H1 2021 at a glance - Financials

Financials

Higher management fees and significant increase in performance fees; EBIT margin stable at 62%; profit up by 101%.

Continued client demand enabled us to generate a 21% increase in management fees in H1 2021. Strong underlying portfolio realizations have translated into significant performance fee growth over the same period. Performance fees increased to CHF 442 million (39% of revenues) in H1 2021 from CHF 56 million (9% of revenues) in H1 2020. In the second half of the year, we plan to continue taking advantage of the favorable market environment for exits. As a result, we anticipate performance fees to represent 40-45% of total revenues for the full-year 2021, making 2021 an exceptionally strong year overall. The development of performance fees in 2021 also include our expectations that some of the performance fees that were expected for 2022 to be brought forward as a select number of programs and mandates may meet their hurdle rates earlier than anticipated.

Total revenues rose 81% to CHF 1'130 million in H1 2021. Total costs grew in line with revenues and EBIT increased by 80% to CHF 702 million. The EBIT margin remained stable at 62%. Profit increased by 101% year-on-year to CHF 629 million.

Key financials

	H1 2020	H1 2021	Growth
AuM as of the end of the period (in USD bn)	96.3	118.9	24%
AuM as of the end of the period (in CHF bn)	91.2	109.9	21%
Average AuM as of 30 June (in CHF bn) [1]	**92.2**	**103.2**	**12%**
Revenue margin [1,2]	1.35%	2.19%	
Revenues (in CHF m) [2]	**623**	**1'130**	**81%**
Management fees (in CHF m) [3]	*567*	*688*	*21%*
% of total revenues	*91%*	*61%*	
Performance fees (in CHF m)	*56*	*442*	*693%*
% of total revenues	*9%*	*39%*	
EBIT (in CHF m)	**390**	**702**	**80%**
EBIT margin	62.7%	62.1%	
Profit (in CHF m)	**313**	**629**	**101%**

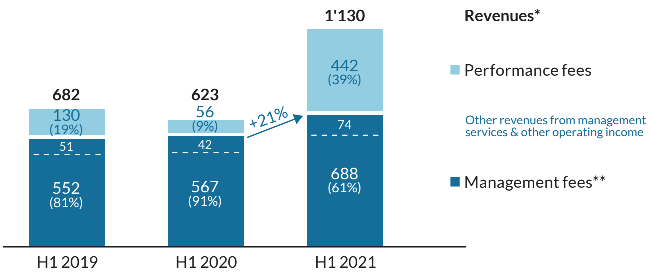
1) Based on average AuM, calculated on a daily basis.
2) Revenues from management services, net, including other operating income.
3) Management fees and other revenues, net, and other operating income.

H1 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 12% in H1 2021. Over the same period, management fees increased by 21%, amounting to CHF 688 million in H1 2021 (H1 2020: CHF 567 million). The difference in growth can be explained by two factors. First, recurring management fees grew ahead of average AuM growth. This is accounted for by the timing of fees levied on some new commitments that were raised in 2020 but only contributed their full revenue potential after H1 2020. Second, other revenues from management services and other operating income increased by 79% to CHF 74 million in H1 2021 (H1 2020: CHF 42 million), mainly driven by late management fees. We benefitted from higher late management fees due to the successful closings of flagship programs during the period - in particular, we are in the final innings of fundraising for Partners Group's fourth private equity buyout program.

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 are expected to grow broadly in line with the average AuM in CHF in the medium to long term, with the remainder of revenues stemming from performance fees, assuming a favorable market environment for exits.

In H1 2021, management fees represented 61% of total revenues (H1 2020: 91%) and will continue to be the main driver of our firm's revenues in the years to come. Below are some characteristics of the management fees generated by our different offerings:

- **Traditional private markets 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 35% of our total AuM as of the end of June 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 38% of our AuM as of the end of June 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 investors; they represented 27% of AuM as of the end of June 2021[6].

H1 2021: recovery in exit markets supported a significant increase in performance fees

Following the recovery of transactional markets in Q4 2020, exit markets remained very favorable during H1 2021. The solid demand for market-leading companies and real assets allowed us to sell a number of mature private markets assets on behalf of our clients, leading to a record total of USD 10.5 billion in underlying portfolio distributions.

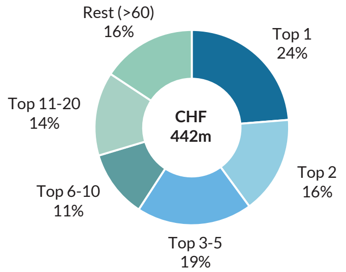
This activity translated into strong performance fee growth over the period and was driven by two factors. First, it included a catch-up in performance fees generated by several divestments that had originally been scheduled for 2020 but were postponed due to the pandemic. Second, performance fees were supported by a strong performance of our programs and mandates. Performance fees therefore increased to CHF 442 million (39% of revenues) in H1 2021 from CHF 56 million (9% of revenues) in H1 2020. It is important to note that performance fees in H1 2020 were negatively affected by the subdued investment environment caused by the outbreak of COVID-19.

Our performance fees are well diversified across programs and assets. More than 80 investment programs and mandates with portfolios diversified across many vintage years contributed to performance fees in H1 2021. Performance fees were driven by over 60 underlying direct assets and hundreds of portfolio assets. The asset that contributed the most represented 15% of total performance fees. The investment program that contributed the most – a mature private equity evergreen program – represented 24% of total performance fees.

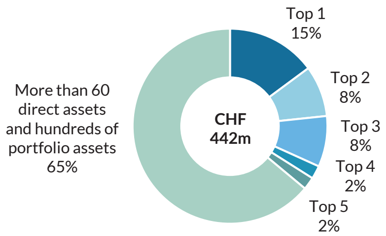
6 Gating provisions are a standard feature of these evergreen programs in order to protect remaining investors as well as performance; net redemptions in these investment programs are typically limited to up to 25% p.a. of the prevailing net asset value, depending on the investment strategy and content 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 2021 at a glance - Financials

Contribution by investment programs & mandates



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 (typically 50%) to NAV to assess whether the hurdle rate will still be reached even after 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 back. The performance fee recognition methodology is explained in detail in the appendix on pages 21 and 22.

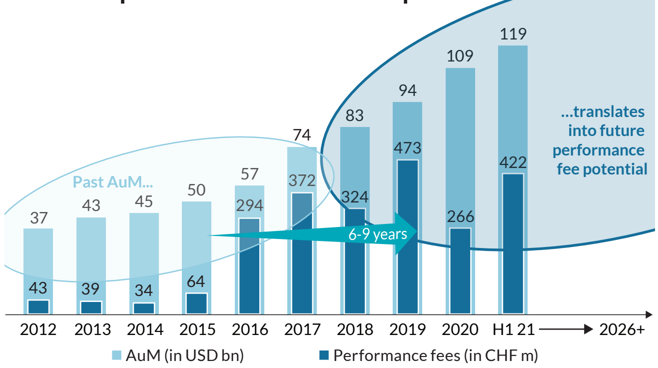
Full-year 2021: performance fees expected to be 40-45% of revenues

Following our strong exit activity in the first half of the year, we expect to see an active second half of the year in terms of exits as we make use of the favorable market environment. Moreover, we foresee that some of the performance fees that were expected for 2022 to be brought forward as a select number of programs and mandates may meet their hurdle rates earlier than anticipated. As a result, we expect performance fees to represent 40-45% of total revenues for the full-year 2021.

Following our strong exit activity in the first half of the year, we continue to expect to see an active second half of the year in terms of exits as we make use of the favorable market environment.

Over the mid to long term, we continue to expect our performance fee potential to grow roughly 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 these are successful.

AuM and 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.

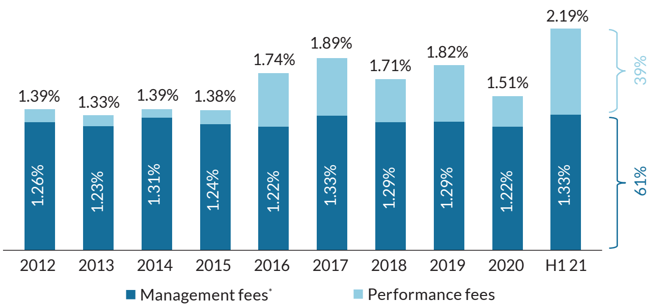
Revenue margin underpinned by stable management fees and strong performance fee contribution

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 our IPO and ranged between 1.18% and 1.33%.

H1 2021 at a glance - Financials

In H1 2021, the management fee margin increased, impacted by the timing of fees levied on some new commitments and by higher late management fees and other income as explained above, amounting to 1.33% (full-year 2020: 1.22%). Performance fees brought the total revenue margin to 2.19% (full-year 2020: 1.51%) during the same period.

Revenue margin development



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

EBIT increased in line with revenues (in CHF m)

	H1 2020		H1 2021
Revenues	623	+81%	1'130
Total operating costs, of which	-232	+84%	-428
Personnel expenses	-178	+114%	-382
Personnel expenses (non-performance fee-related)	*-156*	*+38%*	*-216*
Personnel expenses (performance fee-related)	*-22*	*7.6x*	*-166*
Other operating expenses	-35	-24%	-27
Depreciation & amortization	-19	+1%	-19
EBIT	390	+80%	702
EBIT margin	*62.7%*	*-0.6%-points*	*62.1%*
Average FTEs	1'492	0%	1'487

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

Cost growth in line with revenue growth

The number of FTEs typically grows in line with AuM growth. However, as a consequence of the intensified hiring in 2019, our hiring activities temporarily slowed in 2020 and resulted in a flat FTE development also in H1 2021. The average number of FTEs amounted to 1'487 (H1 2020: 1'492 average FTEs). Moving forward, we expect FTE growth to be in line with AuM growth.

After a strong H1 2021, non-performance fee-related personnel expenses increased by 38% to CHF 216 million (H1 2021: CHF 156 million). This was mainly driven by higher one-off social security costs on our equity incentive plans as a result of the strong increase in our share price as well as higher bonus accruals for the full year in line with management fee-growth. Performance-fee related expenses grew proportionally with the increase of performance fees to CHF 166 million (H1 2020: CHF 22 million) as up to 40% of performance fees are paid out to employees. This resulted in an increase of total personnel expenses at a higher rate (+114%) than total revenues (+81%) during the period.

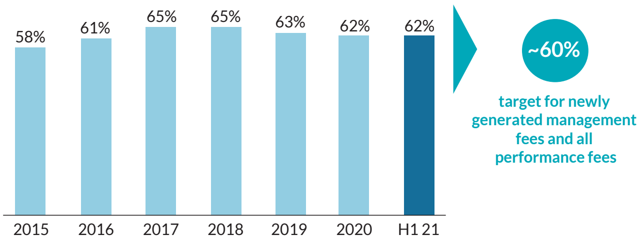
Absent a repeat of certain one-off costs related to Partners Group's response to the COVID-19 pandemic in 2020 and with business travel still muted, other operating expenses decreased by 24% during the period and amounted to CHF 27 million (H1 2020: CHF 35 million). Depreciation & amortization remained stable at CHF 19 million (H1 2021: CHF 19 million).

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

In H1 2021, EBIT increased by 80% in line with revenues, amounting to CHF 702 million (H1 2020: CHF 390 million) and the EBIT margin remained stable at 62.1% (H1 2021: 62.7%).

We are forging ahead with investing for future growth in order to expand our investment capacity and support major business, corporate and organizational initiatives. 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 (~60%) will be allocated to the firm and its shareholders.

EBIT margin development

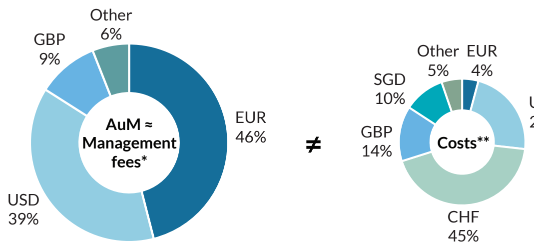


H1 2021 at a glance - Financials

Diversified FX exposure

As a globally active firm, fluctuations in the EUR or USD against the CHF affect our revenues and costs and, therefore, our total EBIT margin.

Currency exposure in H1 2021



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 non-performance fee-related personnel expenses, other operating expenses as well as depreciation and amortization.

Management fees and our operating costs (excluding performance-fee related expenses) are affected by such currency movements. At the same time, performance fee revenues and performance fee-related expenses are equally affected by currency movements and are therefore largely EBIT margin-neutral.

During the period, currency movements decreased the total EBIT margin by around 25bps, mainly driven by the USD appreciation against the CHF.

Average FX rates development in H1 2021

FX rates (average)	H1 2020	H1 2021	Delta
EURCHF	1.0640	1.0943	2.9%
USDCHF	0.9660	0.9083	-6.0%
GBPCHF	1.2179	1.2610	3.5%
SGDCHF	0.6908	0.6816	-1.3%

Strong performance in underlying portfolio drove financial result

The financial result amounted to CHF 51 million (H1 2020: CHF -24 million):

- CHF +71 million (H1 2020: CHF -25 million): we invest into our own investment programs alongside our clients (see detailed description of balance sheet investments below). During the period, our transformational investing strategy facilitated growth in these investment programs and resulted in an average return across all stages and asset classes of +10% (H1 2020: -3%). For further information see notes 4.1 and 4.2 of the notes to the consolidated financial statements.
- CHF -20 million (H1 2020: CHF +2 million): the negative contribution was driven by negative foreign exchange effects, hedging and other costs. The negative foreign exchange effects are mainly related to intercompany positions in different currencies (mainly USD) than the CHF. Note that we hedge our exposure in currencies other than CHF for our outstanding short-term loans (treasury management and short-term financing services).

Corporate taxes amounted to CHF -123 million (H1 2020: CHF -53 million). The tax rate increased to 16.4% (H1 2020: 14.6%). The increase in the tax rate was due to withholding taxes from a larger profit distribution in the US, which cannot be reclaimed.

In summary, the firm's profit increased by 101% year-on-year to CHF 629 million (H1 2020: CHF 313 million).

Profit development
(in CHF m)

	H1 2020		H1 2021
EBIT	**390**	**+80%**	**702**
Total net financial result, of which	-24		51
Portfolio performance	*-25*		*71*
Foreign exchange, hedging & others	*2*		*-20*
Taxes	-53		-123
Tax rate	*14.6%*		*16.4%*
Profit	**313**	**+101%**	**629**

Available liquidity of CHF 1.6 billion

Our balance sheet remains strong. After a dividend payment of CHF 0.7 billion in May 2021, we have an available liquidity of CHF 1.6 billion and hold a current net liquidity position of about CHF 0.8 billion as of 30 June 2021 (31 December 2020: CHF 1.1 billion). With this we have sufficient cash available to meet expected operational expenses, as well as to service short-term financial obligations. We also meet our target available liquidity level that enables us to sustain the firm's operations in a financial crisis scenario and/or a depressed economic environment.

The firm maintains two unsecured credit facilities with Swiss and international banks amounting to a total of CHF 865 million as of 30 June 2021 (31 December 2020: CHF 865 million). These credit facilities can be used for general corporate purposes and/or to provide fixed advances, with

H1 2021 at a glance - Financials

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 30 June 2021, no credit facility was drawn (31 December 2020: no credit facility drawn).

Available liquidity of CHF 1.6 billion on balance sheet (in CHF m)

	Assets	Liabilities
Cash & cash equivalents	432	
Short-term loans	1'117	
Long-term debt		799
Total net liquidity	**751**	
Undrawn credit facilities	865	
Total available liquidity	**1'615**	

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

The proceeds of the bonds that we have issued 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 30 June 2021, 365 short-term loans (31 December 2020: 271) were outstanding with an average loan amount of CHF 3.1 million (31 December 2020: CHF 2.5 million). The duration of these loans amounted to 1-3 months. The loans are secured against unfunded commitments and are, in addition, subject to strict loan-to-value (LTV) rules.

Continued balance-sheet light approach

As of 30 June 2021, we hold our own investments amounting 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 aggregated net asset value of CHF 745 million as of 30 June 2021 (31 December 2020: CHF 616 million).

Investments in associates amounted to CHF 23 million as of 30 June 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.

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 they amounted to (net) CHF 36 million as of 30 June 2021 (31 December 2020: CHF 51 million).

Investments alongside clients

(in CHF m)

Financial investments / GP commitment[1]	745
Investments in associates[2]	23
Seed investments[3]	36
Total investments alongside clients from balance sheet	**804**

1) NAV excluding CHF 304 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 2021 Interim Report.
3) Seed investments presented in the annual report as assets and liabilities held for sale.
Note: as of 30 June 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 no management fees and no performance fees.

H1 2021 at a glance - Financials

In total, commitments by the firm's Board of Directors and employees amounted to approximately USD 2.1 billion as of 30 June 2021 (31 December 2020: CHF 2.0 billion), of which USD 1.6 billion (2020: USD 1.6 billion) are committed to closed-ended programs and USD 0.5 billion (31 December 2020: USD 0.4 billion) to evergreen programs.

Financial outlook

- **Management fees:** we expect gross client demand of USD 19 to 22 billion, together with around USD -9.5 billion in tail-down effects from the more mature closed-ended investment programs and redemptions from evergreen programs for the full-year 2021. 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:** for the full-year 2021, we could foresee performance fees representing 40-45% of total revenues. We continue to expect to see an active second half of the year in terms of exits as we make use of the favorable market environment. Moreover, we expect some of the performance fees that were expected for 2022 to be brought forward as a select number of programs and mandates may meet their hurdle rates earlier than anticipated. For the full-year 2022, performance fees are expected to be within a range of 20-30% of total revenues, assuming market conditions and the exit environment remain supportive. Over the mid to long term, we continue to expect our performance fee potential to grow roughly in line with AuM.
- **Target EBIT margin:** we continue to 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 the continued international success of our firm and international tax developments, we expect the group tax rate to be between 14-17% in the short to mid term.
- **Balance sheet:** our balance sheet remains strong. With CHF 2.2 billion in shareholder equity and CHF 1.6 billion available liquidity or CHF 0.8 billion net liquidity, we feel well-equipped to realize the potential of private markets in different economic environments.