H1 2018 at a glance - Investments

Investments

USD 7.7 billion invested on behalf of our clients in corporate and real assets with attractive value creation opportunities.

Investments in H1 2018

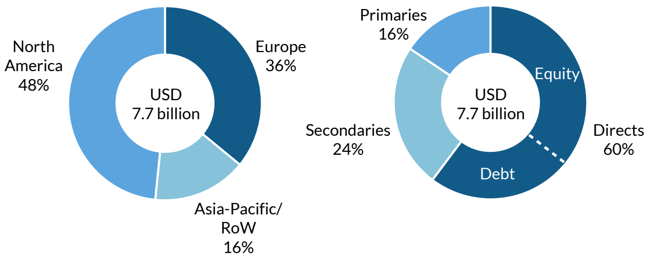
Record levels of dry powder combined with increasing competition persisted in H1 2018, keeping valuations at elevated levels across all private markets asset classes. In this challenging market environment, we continued to take a highly disciplined and prudent approach to investment and were able to lead a significant number of transactions.

In H1 2018, we invested a total of USD 7.7 billion on behalf of our clients across all private markets asset classes in geographies and industry sectors that exhibit favorable relative value characteristics.

Of this total amount, USD 4.7 billion (60% of all investments) was deployed in direct transactions, USD 2.8 billion of which was invested as equity in individual assets and USD 1.8 billion in corporate debt. A total of USD 1.9 billion (24% of all investments) was invested in secondaries in globally diversified private markets portfolios. To complement our direct and secondary investments, we committed USD 1.2 billion (16% of all investments) to select private markets managers.

Investment activity continued to remain geographically diversified in H1 2018, with 36% of capital invested in Europe, 48% in North America and 16% in Asia-Pacific and emerging markets, reflecting our global reach and scope.

Private markets investments during H1 2018
(based on volumes)

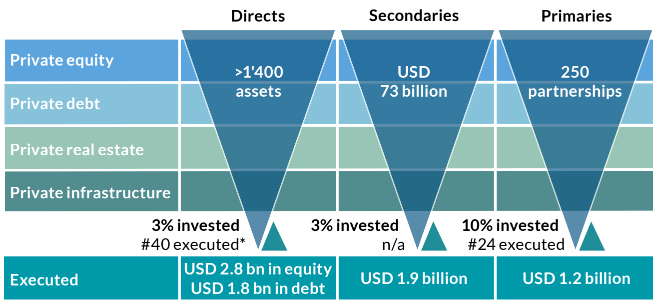


Note: figures exclude investments executed for short-term loans, cash management purposes and syndication partner investments.

Highly selective approach to investment

Our global platform of over 1'000 skilled professionals, together with our extensive industry network and proactive sourcing efforts, allowed us to maintain high levels of investment selectivity in H1 2018. These professionals screened over 1'400 direct transactions across all asset classes, investing in only 40 of them and registering a decline rate of 97%. They also generated USD 73 billion in secondary private markets assets deal flow and invested in just under 3% of this.

Deal flow H1 2018



*USD 2.8 billion invested in 19 equity investments and USD 1.8 billion invested in 21 debt investments excluding liquid loans in the syndicated debt market.
Note: figures exclude investments executed for short-term loans, cash management purposes and syndication partner investments.

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Global megatrends

Digital transformation

Technological change and digital innovation are rapidly transforming the world we live in. This trend stretches well beyond tech companies: it is impacting the way we live and work, and disrupting traditional business and operating models. In the corporate world, the early and adequate adoption of technological innovation can transform market pecking orders, turning smaller players into category winners or diminishing the competitive edge of market leaders. Outside of the corporate space, digital innovation is often targeted at improving and facilitating the lives of consumers, such as through smart housing, big data, online education and e-commerce, in turn creating investment opportunities in both the corporate and real asset classes.

New generation living & consumption

Consumer habits and lifestyle preferences are changing rapidly. The millennial generation is looking for a more service-oriented and instantly accessible consumer experience with technological innovation at its core: restaurants and holidays are booked online, money transfers and FX transactions are completed in dedicated apps, plants are watered and pets are fed remotely. Education, today available to almost anyone with internet access through online channels, will become a lifelong process, from early education to professional training, as technological innovation disrupts traditional career paths and creates the need to adapt to a constantly changing and increasingly automated business environment. At the same time, increased health awareness is raising demand for preventative care, healthier food and even genomics.

Energy revolution

Global energy markets have seen tremendous change. The shift towards alternative sources of energy as well as the shale gas revolution in the US are disrupting the traditional energy value chain. Renewable energy goals combined with the increasing cost competitiveness of renewable sources are encouraging the build-out of wind and solar platforms on a global scale. Another trend which will have far-reaching implications across the energy value chain is energy storage. However, it is not only energy producers and transmission companies that are affected by this. The production of software and hardware that interact with 'time of use' tariffs from electricity suppliers to select when to use power and which provider to buy it from is just one example of an ancillary business model.

Private markets investments[1]

Private equity

Direct private equity is our largest investment practice within our private equity business. We seek to invest in the following types of companies:

- **Platform companies:** we acquire platform companies or assets with a strong management team and infrastructure in a highly fragmented market and then purchase add-on companies to further grow the platform and benefit from synergies.
- **Niche leaders:** we acquire companies in sub-segments of specific industries benefiting from particularly strong products or services and demonstrating an ability to grow disproportionately, often through internationalization. We institutionalize the business and extend the product/service offering.
- **Franchise companies:** we acquire businesses or assets on a stand-alone basis; typically, single assets with value creation potential as well as strong defensive capabilities, high cash flow generation and the ability to quickly de-leverage. We seek to broaden their network and strengthen their positioning.

One fundamental trait of our direct equity investment strategy is the focus on highly entrepreneurial ownership and active value creation. Our aspiration is to develop businesses through a program of transformative entrepreneurial ownership towards category leadership in their markets.

Typically, this is achieved by these businesses successfully building dominance via add-on acquisitions; building on their particular niche expertise to seize market dominance; or substantially benefiting from their ability to scale a unique franchise. We focus on the development of businesses over a time horizon of four to eight years and seek to sell them through our usual exit routes once their transformation has been successful.

Often, following this initial period of transformative ownership or consecutive rounds of private markets governance, businesses demonstrate a proven, resilient business model with further outsized growth potential. In these cases, and in sectors with long-term visibility, we would seek to continue to hold the business with an entrepreneurial governance approach over the longer term (typically ten to 15 years).

For these longer-term investments, our active value creation strategy becomes more transitional than transformative, i.e.

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

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focused on achieving incremental gains in market share and platform growth, ongoing cost structure optimization, and furthering the franchise and competitive positioning.

In June 2018, we agreed to acquire **Ammeraal Beltech**, a leading Netherlands-based global supplier and manufacturer of light-weight conveyor belts. Its offering includes a broad range of different belting systems, applications and materials for nearly every major industry, including food processing, airports and baggage handling, logistics and textile production.

Headquarter: Alkmaar, NL
Employees: > 2'600 (2017)
Revenues: EUR 385 million (2017)

Shortly thereafter, in July 2018, we agreed to acquire **Megadyne Group**, a leading Italy-based global manufacturer of power transmission belts. It develops and manufactures polyurethane and rubber belts for use in power transmission and conveying systems, as well as a range of complementary products such as rubber hoses and metal pulleys.

Headquarter: Turin, IT
Employees: > 2'300 (2017)
Revenues: EUR 319 million (2017)

The combined enterprise value of the two companies is EUR 2 billion. Our key value creation focus over the next few years is to facilitate a merger of the companies in order to leverage the clear synergies that exist between them. Both operate in highly attractive markets supported by strong secular growth drivers, including increased global industrial production rates and increasing automation. They are highly complementary businesses in terms of product offering, market coverage and business model. We plan to lead commercial and operational excellence initiatives, including cross-selling and increasing exposure in under-represented markets, and implement strategic procurement processes. The board we put in place will reflect all the diverse capabilities and experience needed to effectively implement bespoke projects and ensure the executive committee is tightly managed. Once the merger of these two niche leaders is completed and our active value creation plan implemented, we anticipate that the combined business will have the potential to qualify as a category leader.

Private debt

We provide direct financing solutions that fill gaps in traditional debt market coverage and are often more attractive and flexible than those offered by the broader capital or syndicated loan markets, providing excess yields to our investors. We focus on three key strategies in senior and junior debt financing:

- **Offer creative structures:** we offer flexible and tailor-made capital structures that support companies' specific cash flow profiles and working capital needs.
- **Target attractive sub-sectors:** we target sub-sectors within industries where we have depth of experience and confidence in underlying growth fundamentals. We actively seek to invest into loan structures in these spaces in resilient companies growing both organically and via acquisitions.
- **Support buy-and-build strategies:** we support successful sponsors and management teams in their buy-and-build strategies by providing add-on acquisition financing in a timely manner, particularly under strict time constraints.

We also invest in liquid loans. These senior loans broadly syndicated by banks typically offer relatively lower returns but can be used as a cash management tool by fixed income investors because of their high liquidity.

In January 2018, we supported the acquisition of **Prometric** by Baring Private Equity Asia and were the sole provider of the second lien financing, which amounted to a total of USD 205 million. Prometric is a leading educational support solutions provider with services comprising test delivery, analysis and development. The US-based company operates about 8'000 test centers across more than 160 countries and delivers an average of seven million exams annually, including the Certified Public Accountant and United States Medical Licensing Examination. We were attracted to the transaction due to the company's market-leading position in relevant sectors of focus including the healthcare, financial and academic sectors. Moreover, with its recession-resilient business model, it has a highly loyal customer base with stable revenues. We specialize in providing flexible cross-border financing solutions to private equity sponsors in a timely manner. This transaction is a great example of this strategy in practice.

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Grassroots Renewable Energy Platform is an exclusive transaction to build a large-scale Australian renewable energy platform with local developer CWP Renewables, which we announced in May 2018.

The platform will be seeded with the 270MW Sapphire Wind Farm project and will in addition construct over 1.3GW of new wind power, solar power and battery storage assets across Australia within the next four years. Upon completion, Grassroots will be one of the largest Australian renewable energy platforms and will generate enough electricity to power roughly 500'000 average Australian homes.

With our entrepreneurial approach to asset ownership, we intend to add value by leveraging best practices from our Ararat Wind Farm and Sapphire Wind Farm investments and our network of trusted individuals with deep expertise in renewable energy.

Our value creation plan involves de-risking the platform by securing attractive project financing and power purchase agreements, and negotiating, structuring and financing a favorable platform for the underlying investments. Our dedicated asset management team will be actively involved in managing construction and the transition towards the assets being operational.

Grassroots Renewable Energy Platform

Private infrastructure

The institutional appetite for infrastructure investment shows no sign of flagging. We have concentrated on capturing attractive returns by focusing on the following types of infrastructure investment strategy:

- **Capitalize on platform expansion opportunities:** we look for investments that offer us the opportunity to build scale, for example through investing in fragmented markets that have the potential for consolidation and platform-building.
- **Proactively build core:** we seek out opportunities where strong long-term fundamentals in a particular market support the demand for building a select type of infrastructure, for example due to evolving infrastructure needs or changing market fundamentals.
- **Focus on operational value creation:** we focus on investment opportunities that offer us the potential to enhance operational value through growth and efficiency improvements. A key source of these opportunities is the ongoing trend for corporate owners of infrastructure to sell assets as part of a restructuring.

Private real estate

We focus on offering solutions to complex situations across our real estate business. With this focus, we see increasing correlation between the profiles of our direct and secondary investments. Both strategies are centered on an approach to value creation and active asset management capabilities and both target markets that have a favorable long-term investment outlook supported by social and demographic trends. We continue to prefer asset strategies that fall into one or more of the following sub-strategies:

- **Buy below replacement cost:** we target assets with low valuations located in rebounding markets that can be repositioned and then leased-up by under-cutting market rents.
- **Buy, fix, and sell:** we seek older buildings in great locations that are in need of owner-oriented asset management initiatives.
- **Develop core:** we target markets with strong long-term fundamentals and trends that support additional absorption to selectively develop properties through ground-up construction.

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Project Cobalt is a portfolio refinancing which involves the recapitalization of a portfolio of seven value-added office assets situated across several primary and secondary growth markets in the US. Nearly all of the properties are situated in markets characterized by high employment and population growth, such as Minneapolis, Chicago, Houston, Dallas and Atlanta.

The recapitalization will provide necessary additional capital to complete several of the assets' business plans, provide liquidity to some of the existing investors and maximize the value of the remaining assets rather than forcing an asset-by-asset liquidation. The business plan is to carry out value creation initiatives tailored to each asset, including implementing capital improvement works as well as leasing strategies to increase occupancy and tenant diversity.

The discounted entry basis relative to replacement cost and the strategic locations of the assets in markets with favorable supply and demand fundamentals as well as above-average historical rent and occupancy growth make this transaction attractive for our clients.

Divestments in H1 2018

In H1 2018, we continued to make active use of the supportive exit environment and were able to realize a number of mature private markets assets on behalf of our clients, leading to a total of USD 7.4 billion in underlying portfolio distributions. Some distributions to evergreen programs were re-invested for the benefit of the program's investment exposure.

We sold **VAT Group AG**, the leading global developer, manufacturer and supplier of high-end vacuum valves, which we acquired in February 2014, together with our investment partner Capvis. With our support, VAT was able to grow its revenues by a CAGR of 11% between 2013 and 2015, eventually listing on the SIX Swiss Exchange in April 2016 (ticker: VACN) with an offer price of CHF 45. We sold our remaining stake in January 2018. The sale completed our exit from the company, which generated a gross return of 6.0x on the original investment and a gross IRR of 74%.

In March 2018, we successfully listed **Aiyingshi**, a leading retailer of maternity and baby products in China, on the Main Board of the Shanghai Stock Exchange (ticker: 603214). The IPO valued the Company at a total market capitalization of RMB 2 billion (USD 300 million). Following the listing, we continue to hold 19.2% of Aiyingshi's share capital on behalf of our clients. We have actively worked alongside the company's management team on value creation initiatives including store network expansion, store quality improvement, IT and logistics infrastructure upgrades and collaboration with international maternity, baby & child product brands. With our support, Aiyingshi has delivered 14% revenue CAGR and 26% EBITDA CAGR since our initial investment in 2015 and currently operates 190 stores and an e-commerce platform.

In January 2018, we sold our stake in **Japan Solar**, a platform of Japanese solar power assets, generating a blended gross return of 3.2x on the original investment for Partners Group's programs. At the time of the sale, Japan Solar consisted of 27 secured projects totaling more than 610MW of capacity, of which over 200MW was operational and contracted into long-term power purchase agreements with Japanese electric utility companies. It is estimated that once Japan Solar's secured projects become operational, they will generate enough energy to power around 133'000 households.

In January 2018, we sold our stake in **Silicon Ranch Corporation**, a developer, owner and operator of solar energy facilities in the US. The gross IRR on the original investment stands at 29% as of 30 June 2018. The final return will be dependent on the company achieving predetermined milestones. Since our investment into Silicon Ranch in April 2016, the company has quadrupled its operating portfolio of commercial- and utility-scale solar projects. It now has approximately 880MW of contracted, under construction, or operating solar PV systems across 14 US states, as well as close to 1GW of additional development pipeline. With our support, the company has been able to execute its growth plan faster than expected and we took the opportunity to divest our equity stake to a strategic investor ahead of the original investment plan.