher late management fees, amounting to 1.31% (2020: 1.22%). Performance fees brought the total revenue margin to 2.41% (2020: 1.51%) during the same period.

Revenue margin development[1)]



1) Calculated as revenues divided by average assets under management, calculated on a daily basis.
2) Management fees and other revenues, net, and other operating income.

2021 at a glance – Financials

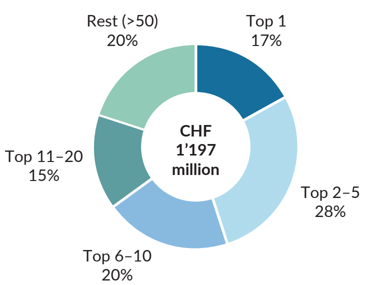
Performance fees driven by 2020 "catch-up" and strong market momentum throughout 2021

Our private markets portfolio generated attractive returns during 2021, supported by strong underlying operational performance. For instance, the firm's transformational investment strategy translated into positive (unrealized) valuation adjustments of Partners Group's own investments on the balance sheet alongside its clients of 16% across all asset classes. This performance in combination with very favorable exit markets throughout 2021 allowed us to generate USD 29 billion in underlying portfolio realizations that translated into an exceptional increase in performance fees.

Contributing to the significant year-on-year increase were a catch-up in exit activities that had been postponed from 2020 and sizeable liquidity events at a number of larger assets that the firm had worked to transform over many years. We were also able to bring forward a portion of the exit pipeline originally planned for 2022 because the firm had already met its value creation targets. Overall, performance fees increased to CHF 1'197 million (46% of revenues) from CHF 266 million (19% of revenues), slightly ahead of the 2021 full-year guidance of 40-45%.

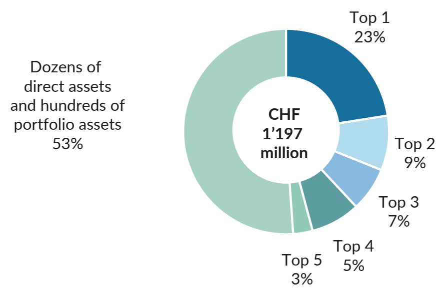
Our performance fees are well diversified across programs and assets. More than 70 investment programs and mandates with portfolios diversified across many vintage years contributed to performance fees in 2021.

Performance fee contribution by investment programs & mandates



Performance fees were also driven by dozens of underlying direct assets and hundreds of portfolio assets. The investment program that contributed the most – a mature private equity evergreen program – represented 17% of the total performance fees. The asset that contributed the most represented 23% of the total performance fees.

Performance fee contribution by single assets



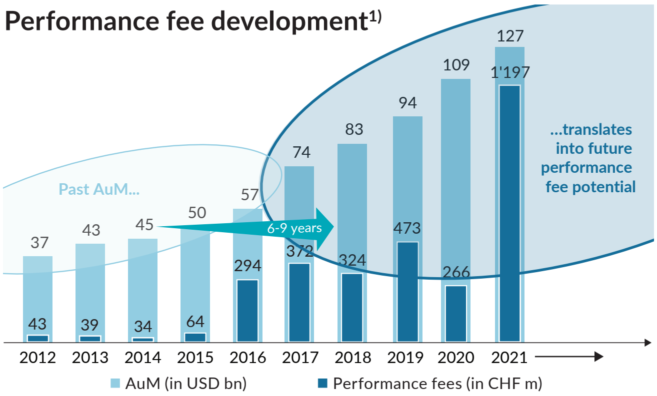
In private markets, performance fees are designed to remunerate investment managers for the long-term value creation they generate for their clients. We follow a prudent approach in recognizing performance fees: in closed-ended investment programs, performance fees are typically charged only once investments are realized and a pre-defined return hurdle has been exceeded. To ensure a very low probability of reversing realized performance fees, we stress-test unrealized investments by applying significant discounts to NAV to assess whether the hurdle rate will still be reached despite these hypothetical mark-downs. These stress-tests are driven by a number of factors including macroeconomic as well as bottom-up asset and portfolio-level data. In line with revenue recognition standards, this approach makes it highly unlikely that we would have to reverse recognized performance fees and therefore significantly reduces the risk of claw backs. The performance fee recognition methodology is explained in detail in the appendix on pages 28 and 29.

Investment track record confirms positive mid-to long-term performance fee outlook

Over the mid- to long-term, we continue to expect our performance fee potential to grow in line with AuM. As the value creation period lasts 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 its underlying investments are successful. For the full-year 2022, of total revenues in the mid- to long-term, assuming market conditions and the exit environment remain supportive.

2021 at a glance – Financials

Performance fee development[1)]



1) 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.

Cost growth in line with revenue growth

Our employees are our most important asset and the key to our success. We aim to attract and retain highly talented and diverse professionals by offering them a great place to work and the opportunity to grow, both professionally and personally. In order to build out major business, corporate, and organizational initiatives to support continued sustainable growth, we have historically grown the number of professionals in line with our AuM. In financials terms, regular personnel expenses follow management fees. Following an intensified hiring in 2019 which allowed us to sufficiently staff our platform with top talent, our recruiting activities temporarily slowed down in 2020/2021 due to the pandemic and resulted in 1'573 FTEs as of 31 December 2021 (31 December 2020: 1'519 FTEs), an increase of 4% year-on-year. The average number of FTEs amounted to 1'516 FTEs (2020: 1'504 average FTEs) and increased by 1% year-on-year.

Overall, revenues increased by 86% year-on-year and total operating costs increased by 82% year-on-year, directly driven by higher personnel expenses. Personnel expenses represent the vast majority of total operating costs and grew by 100% in 2021. In particular, performance-fee related expenses grew proportionally to the increase of performance fees to CHF 441 million (2020: CHF 101 million), up 335% year-on-year; there is a direct relationship between performance fees earned and compensation paid. Non-performance fee-related personnel expenses increased by 28% to CHF 420 million (2020: CHF 329 million) and included higher bonus payments in line with management fee-growth as well as one-off social security costs on the firm's equity incentive plans as a result of the strong increase in our share price.

Other operating expenses, increased by 14% during the period and amounted to CHF 78 million (2020: CHF 68 million). Depreciation & amortization remained stable at CHF 40 million (2020: CHF 38 million).

EBIT growth in line with revenue growth (in CHF m)

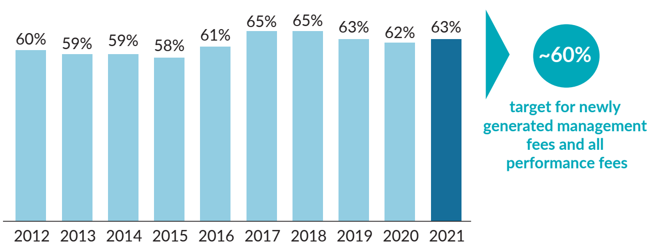
	2021		2020
Revenues[1)]	**2'629**	**+86%**	**1'412**
Total operating costs, of which	-978	+82%	-537
Personnel expenses	-861	+100%	-430
Personnel expenses (regular)	*-420*	*+28%*	*-329*
Personnel expenses (performance-fee-related)	*-441*	*+335%*	*-101*
Other operating expenses	-78	+14%	-68
Depreciation & amortization	-40	+3%	-38
EBIT	**1'650**	**+89%**	**875**
EBIT margin	62.8%		62.0%
Average FTEs	1'516	+1%	1'504
Year-end FTEs	1'573	+4%	1'519

1) 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 defined in the "Key definitions and alternative performance metrics" section of the Annual Report 2021 (p. 30).

EBIT margin stands at 62.8%

In 2021, EBIT increased by 89% in line with revenues, amounting to CHF 1'650 million (2020: CHF 875 million) and the EBIT margin increased slightly by 0.8%-point to 62.8% (2020: 62.0%). While we forge ahead with investing for future growth, we will 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 stemming from performance fees to our teams through our long-term incentive programs and/or bonus payments. The remainder will be allocated to the firm and its shareholders.

EBIT margin development[1)]



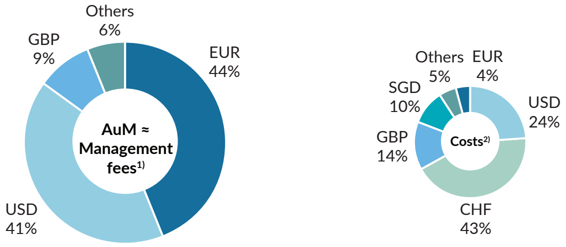
1) For 2012–2014, non-cash items related to the capital-protected product Pearl Holding Limited were excluded from depreciation & amortization.

2021 at a glance – Financials

Diversified FX exposure

Fluctuations in EUR or USD against CHF affect our revenues and costs and, therefore, also our total EBIT margin. This is a result of the difference between the currency mix of our revenues and costs. Most prominently affected by such movements are management fees and our operating costs (excluding performance-fee related expenses). Performance fee revenues and performance fee-related expenses are largely EBIT margin-neutral as both, revenues, and costs, are equally affected by such currency movements.

Currency exposure in 2021



1) Includes management fees and other revenues, net, and other operating income.
2) Includes regular personnel expenses (excluding performance fee-related expenses), other operating expenses as well as depreciation and amortization.

In 2021, currency movements decreased the total EBIT margin by less than 0.2%-points, mainly driven by the USD depreciation against the CHF.

Average FX rates development

FX rates (average)	2021	2020	Delta
1 EUR CHF	1.081	1.070	+1.0%
1 USD CHF	0.914	0.939	–2.6%
1 GBP CHF	1.257	1.204	+4.4%
1 SGD CHF	0.680	0.680	–0.0%

Strong performance in underlying portfolio drove financial result

The financial result amounted to CHF 76 million (2020: CHF 53 million):

- CHF +120 million (2020: CHF +52 million): we invested into our own investment programs alongside our clients (see detailed description of balance sheet investments below). During the period, our transformational investing strategy facilitated substantial value creation in these investment programs and resulted in an average return across all stages and asset classes of 16% (2020: 7%). For further information see note 5.1. to the consolidated financial statements.
- CHF –44 million (2020: CHF +1 million): the negative contribution was driven by negative foreign exchange effects, hedging and other costs. These negative effects are mainly a result of the accounting treatment of intercompany positions currencies different than CHF (mainly USD). We hedge our exposure in currencies other than CHF for our treasury management and short-term financing services.

Corporate taxes amounted to CHF 263 million (2020: CHF 124 million). The tax rate increased to 15.2% (2020: 13.3%). The increase in the tax rate was due to withholding taxes on US dividend distributions to Partner Group Holding AG and changes to the country mix in 2021.

In summary, the firm's profit increased by 82% year-on-year to CHF 1'464 million (2020: CHF 805 million).

Profit development
(in CHF m)

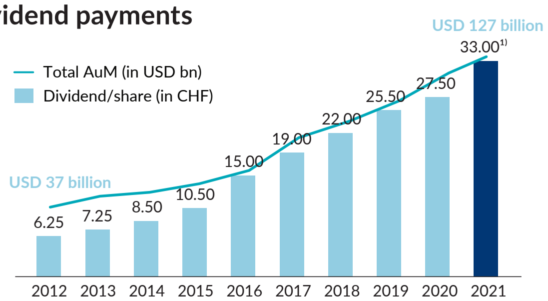
	2021		2020
EBIT	**1‘650**	**+89%**	**875**
Total financial result, of which	76		53
Portfolio performance	*+120*		*+52*
Foreign exchange, hedging & others	*-44*		*+1*
Taxes	-263		-124
Tax rate	*15.2%*		*13.3%*
Profit	**1‘464**	**+82%**	**805**

Proposed dividend of CHF 33.00 per share (+20%)

Based on the strong development of the business in all asset classes and regions, the operating result, and their confidence in the sustainability of this growth, Partners Group's Board of Directors will propose an increased dividend of CHF 33.00 per share (2020: CHF 27.50 per share) to its shareholders at the Annual General Meeting on 25 May 2022. This proposal represents a dividend increase of 20% and a payout ratio of 60% (2020: 91%), again aligning the firm's progressive dividend strategy to its AuM growth.

2021 at a glance – Financials

Dividend payments



1) The Board of Directors proposes at the Annual General Meeting of shareholders to be held on 25 May 2022 that a dividend of CHF 33.00 per share shall be paid for the financial year 2021.

Available liquidity of CHF 2.5 billion

Our balance sheet remains strong. After a dividend payment of CHF 725 million in May 2021, we have an available liquidity of CHF 2.5 billion (31 December 2020: CHF 2.0 billion) and hold a current net cash position of about CHF 1.6 billion as of 31 December 2021 (31 December 2020: CHF 1.1 billion). With this we have sufficient cash & cash equivalents available to meet expected operational expenses and to service short-term financial obligations. We furthermore ensure that we meet our targeted available liquidity level that would also enable us to well sustain the firm's operations in a financial crisis scenario and/or a depressed economic environment.

The firm maintains three unsecured credit facilities with Swiss and international banks amounting to a total of CHF 865 million as of 31 December 2021 (31 December 2020: CHF 865 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 2021, no credit facility was drawn (31 December 2020: no credit facility drawn).

Available liquidity of CHF 2.5 billion on balance sheet (in CHF m)

	Assets	Liabilities
Cash & cash equivalents	911	
Short-term loans	1'489	
Long-term debt		799
Total net cash	**1'601**	
Undrawn credit facilities	865	
Total available liquidity	**2'466**	

Partners Group has two fixed-rate senior unsecured CHF-denominated corporate bonds outstanding:

- CHF 300 million, coupon 0.15%, maturity on 7 June 2024 (ISIN CH0361532895), issued in June 2017
- CHF 500 million, coupon 0.40%, maturity on 21 June 2027 (ISIN CH0419041287), issued in June 2019

As of 31 December 2021, our long-term outstanding debt amounted to CHF 799 million (31 December 2020: CHF 799 million).

The proceeds of the bonds that we issued in the past further strengthen the sustainability of our operations in a financial crisis scenario and enable us to optimize the management of our liquidity, in particular for short-term financing needs arising from our treasury management services offered 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 2021, 441 short-term loans (31 December 2020: 271) were outstanding with an average loan amount of CHF 3.4 million (31 December 2020: CHF 2.5 million). The duration of these loans typically amount to 1-3 months. The loans are secured against unfunded commitments and are, in addition, subject to strict loan-to-value (LTV) rules. In addition, each loan is assigned with a risk specific capacity, which is measured against an overall risk capacity budget.

Continued balance-sheet light approach

As of 31 December 2021, the investments we hold on our own balance sheet alongside clients amount to a total of CHF 0.8 billion (31 December 2020: 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 aggregate net asset value of CHF 715 million as of 31 December 2021 (31 December 2020: CHF 616 million).

Investments in associates amounted to CHF 18 million as of 31 December 2021 (31 December 2020: CHF 25 million), which mainly represent a stake in Pearl Holding Limited, a mature investment program which continues to wind down via ongoing distributions.

2021 at a glance – Financials

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 net asset value and amounted to (net) CHF 37 million as of 31 December 2021 (31 December 2020: CHF 51 million).

Investments alongside clients from balance sheet[4)](in CHF m)

Financial investments / GP commitment[1)]	715
Investments in associates[2)]	18
Seed investments[3)]	37
Total investments alongside clients	**770**

1) NAV excluding CHF 455 million (2020: CHF 290 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 the 2021 Annual Report.
3) Seed investments presented in the annual report as assets and liabilities held for sale.
4) As of 31 December 2021.

In addition 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 zero management fees and zero performance fees.

In total, commitments by the firm's Board of Directors and employees amounted to approximately CHF 2.1 billion as of 31 December 2021 (31 December 2020: CHF 2.0 billion), of which CHF 1.6 billion (2020: CHF 1.6 billion) is committed to closed-ended programs and CHF 0.5 billion (2020: CHF 0.4 billion) to evergreen programs.

Financial outlook

- **Management fees:** we expect gross client demand of USD 22 to 26 billion in 2022, together with around USD 10 to 12 billion in tail-down effects from the more mature closed-ended investment programs and redemptions from evergreen programs. Fundraising is expected to be balanced across all program types, from customized mandates and the firm's extensive range of evergreen fund solutions to its traditional closed-ended programs. We expect this demand to translate into additional management fees and therefore guide that the management fees in CHF develop broadly in line with the average AuM in CHF.
- **Performance fees:** after the strong exit environment we experienced in 2021, we expect exits to normalize along the same trajectory as prior years. 2021 was an outlier year and we foresee a return to our mid-term guidance of performance fees consisting of 20-30% of total revenues in the mid- to long-term, assuming market conditions and the exit environment remain supportive. We continue to expect our performance fee potential to grow roughly in line with AuM.
- **Target EBIT margin:** we continue to apply a disciplined approach to cost management and invest in initiatives that support our growth. We therefore 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.
- **Tax rate:** our overall corporate tax rate derives from various tax rates across many jurisdictions worldwide where we have active business operations. Considering international tax developments, we expect the group tax rate to be between 14-17%.
- **Balance sheet:** our balance sheet remains strong. With CHF 2.9 billion in shareholder equity and CHF 2.5 billion available liquidity, we feel well-equipped to realize the potential of private markets in different economic environments.

2021 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 programs. In closed-ended investment programs, performance fees are typically only charged once investments are realized and a pre-defined return hurdle has been exceeded. As the value creation period lasts 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 will be 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 that stem from the sale of the remaining portfolio over time, according to the predefined 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.

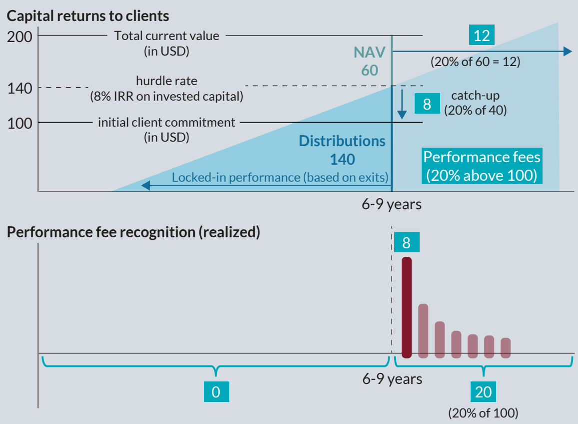
Total performance fees received by the manager are 20 (20% of 40 + 20% of 60 = 8 + 12) and clients receive 80% of profits (80% x (200 – 100)).

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 of investment programs with a claw-back mechanism based on a three-step approach:

- Step 1: the total proceeds from realized underlying investments are determined and the corresponding costs of such realized as well as of fully written-off investments are deducted ("Net Proceeds").
- Step 2: the NAV of unrealized underlying investments is determined. The respective NAV will be written down to the extent that the probability of a future claw-back risk becomes minimal[1]. Then the corresponding costs of such unrealized investments are deducted, resulting in a "Write-Down NAV". This Write-Down NAV is added to the Net Proceeds.
- Step 3: performance fees are calculated for (1) and (2) by multiplying (1) and (2) by the applicable performance fee rate subject to exceedance of the hurdle rate. Where the hurdle rate is not exceeded, there will be no performance fees. The lower of such calculated performance fees is recognized.

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

Performance fee model in a closed-ended investment program



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. Past performance is not indicative of future results. For illustrative purposes only.

1 As of 31 December 2021, the applied discount was 50% (31 December 2020: 50%), except for selected programs where the discount is determined on the basis of a systematic approach and may be up to 100%.

2021 at a glance – Financials

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 was realized for 200, we would be entitled to a performance fee as hurdle rate at asset level was 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 (assuming the hurdle rate is met).
- 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 was realized for 200, we would be entitled to a performance fee as hurdle rate at asset level was 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 below the pre-agreed threshold in this example, 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.