# Message from the Chairman and CEO

*Steffen Meister, David Layton*

Since our foundation in 1996, we have been through many cycles which give us the experience and know-how to navigate the market as we continue to work on our assets, confident in our ability to continue generating attractive returns for our clients.

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

After an exceptionally strong 2021, H1 2022 was marked by a period of market uncertainty as the world faced a new set of circumstances. We were fast confronted with the unspeakable human tragedy of the invasion of Ukraine, which remains at the forefront of our minds. Since the beginning of the conflict, our employees and Partners Group's Impact Foundation have come together to leverage our global network of portfolio companies and business partners to respond to the need for humanitarian aid.

This war elevated concerns about inflation, higher interest rates as well as energy and supply chain constraints which led to significant market volatility. Despite this more difficult market environment, we are pleased to report a solid set of financials for H1 2022 and a robust operational performance across the businesses and assets under our ownership.

### Conservative asset testing scenarios based on anticipated inflation

As part of our investment thesis, macroeconomic factors are an inherently important consideration when assessing risk. We already had an above-consensus view on inflation in 2019 and our conviction has only deepened since then. At that time, we began building this view into our base case assessments through anticipated contractions of valuation multiples. In 2021 we further increased our inflation assumptions, and our teams began working with portfolio companies to build pricing strategies into their transformation plans in anticipation of the new market environment. This proactive approach has made up an important element of our due diligence for target investments and our transformation strategy for our current portfolio assets, therefore preparing our portfolio in advance for inflationary environments and higher rates.

### Continued underlying management fee growth of 18%, performance fees temporarily lower

Supported by solid average AuM growth during H1, we saw management fees increase 18% year-on-year, to CHF 809 million. Performance fees on the other hand decreased to CHF 72 million or 8% of total revenues. This decrease was primarily influenced by two factors. Firstly, last year we decided to bring forward select realizations originally planned for 2022 into 2021 as we had already met our value creation targets and exit conditions were especially favorable. Secondly, earlier this year we postponed the realization of more mature businesses and assets, on the basis that the current market environment was not conducive. Together these factors contributed to an overall decrease in total revenues of 22% year-on-year to CHF 881 million.

# Message from the Chairman and CEO

Our H1 EBIT margin was 64.7% benefiting from a release of social security provisions related to our equity incentive plans. We continued investing into our platform during the period, increasing FTE by 11% while maintaining cost discipline as relates to our target EBIT margin of ~60% on new business. For the remainder of the year, we will continue hiring and developing talent with industrial and operating capabilities in particular, as well as investing in technology.

## Focus remains on thematic investing and entrepreneurial governance at scale

Our "Transformational Investing" approach is built on the two pillars of (i) thematic sourcing, and (ii) entrepreneurship at scale. This approach diverges from the typical "Wall Street style", which is more transactional, and leverage driven. Our method delivers sustainable returns to our clients by identifying structurally attractive areas of the economy via thematic sourcing, and subsequently building market leaders in those sectors by putting special emphasis on asset transformation and/or platform building through entrepreneurial governance.

In line with our conviction, we have recently appointed two additional industry leaders who are ideally positioned to further deepen the industrial expertise that underlies our transformational investing efforts. In July, we announced Wolf-Henning Scheider as Head of Private Equity. Mr. Scheider brings more than three decades of senior management experience, most recently as CEO and Chairman of the Board of Management at ZF Group, a global technology company that generated over EUR 38 billion in annual revenue and employed more than 150,000 people in 2021. We also recently hired Ben Breier as Head of US Private Equity Health & Life. Mr. Breier built a long operating track record within the healthcare sector particularly with his recent role as CEO of Kindred Healthcare, one of the largest providers of healthcare services in the US.

Our transformational investing approach continued to result in strong underlying asset and portfolio performance. Our direct private equity portfolio again demonstrated strong operational performance with a Q1 last three months EBITDA growth of 15% year-on-year at a stable average EBITDA margin of 20%. This solid operational performance mitigated to a large extent the effect of valuation changes brought upon by public market devaluations, resulting in an overall decline of 5% across our direct private equity portfolio for the six-month period ending on 30 June 2022. Over the same period, defensive asset classes including private real estate and private infrastructure had relatively flat performance as did private debt.

During the more challenging market environment in H1, we maintained high pricing discipline across our thematic sourcing and investment approach. This translated into investments of USD 13.4 billion into highly interesting assets and portfolios.

One notable private infrastructure investment we made in H1 is Budderfly, a fast-growing energy-as-a-service (EaaS) solutions provider. We had already been following EaaS as a key trend for several years. Budderfly fills a unique niche on the path to energy sustainability by allowing its clients to lower their energy consumption while avoiding much of the related capital expenditures. To capitalize on this trend, we committed over USD 500 million with the aim to transform the company into a multi-billion-dollar next-generation infrastructure platform.

A key private equity investment that we made in H1 is Forefront, the largest dermatology group practice in the US. We plan to transform the company by building a platform ideally positioned to benefit from the expansion of dermatological specializations and physician-centric cultures in a fragmented market.

## Bespoke solutions continue to drive robust client demand

Partners Group sustained its growth trajectory in H1 2022. Client demand for the firm's investment solutions resulted in new commitments of USD 13.1 billion, with bespoke client solutions as the largest contributor at USD 9.3 billion. Within bespoke client solutions, mandates provide large institutional investors with a tailored allocation to private markets, while our evergreen programs in turn have liquidity features that serve wealth management clientele. Traditional closed-ended programs had the benefit of solid demand from those clients who prefer a dedicated strategy in commingled structures. They contributed a total of USD 3.8 billion.

## H1 realizations lower as select exits were postponed; sound pipeline

In H1 2022, we generated USD 6.4 billion in portfolio realizations on behalf of our clients. During the period, we elected to postpone the realization of certain mature, businesses and assets on the basis that the market environment was not conducive to achieving an optimal outcome for our clients' portfolios. For select mature assets, specifically those which benefit from the current environment, we decided to proceed to realization as anticipated.

For example, as we entered H2, we expanded the shareholder base of United States Infrastructure Corporation (USIC) at an enterprise value of USD 4.1 billion, selling a 50% stake while

# Message from the Chairman and CEO

retaining a 50% co-lead interest. USIC is a leading provider of outsourced "utility locate" services, which involve locating, identifying, and marking sub-surface utility infrastructure such as pipes, cables, and fiber. Over our holding period EBITDA increased 77% driven by entrepreneurial governance and strong organic growth via key value creation initiatives including investing in technician training and launching new tools to improve productivity.

## Update on stakeholder impact

Creating lasting, positive impact for all our stakeholders is key to generating sustainable returns. With our Sustainability Strategy, published in April, we have taken a significant step to advancing our position as a corporate sustainability leader in private markets.

Covering both our firm and our portfolio companies, the Strategy is built around environmental, social, and governance priorities, including realizing employees potential; tackling climate change and carbon reduction; creating positive stakeholder impact; and achieving ownership excellence and sustainability at scale. The full strategy is available for download on our website.

## Outlook: sustained growth expected to continue

As we enter the second half of the year, we reiterate our full-year 2022 fundraising guidance of USD 22 to 26 billion. We expect client demand to be diversified across our traditional programs and bespoke client solutions, a key differentiator for the firm and an area where we believe we are thought leaders.

Based on our solid exit pipeline of quality assets, we reiterate our mid- to long-term guidance for performance fees to be in the range of 20-30% of total revenues. For the full-year 2022, we expect performance fees to be below 20%.

We enter H2 with a highly attractive investment pipeline and full confidence in our platform. With that in mind we remain fully committed to delivering attractive returns, guided by our investment strategy.

As ever, we thank our employees for their dedication to building a leading private markets platform and our clients, business partners, and shareholders for their continued trust in our firm.

Yours sincerely,

**Steffen Meister**
Executive Chairman

**David Layton**
Chief Executive Officer