



Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

Offense remains the best defense

Private Markets Navigator Outlook 2021



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Welcome to Partners Group's Private Markets Navigator for 2021. The Private Markets Navigator shares Partners Group's economic outlook and investment preferences for all private markets asset classes.

Private markets outlook

Creating resilience in challenging times.

Against the unprecedented backdrop of the COVID-19 pandemic, the global economy has stuttered its way through 2020. Although the economic outlook for 2021 is uncertain, we are confident of finding opportunity in adversity and reiterate our belief that “offense remains the best defense” in private markets investing.

The coronavirus pandemic has pushed the global economy into the sharpest and fastest economic contraction since the Great Depression. The disruption is still ongoing as new COVID-19 cases have been rising since the middle of October, resulting in lighter lockdowns in many advanced economies. On a positive note, the rollout of a vaccine seems imminent. In the meantime, we expect that the recovery may be highly uneven by sector, and, in many cases, even by subsector.

Despite the severity of the contraction, we believe that pre-pandemic output levels should be within reach into 2022 for many sectors as they continue to recover – this is our base case scenario. However, there are many other paths the economy could take, and these will depend on a number of factors, mostly driven by how individual economic stakeholders react to the ongoing COVID-19 disruption and the resultant impact on consumption, hiring, capex and fiscal measures, as well as the rollout pace and efficacy of a vaccine. Downside risks dominate, as we outline below.

Opportunity in adversity

The uncertainty we see today creates challenges, but also opportunities, for companies and their investors. In this climate, we firmly believe that offense remains the best defense. Our thematic investment strategy, which targets transformative trends, combined with hands-on value creation at the asset level guides our investment efforts and helps us to steer our portfolios through these choppy waters. Indeed, the pandemic has amplified many of the transformative trends that are integral to our investment strategy. The need for social

distancing and remote working, for example, has accelerated the digitization of companies and industries, while disruptions to global supply chains have played into the rise of outsourcing with a near-shoring setup. Uncertainty has also allowed platform companies to create significant value by purchasing add-ons at attractive valuations. Our portfolios naturally experienced some degree of volatility in H1 2020, but our investment strategy has created stability and facilitated a quick return to growth, which may even be higher in the medium to long term as a result of the crisis.

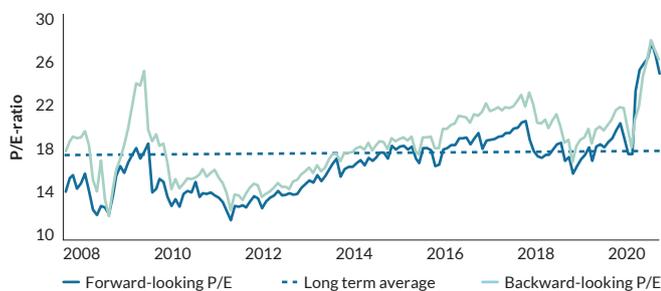
Valuations rebound

Capital market valuations have recovered rapidly after seeing the steepest drop on record in the early days of the pandemic. This is largely down to the unprecedented monetary and fiscal response from central banks and governments worldwide, which prevented the global economy from falling into a depression and has also helped the faster-than-expected economic rebound. Following the rally, valuations for many asset classes are back at pre-pandemic elevated levels. Elevated prices can be rationalized – to a degree – on the basis that interest rates are likely to remain particularly low for an extended period of time. However, we remain cautious in our valuations outlook because of the breadth of the rebound. Valuations in sectors more materially affected by COVID-19, such as the S&P 500 restaurant subindex, have also recouped declines. Over the coming period, valuations will therefore be susceptible to changes in discount rates and future growth expectations.



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S&P 500 index is trading at an elevated P/E-ratio



Source: Bloomberg, November 2020.

Our base case scenario: recovery to pre-pandemic output levels into 2022

The economic assumptions that feed into our underwriting are based on near-term, as well as medium- to long-term dynamics.

The COVID-19 crisis will most likely not just disappear, even with the probable rollout of a – potentially highly efficient – vaccine in the near future. At the time of writing, many societies remain in lockdown. However, we are optimistic on the prospects for recovery after these lockdowns end. We project strong catch-up tailwinds and the release of pent-up demand in 2021 as companies and individuals continue to adjust to life with COVID-19. The creation of a vaccine will unlikely provide an immediate solution. Roll-out will take time and, in the meantime, there may be more COVID-19 waves. But one should not underestimate the power of positive momentum and rebounding confidence, supported by record amounts of monetary and fiscal stimulus and record low interest rates. As a result, we project a strong near-term economic rebound and we expect output levels in many industries to reach pre-pandemic levels into 2022. We anticipate this rebound to be global, although its strength in individual economies will depend heavily on their sectoral composition – a technology-focused economy (e.g. US, France) is likely to bounce back more quickly than one that is more reliant on pan-regional tourism (e.g. Italy, Spain). We recognize, however, that the path ahead is unlikely to be straight as setbacks may well usher in periods of volatility.

The medium- to long-term dynamics will become more visible in 2022 and 2023, when the post-COVID-19 economic structure becomes clearer and we see how monetary policy response has shaped up. This uncertainty means that we are taking a prudent approach to the medium-term outlook. Trend growth rates should remain at modest levels.

On the upside, the acceleration of digitization and automation is expected to increase efficiency in some sectors and bring about a modest rise in capital expenditure. Further, a more constructive stance on foreign policy under the new US administration removes uncertainty. On the downside, supply chain near-shoring, halting globalization and increasing government intervention is expected to impede the productivity and competitiveness of many advanced economies.

Partners Group’s base case and asset testing scenarios

	Base case	Asset testing scenarios		
	Recovery, with high volatility	Conservative case	Stagflation	Stock market rally
Real GDP growth* (next 5-year average)	2.5-3.5%	1-2%	1-2%	2.5-3.5%
Inflation* (next 5-year average)	1-2.5%	0.5-1.5%	2-4%	1-2.5%
Change in Fed funds rate (in 5 years' time)	+50 to 100bps (to c. 0.8-1.3%)	Unchanged	+100 to 250bps	+50 to 150bps
Market valuations** (in 5 years' time)	0-10% lower	5-15% lower	10-20% lower	0-10% higher

*The 5-year average includes further catch-up effects in 2021 with more modest growth thereafter. NAV-weighted as per Partners Group’s asset split across US (c. 40%), Europe (c. 40%), other advanced and emerging markets (c. 20%).

**Market valuations refer to price-to-earnings ratios for public equities; enterprise value to earnings before interest, tax, depreciation and amortization for private equity; capitalization rates for private real estate; and underwriting internal rate of return for private infrastructure.

Source: Partners Group, November 2020. For illustrative purposes only.

There are further probable drags to growth over the medium term. These include the limited return upside from companies in the hardest-hit sectors that are being kept alive with government support or low rates, and the continued US-Sino conflict, which exacerbates production inefficiencies and creates uncertainty for some industries. Global leverage levels, already

high pre-COVID-19, have increased further, especially in the public sector. Moreover, the line between monetary and fiscal policy has been blurred, and the US Federal Reserve's new mandate – to aim for inflation “moderately above 2% for some time”¹ – is a cause for concern as it risks encouraging a period of higher inflation in the long run.

Under this scenario, limited economic growth may exert some downward pressure on valuations, although this may be mitigated by low discount rates, which support a trend for higher valuations than historical averages.

Conservative case: prolonged recovery until 2023

The first asset testing scenario is our conservative case. This is the most likely alternative scenario but with a lower probability compared to the base case. As the virus continues to spread, economic lockdowns may be prolonged and economic fundamentals become further impaired. Under this more conservative case, a recovery would be slower and more drawn out, with periods of economic setbacks and lower growth in the medium to long term. In this scenario, the recovery to pre-COVID-19 levels could extend into 2023, with more material second-order effects. Many sectors, for example consumer discretionary or certain services like administrative and professional services (e.g. consulting, leasing), would take longer to recover. Potential dampeners on growth include higher corporate default rates and slower rehiring if revenues remain suppressed. A rise in non-performing loans could hurt bank balance sheets and weigh on lending, capex and the labor market. Moreover, several governments may have to reign in their spending: the IMF projects the US fiscal deficit, for example, to exceed -14% of GDP in 2020 and remain in excess of -8% in 2021. Italy, France, Spain and the UK are expected to report 2020 fiscal deficits in the low- to mid-teens, falling to between -9 and -6% of GDP in 2021². Longer-dated rates remain anchored and financing fiscal deficits and rising debt loads poses no great concern for the time being. However, there may be growing unease about rising government debts, requiring a more limited and targeted fiscal response to the economic disruption. This scenario would see a more pronounced correction in valuations.

Alternative scenarios

There is also a much smaller risk that markets underestimate the inflationary impulse. While the global economy is still operating at an output gap, the near-shoring of supply chains, some deglobalization efforts and the limits on capacity in certain market segments could drive up prices. Moreover, central banks have created more than USD 7 trillion³ in additional liquidity since the start of 2020, a move that may well affect inflation expectations over the long term, especially

as already high government debt levels rise and there is a shift towards higher inflation in the US Federal Reserve's mandate. Indeed, debt deflation may become a “desirable” outcome. Taking a prudent approach, our **stagflation case** entails low growth, accompanied by higher inflation and a modest increase in central bank target rates.

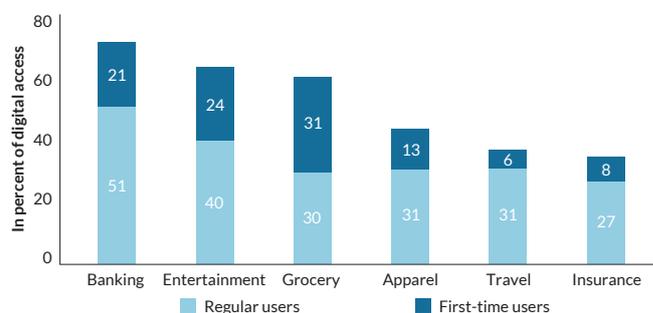
In an **upside case**, the positive sentiment triggered by current trends in monetary policy leads to a faster than expected recovery and upside surprises to corporate earnings (i.e. higher 2021 growth, but somewhat more muted 2022/23 growth). Average annual economic growth over a five-year horizon would not be materially different, but economic developments are seen as much more robust and the likelihood of downside risks eases. These dynamics could spur risk appetite and lead to a prolonged **market rally**, while rates remain anchored.

How COVID-19 has amplified transformative trends

We divide transformative trends into two categories. The industry category concerns the type of products or services that are offered by a company, for which business-model adaptations and technological advances are strong influencing factors. The other category involves structural market changes, such as the consolidation of fragmented industries.

The COVID-19 crisis has amplified a number of the transformative trends that we had already identified and directed capital towards, over the past few years. In the industry category, this includes the acceleration of digitization, automation and the simplification of business services. One example is the rapid move online of US consumers as lockdowns and the need for social distancing prevented in-person contact. Some of these consumers may otherwise have never made the switch and there will likely be a proportion who continue to access digital services over the long term.

Digital adoption by industry



Source: McKinsey, 'The recovery will be digital', August 2020.

¹ Board of Governors of the Federal Reserve System, September 2020.

² IMF World Economic Outlook Update, October 2020.

³ UBS, September 2020.

Companies that specialize in facilitating the shift toward a digitized service economy are well-positioned to be direct beneficiaries of this trend. Our portfolio company, **GlobalLogic Inc.**, is an example of this. A leading digital product engineering service provider, offering end-to-end software development services, GlobalLogic helps companies use digital technologies to reach, engage with and serve customers. The company has seen increased demand for its services from new and existing customers during the pandemic. **Civica**, another portfolio company, is a UK-based provider of business-critical software solutions, serving a predominantly public sector customer base. Throughout the pandemic, Civica has helped devise digital solutions for its customers to increase their operational efficiency. For example, it developed a COVID-19 information app that was launched by the Northern Ireland Department of Health, which provides an interactive symptom checker, chatbot and notifications. Civica also developed e-recruitment software to get health workers into posts quickly, providing assistance to National Health Service recruiters across England and Wales.

Covid-19 has amplified many transformative trends we had already identified and directed capital towards in recent years.

The pandemic has also accelerated some structural developments, such as the pace of consolidation. This acceleration can be driven by rising debt loads, limited access to financing and the benefits of scale when running a business in a difficult environment – smaller businesses face significantly more challenges in keeping operations going than larger companies. Consolidation is also being driven by increased recognition on the part of small business owners of the benefits of being part of a larger chain, including centralized administrative tasks, such as accounting, marketing and human resource management. Centralized management frees up time for higher-margin service offerings by specialized staff. We are witnessing this trend in healthcare services, maintenance services and education services in particular.

At the other end of the spectrum, some assets that have been negatively affected by COVID-19 will likely take longer to recover and may not return to their pre-COVID-19 levels for the foreseeable future. These include service providers in the retail, hospitality and tourism sectors that depend on a high-volume, client-facing business model. Similarly, low-margin companies that managed to survive in the post-2008 low-interest rate world will be challenged in sectors where

revenues remain subdued in the medium to long term – this will include airlines and cruise ships, although these lower-margin companies typically tend to be listed. Across all asset classes, Partners Group's platform exposure to these sectors and assets is very limited.

What this means for private markets

Private markets assets are often well positioned to generate strong performance in this kind of environment.

Outperformance over publicly-listed companies is the result of several factors, including an agility and swiftness to react proactively to changing landscapes – often more nimbly than peers in public markets. Private markets also have a long-term orientation, which leads to a preparedness for making larger adjustments (even at the cost of near-term margin headwinds) to build sustainable, higher profitability or more resilient revenue streams for the medium term. Further, private markets provide long-term financing security and flexibility to portfolio businesses, usually in exchange for control positions and an ability to exercise strong entrepreneurial governance – all of which are essential in times of volatility and make a significant contribution to private markets' outperformance.

Our emphasis on thematic sourcing and transformational investing **has helped our private markets portfolios steer through the crisis**. In many cases, the segments most negatively affected by COVID-19 (retail, cinemas, entertainment) were already facing structural headwinds, such as the rise of e-commerce and online streaming. Our thematic sourcing approach meant that we were already underweight in these sectors.

Following the initial shock of the pandemic, our direct private equity portfolio companies returned to positive monthly year-on-year earnings before interest, tax, depreciation and amortization (EBITDA) growth by June (see private equity section). In infrastructure, our focus on non-GDP-related investments and our conscious avoidance of the energy sector and commodity price exposure have resulted in solid earnings growth throughout 2020 for our direct infrastructure assets. In real estate, rent collection across the portfolio stands at a resilient 93% globally as of September 2020. Moreover, rent collection across our US real estate portfolio exceeds national averages for all sectors⁴.

The COVID-19 crisis has not materially altered our investment strategy, and we continue to avoid investing in companies whose profitability is subject to COVID-19 or macro developments, both of which are outside our control. Moreover, we continue to **rigorously apply asset-testing scenarios** to build comfort around risks to growth and valuations. All investment opportunities vetted by our

⁴ US national averages based on the National Council of Real Estate Investment Fiduciaries (NCREIF), July 2020.

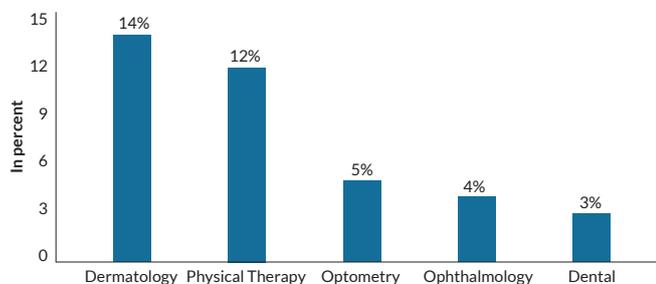
Investment Committee must be able to navigate all conditions, including those we described in our “conservative” and “stagflation” cases. Further, we continue to factor in **multiple contractions** for the majority of our assets over the holding period.

Our approach is evident across all our private market strategies, as we outline below (for more detail, please see individual asset class chapters).

Private equity

In private equity, we continue to **build resilient companies in sectors that benefit from structural change** by focusing on transformative trends and taking a hands-on approach to value creation. One way of doing this is to build out platform companies through add-on acquisitions, which are typically smaller companies with lower valuations. For this, we target leading companies in fragmented markets that are in the early stages of consolidation. Examples of this include our investments in certain US healthcare service providers, such as **Confluent Health**, an independent US outpatient physical therapy services provider. Confluent has been able to ramp up its program of tuck-in acquisitions as small practices struggled during COVID-19 and recognized the benefits of joining a larger platform.

Level of consolidation by investor-backed platforms, by multi-site provider segment



Source: EY - Parthenon, 2019.

Across all asset classes, investment opportunities are sourced in line with our thematic focus areas. The information box on page 11 explains in more detail how we go about defining themes and identifying potential target companies. At any point, we have about 40 to 60 focus areas, some of which have more near-term importance than others. One transformative trend that we have been monitoring for a while is the evolution of agriculture. A growing population translates into higher demand for food, while rising income levels lift caloric intake. At the same time, limits to arable land imply that most of the production growth needs to be borne by yield improvements. Sustainability concerns are further driving the modernization of agriculture. Having tracked the sector, mapped its ecosystem for nearly two years and held

a number of meetings with company management teams, in July 2020, we agreed to acquire **Rovensa** on behalf of our clients. The business is ideally positioned to support growing food demand in an environmentally balanced way, with a broad, sustainability-oriented product portfolio focused on specialty crops (fruit and vegetables). Rovensa is amongst the world’s top three providers of bionutrition and biocontrol products, together “biosolutions”, which provide agricultural crops with nutrients and protection whilst contributing to a reduction in the environmental impact of agriculture. Many of Rovensa’s products are based on natural or biological inputs, such as plant extracts and micro-organisms. The use of these sustainable products is expected to grow in the high single digits to low double digits over the next 20 years.

We see great potential to create value through our investment in Rovensa, with a plan to accelerate the development of the company’s leading and diverse portfolio and drive forward its internationalization. We will also support the company’s research and development culture, with a special focus on high-growth market niches; select acquisitions in biologicals will complement organic growth. Combined, these initiatives will play a major role in completing Rovensa’s transformation into a high-growth, truly international biosolutions provider.

Private debt

We apply a similar thematic approach to private debt, with a **focus on downside protection and capital preservation**. In light of the current macroeconomic environment, we have shifted our relative value focus towards the more senior end of the capital structure, which we believe offers a more favorable risk/return profile in the current environment.

To illustrate our sector-focused thinking, we have monitored the healthcare services sector for many years and have followed a number of suppliers and providers in defensible segments with attractive business models. We recently provided senior debt to a European developer, manufacturer and supplier of antiseptic, disinfectant and cosmetic preservatives products. We like the non-cyclicality of the sector, with industry sector growth rates of around 5%, and the potential for this to increase further post-COVID-19. Growth is driven by the aging population, more regular disinfectant use at healthcare facilities, stricter regulations and rising adoption of online distribution channels. In addition to offering exposure to a company operating in an attractive industry, post-COVID-19 economics were also compelling. Before the pandemic, the company was looking to raise a combination of first and second lien debt with a targeted debt to EBITDA ratio of approximately 6.5x. The post-COVID-19 capital structure was simplified to a single unitranche facility, providing for a more moderate 4.7x debt-to-EBITDA ratio with a higher spread.

Private infrastructure

In private infrastructure, we are maintaining our thematic and value creation focus areas, particularly as our direct portfolio performed exceptionally well during the crisis. Our modern infrastructure investing philosophy combines traditional infrastructure asset development with a private equity-like corporate build-out strategy to realize extra upside by delivering more complete infrastructure solutions. An example of how we achieve this is by building energy platforms that involve different renewable energy sources, storage carriers and in-house distribution setups. Our **Grassroots Renewable Energy platform** in Australia demonstrates this strategy. Grassroots is a combination of wind, solar and battery projects.

By sector, we continue to see growth opportunities in areas that support the shift toward a net zero carbon economy, including renewable energy and companies that contribute to reliability and flexibility in power production. We are also overweight in the densification of digital infrastructure, an area that has been a clear beneficiary of the COVID-19-induced acceleration of digital adoption.

Private markets are better able to make the larger adjustments needed to build more resilient revenue streams for the medium term.

Non-cyclical “new mobility” services, which combine transportation business models with new technologies, are another area that offer compelling growth upside. Mobility is a fundamental need and technology-agnostic mobility services offer an attractive risk/return profile. We focus on areas with low exposure to traffic volumes and high customer stickiness, such as electronic toll collection systems. We continue to limit GDP exposure and avoid commodity-price risk, as we have over the past years.

Private real estate

In private real estate, our investment strategy remains largely unchanged: we are a **situationally driven investor and we source opportunities off-market**. This works especially well in times of dislocation such as we see today, when real estate values will take time to adjust. We place a high emphasis on existing cash flows to provide downside protection and we seek to enhance return potential through value-add strategies. We steer away from offices and residential dwellings in dense, expensive gateway locations. We are convinced that

growth cities, such as Austin in the US, will continue to attract companies and people, enticed by the lower cost base and lower taxes. We focus on both residential and office assets in these locations.

Poland is an example of an attractive destination for office properties, supported by Europe’s decentralized back-office trend. Global firms are looking to reduce their cost of labor but still have access to a well-educated talent pool. Combined, Krakow and Wroclaw host more than 110,000 back-office staff, 32 universities and 245,000 students. Rental costs are materially below European averages, made more appealing by lower labor costs. We have recently acquired a portfolio of 11 Class A office properties in these cities. The properties are largely populated by well-known, blue-chip companies. During the diligence process, we held discussions with existing tenants who made clear commitments with regards to long-term occupancy. Long weighted-average lease terms well beyond our intended investment period and limited lease-up plans of new space provide further protection from COVID-19 impacts. The situation arose from a seller who was looking to sell a development company and its assets after a generational shift. Further, the structure attracted very selective investor demand, even pre-COVID-19, given its complexity. We were able to provide a holistic solution that entailed teaming up with an operator.

Logistics also continues to be overweight in our portfolio as demand for warehouse space rises in line with the growth of e-commerce. Retail, by contrast, remains underweight, although we may selectively consider distressed assets in the hospitality space. In the medium term, we stand ready to deploy capital in more traditional secondary opportunities once volumes pick up.

Conclusion

We remain confident that active sourcing with a theme-oriented approach and a transformational value creation strategy will be key to our success. COVID-19 has not materially changed the way we invest. If anything, it has strengthened our investment convictions as our direct investment portfolios continue to perform strongly.

Private equity

Transformational investing.

COVID-19 has amplified many of the trends that Partners Group focuses on. This underlines our conviction in our strategy of transformational investing, which combines thematic sourcing with a hands-on value creation approach.

Market overview

When we wrote last year's Private Markets Navigator, we did not envision that our investment thesis would be tested by a global pandemic only weeks later. Our long-term strategy, which is a combination of identifying above-average transformative growth trends and applying a hands-on approach to value creation, has yielded solid year-to-date results for our private equity portfolio, on behalf of our clients. In fact, the pandemic has amplified many of the transformative trends that we were already focused on before the COVID-19 outbreak, and it is enabling an acceleration of platform build-out strategies for many of our portfolio companies. With valuations at or above end-of-2019 levels and our projection of modest mid-term GDP growth, we are reinforcing our thematic and active investment approach.

Triggered by the COVID-19 outbreak and the closing of the economy, private equity activity entered a "risk off" mode between the end of February and May 2020, during which our attention was focused on employee health & safety and safeguarding our portfolio companies. Sales processes were delayed and global buyout volumes in Q2 2020 plunged by 40% year-on-year. The gap in valuations between what buyers were willing to pay and what sellers expected weighed on activity, on top of the physical distance challenges faced when diligencing and closing transactions during lockdown.

Debt markets have since reopened and capital markets have rebounded. However, investment volumes and valuation levels remain bifurcated across sectors. Resilient, high-margin assets with growth visibility are in high demand and, consequently, trade at premium valuations, often exceeding pre-COVID-19 levels.

This is especially the case for companies that have embraced or are facilitating the transition toward a digitized economy and certain segments within the healthcare sector, with IT software and essential health services being prime examples.

Our thematic sourcing approach revolves around transformative trends triggered by changes in structural and industry dynamics.

At the other end of the spectrum, multiples and investment activity in industries that were severely impacted by the pandemic remain subdued, including client-facing business models reliant on high customer volumes, such as airlines and hospitality. Similarly, highly levered, cyclical businesses require a return premium to compensate for increased uncertainty. We expect this dispersion to continue.

Dynamics within a single sector can vary greatly as has been clearly demonstrated by recent events, depending on whether the business offering of an individual company is client-facing versus remote, digital versus traditional, or bespoke versus off-the-shelf. High-level sector categorizations such as "healthcare" or "consumer" have lost some relevance as a result.

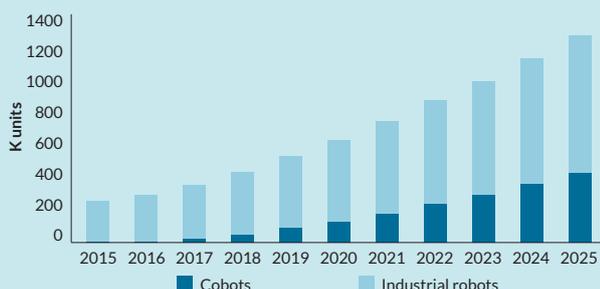
Our thematic focus areas

Our thematic sourcing approach revolves around transformative trends triggered by changes in structural and industry dynamics, such as technological advances or business-model adaptations. We look for themes that result in sustainable, above-average secular growth over a five- to ten-year period and typically follow 40 to 60 thematic ideas at any one time.

When exploring transformative trends, we look beyond the top layer to identify companies operating in less obvious underlying subsectors that are also benefiting from the trend. This second-order thinking often provides us with similar growth exposure at a much lower risk profile.

The concept is well-illustrated by industrial automation, an approximately USD 250 billion market growing at high single digits and becoming less cyclical.

Transformative growth of collaborative robots



Source: Partners Group analysis, 2020; American Automation Association; Teradyne.

The current phase of industrial automation is underpinned by the growing use of collaborative robots, or “cobots”. However, the cobot producer market has experienced a rapid increase in competition in an already crowded market. Therefore, to capitalize on this trend without facing intense competition, we look at companies operating one level deeper within the sector. In this example, the largest application for cobots is “pick & place” and assembly; as a result, we are exploring companies that produce essential components and subsystems such as robotic picking devices and 3D sensors.

The companies that we would consider for investment are market leaders within their segment, typically characterized by high and improving bargaining power in their ecosystem, with high recurring revenue and resilience due to a low share of total system cost. Target companies

are either already expanding their market share or have the scope to do so. We seek out sectors where we can build sizable platforms where consolidation translates into tangible synergies and improved system efficiency. Recent examples include investments in US health service provider chains, **Eyecare Partners** and **Confluent Health**. Both companies are operating in highly fragmented markets, where independent outlets are increasingly becoming aware of the benefits of being part of a larger chain.

Repositioning for future growth

In addition to identifying new investment focus areas, our thematic research also predicts what an ecosystem will look like in the future. This allows us to actively realize the full potential arising from transformative trends. For example, we are repositioning **Civica**, a provider of business-critical software, digital solutions and outsourcing services, from a traditional licensing business model into a Software-as-a-Service (SaaS)/cloud set up. This translates into highly visible, long-term subscription-based recurring revenues, instead of on-off higher upfront fees and low periodic licensing payments. **USIC**, a provider of infrastructure locating services in the US, is creating a national database to complement its physical locating services. The database will offer digital infrastructure mapping and analytics to a number of stakeholders including construction companies, paving the road to a digital company.

Evolving focus areas

Our thematic sourcing approach allows us to deprioritize trends when changing market dynamics or fundamentals make themes less attractive for investments. For instance, telehealth was a focus trend for us for a while due to its outsized growth, but it has limited barriers to entry combined with rich valuations and our ecosystem mapping yielded no clear winner, so we have deprioritized it. Also deprioritized is 3D printing, which is taking longer than initially expected to produce consistent cash flow.

We may also decide to fade out certain themes when we have already completed investments in the space, due to portfolio construction and diversification considerations. Examples of such themes include multisite healthcare businesses and aspirational consumer brands. Overall, this approach allows us the flexibility to pick winners based on a comprehensive framework.

Amplification of transformative trends

COVID-19 has amplified many of the transformative trends previously identified by Partners Group, including digitization, automation and outsourcing in a near-shored setup.

With remote working setups, lockdowns and social distancing measures, customers and companies alike have substantially accelerated the pace of digital adoption. This affects commerce, client interaction and business processes. The acceleration of digitization is driving demand for the services provided by **GlobalLogic**, a provider of outsourced software engineering services, which has reported growth from existing and new customers.

Concerns about pathogen transmission and the reshuffling of supply chains is accelerating the trend of automation, supporting demand for industrial belting solutions. Our portfolio company **Ammega**, a global leader in mission critical belting solutions, benefited from this as well as from resilience in its end markets such as food, pharma, and logistics/e-commerce, throughout the pandemic.

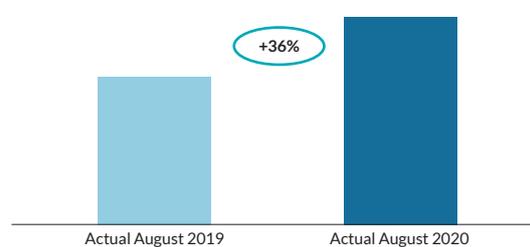
The COVID-19 outbreak has further highlighted many businesses' reliance on global supply chains and the disruption risks inherent in that. While companies usually outsource in order to reduce costs, supply chains are now being brought closer to their principal operations in order to minimize that disruption risk. Our portfolio companies **PCI Pharma** and **Hearthside Food Solutions** are direct beneficiaries of this near-shoring trend. PCI and Hearthside are specialized providers of outsourced critical services in the healthcare and food industries, respectively, providing services that cover product development, production and manufacturing, packaging, and commercialization. Throughout our ownership, PCI has completed add-ons to expand its geographical presence to meet its clients' requirements to outsource but keep supply chains within close proximity to operations. Meanwhile, Hearthside operates 35 facilities across the US, giving it the breadth of presence to do the same for its clients.

Current investment strategy

Long-term, proven strategies

Our thematic investing approach, combined with value creation, has helped steer our direct portfolio companies through the global COVID-19 crisis. While some of our portfolio companies were subject to volatility – for instance, lockdowns temporarily weighed on revenues of German toy producer **Schleich** and US childcare provider **KinderCare** – the overall portfolio is performing as expected. EBITDA across our private equity direct lead investments reverted to its positive double-digit year-on-year growth trajectory in June 2020.

Monthly EBITDA NAV-weighted y/y change in percent Partners Group private equity direct investments



Source: Partners Group and portfolio company information, October 2020.

This strong operating performance is due to various differentiated growth drivers, some of which are explained below.

Carefully selected growth themes

We avoid cyclicality and instead focus on sectors with steady demand regardless of economic dynamics. The humanization of pets remains unabated, and pet ownership is reported to have increased after the global lockdown as people seek companionship. Overall expenditure on pets and petcare has seen constant growth even through recessionary periods, including 2008/2009, which benefits our portfolio company **BlueRiver PetCare LLC**, a veterinary hospital operator. Another example of a non-cyclical sector we have recently invested in is agriculture. The agricultural sector is undergoing rapid change in light of rising food demand driven by population growth and sustainability concerns. The sector is highly resilient given the stable demand for food. We recently invested in **Rovensa**, a leading developer, manufacturer and supplier of sustainable crop lifecycle management solutions, as described in more detail on page 16.

Platform-building strategies

Our platform strategy entails the acquisition of add-on targets at attractive entry valuations. For example, the pandemic is an opportunity for **EyeCare Partners** to make acquisitions at a faster pace and at more attractive entry valuations. Many subscale independent providers have now recognized the benefits of joining a larger platform, which may have been able to implement measures during COVID-19 lockdowns that many



Tim Pihl Johannessen Head Consumer Industry Value Creation | **Christian Unger** Head Operating Directors and Entrepreneurial Governance

smaller players could not, such as keeping clinics open longer or offering additional benefits and access to a hardship fund for employees. Between May and July 2020, EyeCare completed nine acquisitions. Similarly, between January and August, France-based portfolio company **Foncia** completed more than 50 tuck-in acquisitions and maintains its busy pipeline.

Asset transformation

Asset transformation at Partners Group refers to enhancing business models, improving operational performance and capturing organic growth, as well as protecting and growing cash flows and operating margins. Portfolio company **GlobalLogic**, for example, has doubled its EBITDA since our acquisition in August 2018, due to a value creation strategy that incorporates geographical expansion, a more targeted sales approach and improved pricing discipline. At present, GlobalLogic is realizing opportunities to develop new applications to support clients’ business digitization in light of COVID-19 as well as serving private equity sponsor portfolios with their digital transformation initiatives, a successful new growth channel for the company.

We are also working to turn **Foncia** into a tech-enabled European leader in property management services. Ongoing projects revolve around the digitization of business lines that will play a major role in the future growth of the company, including the newly launched MyFoncia app. In light of COVID-19, we are also accelerating the build-out of **Schleich**’s e-commerce channel, an area of large value-add potential given under-investment prior to our ownership of the German-headquartered toymaker.

Outlook

The nature of investment opportunities that we are pursuing in a post-COVID-19 environment has not changed, but sharpened. We continue to look for resilient, high cash-flowing assets with above-average profit margins and growth potential driven by secular trends. We also focus on the visibility of organic growth, consolidation potential and downside protection. In this context, we may accept higher prices if we have a strong conviction about future growth resilience.

Corporate subsector matrix: relative value focus areas and investable universe

Healthcare	Bus. & fin. services	Consumer	Industrials	TMT
Transformative care • Diagnostics • Novel delivery • Home health	Education & training • Private education • Online education • Continuing education	Conscious consumer: wellness & sustainability • Functional ingredients • Natural over chemical	Dark factory • End of arm systems • Sensors, connectivity, control systems	Enterprise digital transformation • Domain specific vertical applications • Modernization of legacy apps
Value-based care • Social determinants of health • Outpatient procedures • Bundled payments	ESG • Clean-tech services • ESG compliance • Energy efficiency services	Connected consumer: speed & convenience • Ecommerce & enablers • Next gen consumer services	Modern logistics • Automated material handling • System integrators	Simplifying IT management and performance through the stack • DevOps • Security
Next generation treatments • New age biologics • Cell & gene • Digital therapeutics	Mission critical services • Testing, inspection & certification • Infrastructure maintenance • Facility / hygiene	Experiential consumer: experiences & things • Outdoorsy consumer • Rent vs. buy	Advanced manufacturing • Performance material • Critical installation systems • Industrial software	Explosion of data • Analytics & visualization • Data based SaaS • Machine Learning & AI
Digital & data revolution • Bioinformatics • Cloud infrastructure • Big data	Financial digitization • Banking software • Reg-tech • Insurance systems	Polarized consumer: bespoke vs. no frills • Mass personalization • Direct to customer disruptors	Industrial distribution • Specialty chemicals distribution • Maintenance, repair and operations	Internet of Things • Telematics • Fleet and transport management
Consumerism in care • Patient engagement • Direct to patient (DTP) • Wearables	Non-bank financials • Emerging markets lending • Specialty finance • Lending data services	Future society • Humanization of pets • (De)Urbanization • Digital natives	Future agriculture • Bio-solutions • Smart animal tagging • Vertical farms	Fintech • Risk management • Payments

Abbreviations: TMT = telecommunications, media & technology; DevOps = software development (Dev) and IT operations (Ops); SaaS = software as a service; AI = artificial intelligence. Note: bullet points in black highlight subsectors that Partners Group believes are particularly attractive/more actionable in the current environment. Source: Partners Group, November 2020. For illustrative purposes only.

Protecting value in a crisis

Not all portfolio assets escaped the COVID-19 crisis completely unscathed. Some restaurant chains are struggling (although our exposure to this subsector is primarily via our private debt portfolio) and early childhood education has also been negatively affected. Government-mandated business closures and nationwide employee furloughs have weighed on the demand for childcare, driven by employment insecurity and furloughed or remote-working parents preferring to keep children at home. While childcare was deemed an “essential service” in most locations, most providers closed their centers during the initial wave of the pandemic due to vastly reduced enrollments, and for the health & safety of teachers. Our US portfolio company, early-childhood education business **KinderCare Education**, kept 400 to 500 of its nearly 1,500 centers open to support the children of first responders and other essential workers, but had to operate those centers under increased restrictions around total occupancy, elevated teacher-student ratios, and more intense health & safety protocols. As a result, KinderCare faced major financial disruptions in March and April and revenues are still trailing 2019 levels.

Throughout the pandemic, we have been working with the KinderCare management team to design cash preservation and expense reduction efforts to help the business weather the near-term impacts. Agreements were struck with hundreds of landlords to reduce, defer or abate rent payments across the network of approximately 1,500 locations. Along with a number of our investment partners, we injected additional capital to allow the company to meet its near-term liquidity needs and continue making investments in areas that will be critical to long-term growth, including digitization of the business and curriculum and employee engagement efforts.

In the face of a slow and uneven recovery in the US, we shifted our focus to helping the company look toward the medium and long term. To do this, we used our insights from International School Partnerships, a UK-headquartered global private school platform, which has deep experience in areas such as e-learning. Further, we are evaluating the strategic acquisition of smaller and less well-capitalized players, and we made introductions to other Partners Group portfolio companies to drive increased enrollment and onboard additional corporate clients for the KinderCare At Work business.

Transformational investing: case studies

Outsourcing in the pharma industry

In 2016, we invested in **PCI Pharma Services**, an established business focused on contract packaging for the pharmaceutical industry. Through our thematic sourcing approach, we had identified the industry-wide trend of outsourcing diversified pharmaceutical services in a near-shore setup due to the pressure on big pharmaceutical companies to control costs and optimize manufacturing and packaging footprints while maintaining close collaboration and agility.

Through our hands-on value creation approach, we supported PCI in multiple dimensions to foster operational excellence and strategically reposition the company. Under our ownership, PCI expanded in high-growth, high-value capabilities and services categories such as clinical trial services and complex commercial packaging capabilities. We strengthened the management team by adding executives with a mindset focused on high-value drug products and building a strong second layer of leadership.

During our work at PCI, the operational focus was shifted away from the lower-margin commodity packaging business toward high-value, first-time drug launches in growing areas like biologics. High-value clinical trials were a limited part of PCI's overall operations when we invested in the company; within four years under Partners Group ownership, PCI more than quadrupled the revenue of this division. Revenue growth was further enhanced by focusing on underserved small- to mid-sized biotech clients that were not getting the right level of attention from large clinical companies.

Our healthcare industry experts revamped PCI's operational playbook to improve factory changeover times, scheduling and utilization, which considerably improved margins. We decreased energy consumption, reducing costs and environmental impact, and improved the company's health & safety performance. We also expanded the business globally through add-on acquisitions, building PCI's presence in Ireland, Australia, Germany, and Canada.

Due to its strategic market position, operational know-how and strong service orientation, PCI has been transformed into a leading near-shore provider of high value-added, integrated solutions. PCI's offerings provide end-to-end coverage of the pharmaceutical and biopharmaceuticals supply chain, from the earliest stages of drug development, manufacturing, and clinical trials, through to packaging and commercial launch.

This strategic transformation under Partners Group's ownership has resulted in a 25% EBITDA compound annual growth rate (CAGR), positioned PCI for continued future growth and made the business more resilient.

In addition, the impact of COVID-19 on PCI's operations was minimal. The pandemic accelerated trends we had identified in our thematic research, which resulted in significant new business wins and record growth in PCI's commercial and clinical business pipeline. PCI has proven itself as an essential partner in the pharmaceutical and biopharmaceutical supply chain, capable of responding with a high degree of flexibility to address urgent customer needs and fast-evolving projects.

In August 2020, Partners Group agreed to sell a majority stake in PCI, on behalf of its clients, to private equity firm Kohlberg & Company and Abu Dhabi-based sovereign investor Mubadala Investment Company. However, Partners Group, on behalf of its clients, retains a meaningful minority stake in PCI to further support the company's growth path.

When exploring transformative trends, we look beyond the top layer to identify companies operating in less obvious underlying subsectors.

Increased demand for medical vision services

The US medical vision services market is an attractive, resilient and non-cyclical USD 52 billion industry, supported by long-term tailwinds. The growth of the sector is underpinned by an aging US population, growing demand for premium products and increased managed vision-care coverage. In the US, 86% of adults over the age of 45 require vision correction. Importantly, the US vision services space is highly fragmented and in the early stages of consolidation.

In line with this trend, in December 2019, Partners Group acquired **EyeCare Partners**, the largest vertically integrated medical vision services provider in the US, operating in more than 520 locations across 15 states. EyeCare has an approximately 1% market share, more than five times the size of its next largest competitor, operating amongst a vast universe of around 10,000 ophthalmology practices and 20,000 optometry practices across the country. This high level of fragmentation is comparatively unusual in other industries. For example, Amazon has around 45% market share in the US e-commerce space¹ and the largest US insurance broker has a market share of 50%². The potential for industry consolidation is therefore substantial.

¹ Bank of America, February 2020. Reflects 2018 data.
² CSI Market, Q2 2020.

EyeCare's end-to-end offering comprises full ophthalmology services, including refractive, cataract surgery and macular degeneration. It also provides optometry services, such as annual eye exams, pre- and post-operative care and treatment of various conditions like myopia; and product sales of, for example, lenses, frames and contacts. EyeCare's business model creates a referral pipeline from its optometrists to its ophthalmologists, allowing the company to cater to patients throughout the patient lifecycle. This capacity for comprehensive treatment enhances the customer experience, contributes to customer retention and supports organic growth as doctors can maximize procedural capacity and focus on higher-margin procedures.

Consolidation is a core part of Partners Group's investment thesis in this highly fragmented industry, underpinned by the high average age of practicing optometrists and ophthalmologists, who often have no exit strategy for the practice they have built. The COVID-19 pandemic accelerated acquisition activity as smaller independent practitioners recognized the benefits of being part of a larger, more institutionalized and future-oriented platform. Additionally, many younger doctors with student loans to pay off prefer the safety and ease of employment over independence. EyeCare, with its doctor-led leadership, is ideally positioned to attract smaller companies and new talent.

In addition, Partners Group identified other value creation opportunities, including optimizing EyeCare's internal referral network, allowing optometrists to operate at the top of their license and allowing ophthalmologists to focus on higher-acuity services. During COVID-19, many patients and doctors engaged in telehealth appointments as an alternative to in-person appointments for the first time. The pandemic could act as a catalyst for further adoption of telehealth services and we will evaluate EyeCare's capacity to expand market share in rural areas in this way. On the operational side, we plan to optimize procurement and scheduling processes to realize synergies across the supply chain and consolidate back-office functions to capture efficiencies of scale and create operating leverage.

Due to government shelter-in-place guidelines, we temporarily closed EyeCare clinics in March and April 2020. However, by the end of May, with enhanced health & safety procedures in place, EyeCare was effectively fully operational again – 96% of its optometry clinics and 100% of ophthalmology clinics were open. By mid-July, patient volumes had rebounded to near pre-COVID-19 levels due to the critical and urgent nature of many of EyeCare's services.



Rovensa, a leading provider of specialty crop nutrition, protection and biocontrol products.

Agricultural demand and sustainability

Rising food demand and sustainability considerations present opportunities and challenges for agriculture investors today. Global food production is expected to increase by more than 50% by 2050³, driven by population growth and increases in average caloric intake as per capita incomes grow. However, there are constraints on the availability of arable land, and increased land use will only be able to meet a fraction of this increase. To close the gap, yields need to rise continuously and considerably. In addition to the necessity of increasing yields, regulators and consumers are increasingly demanding sustainable agricultural practices.

These trends are accelerating a transition toward biological crop nutrition and crop protection products, which are expected to grow three times faster than conventional, chemical-based nutrition and protection products. Through active management of the nutrient uptake of their crops, farmers can increase output and improve produce sustainability at the same time as protecting them from insects, weeds, and fungi.

In July 2020, Partners Group agreed to acquire a major stake in **Rovensa**, on behalf of its clients. Rovensa is a global leader in the specialty crop nutrition market and the local biological and traditional crop protection markets in which it operates. Its positioning is underpinned by a combination of substantial product research and development – backed by over 1,500 field trials per year – and a go-to-market strategy centered on its specialist field force of expert agronomists, who over time become growers' trusted advisors, leading to more than 90% in repeat sales.

³ World Resource Institute, July 2019.

Agricultural input markets have proven resilient through several recessions, including the Global Financial Crisis (GFC). In fact, Rovensa grew its top line revenue and EBITDA through the GFC and, more recently, through the first half of 2020 despite the impact of COVID-19 on the global economy. Over the long term, dietary and health trends are expected to contribute to an increase in the consumption of plant-based food, and fruit and vegetable growers will be key beneficiaries of this trend. Given Rovensa's focus on fruit and vegetable-related products, it can expect price and volume growth and above-average margins, further indicating a positive growth story.

Our value creation strategy for Rovensa is based on a combination of organic and inorganic levers. We aim to continue to expand Rovensa's product leadership through research and development, actively managing and improving the product mix. We also aim to accelerate the company's internationalization seeking increased exposure to high-value, high-growth markets in Latin America, the US and Asia-Pacific. Finally, we will continue to acquire and integrate synergistic add-ons, with a focus on bio-nutrition and biocontrol that will contribute to Rovensa's leading portfolio of sustainable biosolutions.

Under Partners Group's ownership, Rovensa will continue to contribute toward UN Sustainable Development Goal 2.4 by ensuring sustainable food production and resilient agricultural practices.

Our portfolio ESG approach

In 2020, Partners Group continued to strengthen its rigorous approach to responsible investment and COVID-19 has further amplified investor attention on Environmental, Social & Governance (ESG) matters.

In 2008, Partners Group was amongst the first managers to join the United Nation's Principles for Responsible Investment (UN PRI) initiative, leading private markets engagement in ESG matters. In 2020, the firm was proud to receive an A+ rating for 'responsible investment strategy and governance' from the UN PRI for the sixth year running, a reflection of how responsible investment is embedded throughout Partners Group's entire investment process.

All investment opportunities at Partners Group are screened against our ESG Due Diligence Assessment, with findings flagged directly to our investment committees. More in-depth ESG work, including our ESG engagements and value creation initiatives with portfolio companies and assets, is led by Partners Group's dedicated ESG and Sustainability team alongside their colleagues from the investment teams.

Within our portfolio companies, we execute ESG projects ranging from environmental topics, such as energy management, to social topics, such as responsible supply chain management and health & safety, to governance topics, including improvements to anti-bribery and anti-corruption policies. These initiatives are designed to have a tangible impact on our portfolio companies, employees and their stakeholders.

For instance, at **Ammega**, a global leader in mission critical belting solutions, we focused on health & safety as an ESG priority. As a result of the implemented initiatives, the company's lost-time injury frequency rate, the number of incidents that caused the loss of at least a day of work per 200,000 hours worked, has decreased by more than 60% since our acquisition in late 2018.

Health & safety was also a priority ESG topic at **USIC**, a leading provider of underground utility locating services in the US. USIC employs 9,000 field technicians who are

on the road each day conducting utility locating services on tight deadlines. They predominantly work alone and sometimes in high-risk environments. By adopting a zero-tolerance safety program for all USIC operations, we have eliminated over one third of all motor vehicle accidents, reducing collisions per million miles from 9.0 in 2017 to 5.3 in 2020. We have also driven down the rate of injuries in the field by nearly 50%, moving the lost-time incident rate from 0.81 to 0.43 over the same period. Finally, we brought down the environmental impact of USIC's operations by reducing fuel usage for the company's fleet of trucks.

To accomplish this, Partners Group used one of its key innovation levers of developing digital business technologies. Partners Group and USIC created new features in TicketPro, a proprietary software system that provides USIC employees with a list of their locations each day. Within the system, USIC's IT team custom built capabilities to manage key ESG impacts, including employee retention, driver safety, and carbon emissions, while optimizing field operations. The tool also incorporates employee satisfaction tracking, allowing employees to communicate their well-being to their supervisors with the click of a button.

The reduction of packaging is another issue gaining importance as consumer awareness of the impact of single-use plastics and containers increases. At **Hofmann Menü Manufaktur**, a leading German provider of customized cook and freeze products to small business canteens and social organizations, such as retirement homes, hospitals and schools, we started transitioning from aluminum trays to bio-degradable packaging after many years of research and collaboration with suppliers to develop compostable packaging that met the high standards of the food industry. We reduced aluminum consumption by 30% in 2019 and aim to replace all packaging lines before the end of 2020.

For more information on Partners Group's portfolio-level ESG initiatives, please see our [2019 Corporate Sustainability Report](#).

The industry view

Q&A with an industry expert.

An entrepreneur and investor with extensive board experience, **Luisa Delgado** is the Chair of Partners Group portfolio company Schleich, one of Germany's largest toy manufacturers. Here, she explains how consumer tastes have evolved over the course of her career, what Schleich is doing to harness the digital transition and why she was initially hesitant to work with private equity.

You have focused your career on consumer-facing industries. How have the demands and priorities of consumers evolved since you first entered the business world?

Consumers have evolved as regards what and why they buy. There is much more focus now on health and the environment – products that do something good, or certainly don't do anything bad. Where products come from is incredibly important nowadays, whilst it wasn't really 30 years ago. Customization, or at least personalization, has also become important for a consumer who is in search of differentiation.

How we buy products has changed dramatically. We want to be able to buy things anywhere and everywhere and have them delivered or pick them up however we want. As a consumer, nowadays I expect to be engaged with what I buy, to see it on social media, and know the story behind the product: who made it, where, and in what way.

You joined the Schleich board last year, when Partners Group acquired it. What was it that first attracted you to the company?

The brand – I love brands. I think brands are like people – their personalities, their character, their values. It's fascinating to be able to be part of a brand's development and bring it to the broader world.

There are many brands out there, but very few have the power to touch your heart and mind. I think Schleich really does that – it is a "love brand" and love brands are the Nobel Prize winners of brands. You look at a Schleich figurine and you just

know it's a Schleich character – it is distinctive and authentic. You see how it brings out the best in children's imagination and, also, frankly, touches us adults.

While my Germanic friends would certainly all know Schleich, I realized it wasn't as well-known internationally. So, the attraction was figuring out how to preserve and develop what's great about this authentic love brand, develop it internationally, and make sure that, operationally, the company can enable that.

There are many brands out there, but very few have the power to touch your heart and mind. I think Schleich really does that.

Schleich is a very traditional toy company in an increasingly online world. How is it managing the digital transition?

At Schleich, we have reflected very carefully on whether digital interaction could and should, ultimately, replace human interaction in play. Schleich makes toys, for sure, but its toys primarily help to educate children, enabled by the figurines that engage children and develop their ability to imagine and tell stories through play. As we all know, this is key for human development, growth and leadership.



Luisa Delgado is Chair of the Board of Directors of Schleich, one of Germany's largest toy manufacturers.

She began her career at Procter & Gamble, where she spent 22 years, initially in HR where she rose to become European Vice President of the function and then, ultimately, as local CEO of the Nordic region.

After Procter & Gamble, Delgado served as Executive Board member and Chief HR Officer at SAP for a year, before becoming CEO of Safilo, the global luxury eyewear company.

Today, Luisa is an investor and co-entrepreneur, as well as serving as chair and non-executive director at a number of listed, privately held and family-owned companies across Europe, including INGKA/IKEA and AO World.

Our vision is to amplify haptic and human interaction with Schleich characters through digital mediums. The figurine is the haptic aspect and haptic interaction is at the core of the brand – we want to carry that forward with pride. But we also want to emphasize the educational benefits of haptic interaction because touch – the ability to feel and move figurines – is all part of fostering imagination through experience.

Then you have the digital part. Imagine a child looks at its lion figurine and wonders, "How old does that lion get? How much does it eat? Where does it live?" Digital enables that learning in easy and fun ways and fosters curiosity. Imagine if that child could then also watch a Schleich animation illustrating the lion's life?

What are the key focus areas at Schleich on the ESG side?

We see ESG as a clear driver of value creation, central to the articulation of our overall strategy. Sustainability is integrated into Schleich's purpose and DNA.

We are purposefully focusing on plastic use on the environmental side. We are studying cradle-to-cradle applications as we believe that could provide the ultimate circular approach. We are looking at every step of the production process and every material to be sure that they are compatible with our environmental aims.

Packaging is key and we have to act fast on that. It has traditionally been a big topic for fast-moving consumer goods companies – you have a lot of empty space; you have a lot of plastic – it can and must be simplified. So, we are really looking at the whole end-to-end chain from conception to production to selling. We are well on our way with our plans, led by one of our strategic transformation project teams that we have mandated to study the opportunities. This team reports back to our Strategy Committee every month on progress, alongside our six other strategic project teams.

On the social side, there is our workforce, where we focus on inclusion, diversity, health and safety, and employee and community support. Our company's educational purpose is about our societal contribution and collaboration with childcare and education experts. It's an area that I feel personally very strongly about. At Schleich, diversity, of course, means gender and race, but it also means attracting international talent because we want to be an international company. We are purposefully opening our talent development to different cultures to better understand and serve our consumers across the world.

On the governance front, I see Partners Group's entrepreneurial governance approach as a major driver for value creation at Schleich. The articulation of the interdependent roles of executive management, board and investor, and agility in that construct, are important in driving the pace and sustainability of our progress.

Schleich is your first board role at a private equity-owned company. Is it fair to say that you initially had a few reservations about the industry?

I had four reservations about the private equity industry. The first one was that the industry is not always well understood by society at large, and is, more-often-than-not, looked on suspiciously. The second concern was the business model: does private equity really add any value through operational and thus sustainable transformation, or is it simply financial engineering?

The third concern was a certain elitism I'd observed in the industry over the past 20 to 30 years, which struck me as being rather divisive, and even pompous at times. I was also concerned about the extent to which employees of an investee company would be included in major value creation undertakings and rewards. Finally, I was unsure what ESG credentials private equity would really have. Those were my four concerns, all touching aspects, and, ultimately, personal and professional values that are important to me.

We have reflected very carefully on whether digital interaction could and should, ultimately, replace human interaction in play.

How were those concerns resolved?

With regards to business model: I have learned that well-led private equity can deliver operational transformation, as Partners Group does. Private equity does not have to rely on magical financial engineering and it is also not merely financial supervision.

We are in a sector that envisions, facilitates, drives, directs, and invests in operational transformation. We're adding value with financial and intellectual capital. We coach and support our executive management and strive for excellent performance. The Partners Group network is powerful – just the other day I was on the phone with another Partners Group Lead Operating Director exchanging learnings. That's incredibly rich and enables us to bring so much more firepower to help management drive the business forward.

On the elitism point, I quickly experienced that one of Partners Group's strengths is being down to earth. They like mountains; I come from the mountains – there is no place for elitism on a climb. As to ESG, I've seen the desire to prove that investing in ESG performance along very defined parameters creates value in an asset and, as a consequence, adds to its sustainability going forward. I like the methodical approach to that and am glad to be able to contribute to that effort.

And what about private equity's public reputation?

I continue to be concerned about the industry's reputation. I have come to the conclusion that there is a real opportunity to build the reputation of private equity and increase the level of trust toward it, and I want to contribute to that. Building that trust is crucial as private equity managers invest more and more capital across the world.

What's missing, in my view, is the simple and compelling narrative of the purpose of private equity for society at large, and the tangible actions that can build trust in that narrative. Many people work in a company where the owners have come and gone over the years. The business direction changes, things stop and go, and this results in the build-up of pressure and uncertainty. Every owner talks about value creation, but employees at large are left with the question, "Well, value created for whom?" I think that is the essential question underlying reputation and trust.

I have seen over the past months very thoughtful initiatives by Partners Group that clearly indicate that stakeholder engagement and care is a priority. These relate to employee inclusion and broader stakeholder care through ESG priorities.

It's early stage, but I can see the positive impact on Schleich employees and stakeholders. For our customers and suppliers, knowing and trusting the private equity investor is a foundation for sustained, superior value creation. That starts with understanding the investor's values and operating principles and being involved in developing a strategy to jointly achieve stretch objectives. It includes building trust that in working toward these joint performance objectives there is give and take. For example, the pandemic has shown the need for responsible company support, on the one hand, and employee performance above and beyond normal expectations, on the other. Transformation requires training, investment, and offering learning and development opportunities to all employees. It is inspiring to participate in bringing this higher-order purpose to life for a superior business benefit. It is an unbeatable virtuous circle, in my view.

Private real estate

Opportunity in adversity.

The full impact of COVID-19 on the global real estate market will only be understood with time, but it is already clear that it will vary greatly by property type and location. Situationally driven investors will likely be ideally positioned to take advantage of market dislocations going forward.

Market overview

The immediate effect of COVID-19 on the global commercial real estate sector was a sharp decline in transaction activity: deal volumes fell by 55% in Q2 2020 compared to the same period last year¹. This decline was partly caused by an inability to perform due diligence while lockdown measures were in place and wide bid/ask spreads that encouraged sellers to hold assets for longer.

We believe growth cities, with above-average population and employment growth, will continue to attract companies and people.

We expect an increase in activity in 2021 as potential negative year-end valuation adjustments get absorbed and sellers adjust their price expectations. In certain instances, however, we anticipate there could be deeper distress felt by both GPs and LPs, particularly those exposed to retail, hospitality and troubled office assets, with a fall in valuations and capital constraints leading to distressed sales activity.

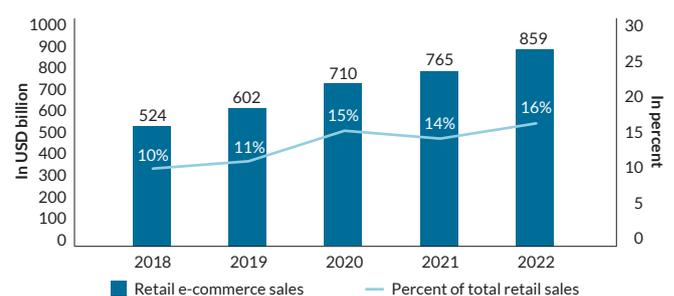
¹ JLL Global Real Estate Perspective, 7 August 2020.

Real estate by sector

There is a clear divergence in performance across various real estate segments. **Logistics** has been the relative winner. Strong growth in e-commerce has driven the demand for last-mile logistics, supporting rental levels. **Office** has been challenged as physical occupancy dropped significantly due to the crisis. In the **residential** sector, meanwhile, people continue to migrate to places where they have more space and can find relative affordability. **Retail** has also been hit hard as store front rental receipts fell materially during lockdown periods, exacerbating a sector decline that was already well established. Equally, for hospitality, lockdowns have caused hotel revenue streams to tumble.

For specific subsectors, the long-term effects will only crystallize with time. This is particularly true for the office sector and we are keeping a close eye on the decisions that organizations are facing and that we think will shape office demand going forward (see page 23).

Retail e-commerce sales in the US



Source: eMarketer, May 2020.

Resilience during COVID-19

Our real estate portfolio has shown resilience during 2020. The struggling retail and hospitality sectors have been underweight in our investment strategy in recent years and currently comprise less than 15% of the NAV of the combined Partners Group control investment real estate portfolio. Our strategy of favoring office buildings in growth cities over denser and more expensive gateway cities reliant on public transport resulted in our portfolio hardly being affected by lockdowns and has contributed to its resilience.

Our overall rate of rent collection in September 2020 across all regions and sectors was 93.3%. Residential performed the strongest with 97% of rent collected, followed by office and logistics with 97% and 93% of rent collected, respectively. Retail remains challenging, with 73% of rent collected, although this remains a small proportion of our overall portfolio.

Focusing on the US, which accounts for nearly two-thirds of our control investment exposure by NAV, our portfolio is performing above national averages in all sectors, as shown in the chart below.

Furthermore, our more recent direct equity acquisitions, completed in 2019 and 2020, have performed well throughout the crisis, benefiting from occupancy rates of above 70% and secure capital structures with no debt maturities within the next 18 months.

US rent collection by property type



Source: National Council of Real Estate Investment Fiduciaries (NCREIF) Rental Analysis Report, September 2020, weighted by value.

Current investment themes

Given today's market environment, we take a very cautious outlook on rent growth in the short to medium term and maintain prudence in our underwriting assumptions, shying away from opportunities that do not meet our strict standards. As valuations adjust and bid/ask spreads narrow, we expect to see a material increase in opportunities in 2021.

For office and residential assets, it is too early to assess how remote and flexible working will impact long-term demand in metropolitan areas such as New York City, San Francisco and London. Nonetheless, we have conviction that growth cities, characterized by above-average population and employment growth, will continue to attract companies and people, driven by their lower cost base and favorable tax regimes relative to high-cost gateway cities. We therefore continue to overweight residential and modern office assets in these regions.

The logistics sector continues to benefit from the growth of e-commerce, which has been accelerated by COVID-19. Retail and hospitality continue to be clear underweights. We expect the shift from bricks-and-mortar retail to e-commerce to continue to challenge the retail sector until rents stabilize at affordable levels and more leases convert to turnover-based structures. We also remain cautious of pursuing heavy asset repositioning opportunities in these sectors unless they are justified by high discounts, which we are generally not observing in the market at this time.

Long on logistics

Structural tailwinds in e-commerce remain strong, driving demand for logistics real estate. In particular, we have conviction in last-mile distribution facilities, smaller urban logistics warehouses, and cold storage units. Each of these segments will benefit from an increase in smaller and more fragmented online orders from consumers who are demanding shorter delivery times and a wider range of goods. Higher up the supply chain, we also favor large distribution centers that service these smaller facilities, particularly those that are located in business-friendly jurisdictions; have good port, rail and/or highway connectivity; and are proximate to a deep pool of relatively affordable labor.

Automation will, of course, further impact the location and design of logistics in the future. As automation in both warehouse operations and transportation advances, demand for these larger distribution centers may shift further away from major population centers. Therefore, for logistics assets tied to e-commerce, we expect rent rates to hold firm and cap rates to compress in the near term, both near gateway cities and in secondary markets. Conversely, we remain somewhat cautious on traditional warehouses linked to manufacturing, as we expect these assets to suffer headwinds from weaker economic prospects.

In light of these trends, warehouse assets in prime micro locations that benefit from strong growth in consumption in general, and online consumption in particular, should be met with robust tenant demand. In the US, the percentage of online sales as a share of total retail sales increased to 20.8% in Q2 2020, driven by the growth in e-commerce sales accelerated by COVID-19². We seek out locations with good transports links, in close proximity to larger cities, and with limited land supply due to their infill location.

As an illustration of this approach, we recently **acquired a portfolio of industrial assets in the US**. The portfolio is concentrated in several of Partners Group's high-conviction US target markets, including Raleigh-Durham, Austin and Denver, as well as infill locations near major East Coast population centers. An example of one property in the portfolio is a **Class A industrial warehouse** located in Kearny, New Jersey. The property is well situated to serve as a last-mile distribution facility given its location 45 minutes' drive away from New York City. Furthermore, Newark International Airport, Port Newark and Port Elizabeth are close and large metro areas, such as Boston, Philadelphia and Washington, D.C., can be reached within a half-day's drive. In addition, the 77,000 square foot property features 28-foot clear heights, nine dock-high loading positions and over 100 truck storage spaces.

Consequently, this asset is desirable to e-commerce companies that are dependent on a high-volume and high-velocity movement of goods. This off-market situation was sourced through our existing relationship with the operating partner managing the portfolio. The transaction was triggered by the sole limited partner of the portfolio, which was seeking a liquidity event due to concerns around its concentration limits with the manager. The value creation plan involves driving additional net operating income (NOI) growth through leasing up existing vacancy and near-term known vacates, marking

below-market rents to market rate and developing a new Class A industrial development on a build-to-suit basis. Partners Group was well-positioned to recapitalize this opportunity as the operator sought to partner with an institution that could provide a holistic solution for the entire portfolio.

Residential: renaissance of the suburbs

As flexible working arrangements allow people to move further away from offices located in city centers, we favor residential assets located in suburban areas that are well-connected to the urban core through different transportation channels. Residents previously renting small and expensive units in dense areas are now driving up demand for apartments and single-family homes in popular suburban areas around these cities. By way of example, the average market rent for a Class A, one-bedroom apartment in Midtown Manhattan is USD 5.47 per sqft/month, compared to USD 2.99 per sqft/month for a similar unit in Westchester County, a suburban area located 30 minutes to the north in the New York Metropolitan Area³.

The COVID-19 crisis has further accelerated the trend of moving away from dense cities altogether, in favor of lower-cost locations where residents can afford larger units with access to the outdoors. This trend emphasizes our long-held focus on multi-family housing in cities where population growth outpaces the delivery of new supply and where job growth outstrips the national average. In this context, affordability remains a significant driver of occupier demand. Likewise, properties with access to outdoor space and other amenities are expected to continue to be in high demand. However, in light of higher unemployment and, eventually, fading income support from states and governments in many advanced economies, we prudently consider the adverse impact on rent growth, especially in the near to medium term.

³ CoStar, market rate Class A, 1 bedroom, Q2 2020.

² Digital Commerce 360 analysis of US Department of Commerce data, 18 August 2020.

Real estate subsector matrix: relative value focus areas and investable universe

Residential	Office	Industrial	Retail	Other
Apartments to let <ul style="list-style-type: none"> Expanding cities Affordable rents E.g. Dallas-Fort Worth	CBD construction w/pre-leasing <ul style="list-style-type: none"> Cities with supply constraints Active pre-leasing markets E.g. Seattle	Last mile logistics <ul style="list-style-type: none"> Urban infill locations Flexible assets E.g. Chicago	Regional shopping centers <ul style="list-style-type: none"> Premium fashion Leisure/food & beverage Outside of focus	Urban mixed-use <ul style="list-style-type: none"> Gentrifying suburbs "Work-live-play" offering E.g. Beijing
Apartments to sell <ul style="list-style-type: none"> Affordable smaller units Amenitized urban locations E.g. Copenhagen	CBD repositioning <ul style="list-style-type: none"> Capex-starved assets Areas with competitive rents E.g. Berlin	XXL logistics <ul style="list-style-type: none"> Regional distribution centers High-bay/cross-docked E.g. Australia East Coast	District shopping centers <ul style="list-style-type: none"> Food & non-food Discount retailer-anchored Outside of focus	Student housing <ul style="list-style-type: none"> Strong communities Off-campus offer Outside of focus
Affordable housing <ul style="list-style-type: none"> Key worker focus Discounted market rents E.g. regional UK	Non-CBD constr. w/ pre-leasing <ul style="list-style-type: none"> Established office hubs Discounted rents to CBD E.g. DTC (Denver)	Cold storage <ul style="list-style-type: none"> Demand for grocery delivery Demand for fresh goods E.g. Seoul	Grocery units <ul style="list-style-type: none"> Convenience offering Urban infill locations Outside of focus	Senior housing <ul style="list-style-type: none"> Demographic-driven offering Independent living E.g. Florida
Single family homes to let <ul style="list-style-type: none"> Suburban locations Requires scale E.g. London	Non-CBD repositioning <ul style="list-style-type: none"> Areas not depend. on mass transit Areas with adjacent amenities E.g. North Sydney	Hybrid office-industrial <ul style="list-style-type: none"> Up to 50% office content Light product assembly E.g. Raleigh-Durham	Retail warehouses <ul style="list-style-type: none"> Mixed product offering Click & collect potential Outside of focus	Hospitality <ul style="list-style-type: none"> Diversified portfolios Established trading history Distress

Note: bullet points in black highlight Partners Group focus areas.
Source: Partners Group, November 2020. For illustrative purposes only.



Partners Group has acquired a portfolio of modern Class A office buildings in Poland.

Office: lower cost locations, with a favorable business environment

As a direct result of the stay-at-home orders in H1 2020, physical occupancy in office buildings across the world plummeted as all but essential workers shifted to remote working. While some employees are returning to the office, we expect headwinds in the office sector to linger as employers put leasing decisions on hold. Naturally, this reluctance to sign new leases and renewals for more than a short period of time will lead to declining rents and occupancy rates. Dense gateway cities reliant on mass transit, such as New York and London, are experiencing the most severe immediate and longer-term impact. For these gateway cities, considerations around the optimal office size and location will continue to develop alongside considerations around the comparatively higher occupancy cost and health risks.

Meanwhile, in smaller growth cities, such as the US cities of Austin, Nashville, and Portland, rents are lower and, therefore, the potential cost savings arising from remote working are less material. Lower reliance on public transport and lower urban density also facilitate the implementation of social distancing with less impact on commuting habits. Higher occupancy costs were already driving companies to relocate to lower cost locations before the pandemic, an observation which underpinned our investment strategy. As a result, our portfolio's office exposure is oriented toward business-friendly cities that give employers access to well-educated talent but where salary levels are generally lower.

We believe modern, Class A office buildings with high sustainability and wellness standards will have the best chance of attracting tenants going forward. Furthermore, we believe that occupiers will increasingly seek office space and amenities that facilitate collaboration, including flexible space for group work, meetings, and conferences. We favor assets with strong and stable NOI at acquisition, and underwrite slower leasing velocity, lower occupancy, and negative-to-neutral rent growth over the next several years.

An example of an investment we recently signed in this space is a **direct equity investment into a portfolio of modern Class A office buildings in Poland**. This opportunity was triggered by a generational shift, which led to the sale of both the development company and its real estate assets. Following a first marketing process pre-COVID-19, we teamed up with an operator this summer who was willing to purchase the original operating company.

This solution allowed us to invest in the assets alongside our partner, thereby providing a holistic solution to the seller. The portfolio consists of 11 Class A office properties located in Krakow and Wroclaw, which are two of Europe's key back-office and shared services hubs. Built between 2018 and 2020, the BREEAM⁴-certified buildings all have excellent sustainability ratings. Attracted by lower rents relative to other European office markets and access to a relatively inexpensive and well-educated labor pool, investment-grade multinational tenants dominate the portfolio's rent roll. It has been confirmed that leases would not be affected by remote working setups. Long weighted average lease rates further protect cash flows. In addition to benefiting from strong in-place cash flow, we plan to drive value creation by leasing-up vacant space in the existing assets as well as completing the development and lease-up of two new assets. Located adjacent to several of the portfolio's fully occupied buildings, these new assets are expected to draw demand from tenants in these buildings, who are seeking to expand, and can then be sold together as a portfolio.

Although historically we have stayed away from office properties in dense gateway cities, we do believe that urban core office space will remain attractive for some major employers, as anecdotally evidenced by recent select leasing activity by major technology firms even during lockdown. Therefore, even while accounting for the risk of falling rents as some companies vacate their office space, we will opportunistically seek to capitalize on pockets of distress by buying prime assets with attractive prices and/or structures. We expect these opportunities to pick up more substantially in early 2021.

⁴ Building Research Establishment Environmental Assessment Methodology.

Trends shaping the office of the future

COVID-19 has had an immediate impact on the use of office space. Physical occupancy in the US temporarily decreased to below 10% in many business districts by April, as companies shifted to remote working. Economic occupancy also fell, albeit less dramatically, as tenants let leases expire and put decisions to renew and expand on hold. According to Colliers International, vacancy rates increased by 50bps to 11.9% from end-2019 to mid-2020.

US office market: absorption and vacancy rates



What is less certain, however, is the impact of COVID-19 on the demand for office space in the long term. Rather than trying to anticipate the unknown, we are taking a step back to understand the shift to remote working from a business' point of view. To shape this thinking, we use a framework, similar to Maslow's hierarchy, which posits that people are motivated by a hierarchy of needs. Only when the previous need has been satisfied does the next need emerge.



We apply this framework to how organizations and businesses are adjusting to COVID-19. In our example, the

first dimension in the hierarchy is the need for a functional IT setup to enable remote working. Overall, this pivot to remote working was implemented relatively quickly and smoothly. The second dimension to emerge was the need to understand how teams collaborate with each other while working remotely. Many businesses are still evaluating this. In order to do this, they first need to understand their business processes and team structures. Only after this dimension is fully understood, can organizations start to optimize these processes and structures, which will eventually determine which employees need to be physically present in the office and how often. The second and third dimensions will shape how much space a business requires, which office locations it prefers, and how flexible its office space will need to be.

As many business leaders are still working through this framework, it is challenging to try to quantify the future demand for office space. However, we are already seeing several trends emerge that can help us best position our assets to capture what demand there is.

Due to the early experience of remote working, we expect businesses to provide their employees, depending on function and general business model, with more flexibility on where they can work – whether from home, a suburban satellite office or coworking space, or an urban headquarters.

In order to right size and manage peak demand, companies will typically favor buildings with flexible and attractive office space that are conducive to group work. While working from home may have its benefits, we see evidence across our portfolio companies that many individuals are finding that in-person collaboration is vital to sustain productivity and innovation. We must be at the forefront of providing tenants with a clean and safe working environment and technology that limits the spread of pathogens, particularly with regards to air quality.

In summary, the pre-COVID-19 trend of creating space that facilitates employees working in teams and sharing ideas has been accelerated. Ultimately, the office spaces that will be successful going forward will typically be those that can convince employees that the effort and inconvenience of their commute is outweighed by the benefit of being there. For an investment manager like Partners Group, the ability to partner with key stakeholders to understand their needs, and be agile enough to meet them, will be essential to success in the office sector.



Rahul Ghai Co-Head Private Real Estate Asia | Christina Han Head Investment Research

How we invest

Our investment philosophy remains unchanged. We are a situationally driven investor focused on sourcing off-market opportunities. This allows us to create favorable entry points and due diligence timelines in an otherwise highly competitive market environment. We seek investments that provide us with a balanced return from both value-add capital growth and existing cash flows that offer downside protection. We prefer investments with greater than 65% occupancy rates at entry that provide us with the opportunity to improve top-line revenue growth and capital appreciation, while using secure capital structures with good covenant headroom to protect against a market downturn.

Select growth cities

We are focused on locations supported by above-average population and employment growth, often driven by the technology and education sectors. In many cases, these locations offer a lower cost of living to owners and tenants and attract companies due to their favorable business environments, which may include tax incentives. In the US, these cities include Austin, Dallas, Denver, Nashville, and Portland. In Europe, these cities include Copenhagen, Berlin, Stockholm and Munich. In Asia Pacific, they include Beijing and Melbourne.

Source off-market

We source assets off-market through our network of over 100 operating partners and investment partners. This allows us to avoid highly competitive auction processes. Typically, more than 70% of our investments are sourced off-market.

Such opportunities arise from special situations that are usually complex in terms of the owner's or seller's position, with the following being typical trigger events:

- Limitations on debt and/or equity: investors may face pending debt maturities or may not have sufficient liquidity to put additional capital into assets that is required to complete their repositioning or redevelopment
- Duration constraints: such constraints may arise from a generational shift or portfolio rebalancing exercise
- Investor fatigue or discord: this may lead to a non-traditional sales process or provide an opportunity to recapitalize assets while a proportion of the current ownership remains invested
- Fund maturity: a fund reaching the end of its life may require a liquidity event for the remaining assets

Value creation

We seek controlling interests in assets that provide us with the opportunity to actively drive NOI growth in three main ways:

- Increased occupancy
- Rental growth
- Improved operational efficiency

Measures to achieve these objectives include creating more rentable space, improving the quality of space through refurbishments and building system upgrades, and repositioning the asset by enhancing their amenities offering.

Private debt

Lending with an ownership mentality.

Rebounding private equity investment volumes and a growing private markets universe strengthen our belief that we will continue to see strong demand for private debt.

Market overview

As a private debt investor focused on protecting value for our clients, Partners Group has long based its debt financing cases on anticipated downside risk and macroeconomic volatility. However, our models were put to the test in March and April of 2020 by the unprecedented global pandemic. Our investment approach, which focuses on non-cyclical industries, sustainable capital structures and strong cash-flow business models, has been validated as we look at the economic landscape today.

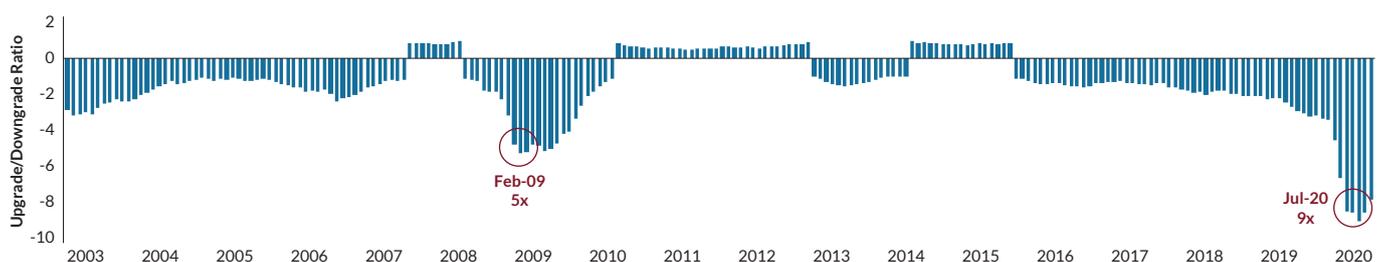
However, the COVID-19 sell-off represented the sharpest market correction in history, and the impact reverberated through the debt markets as much as it did the equity markets. The role of rating agencies as the pandemic gripped the world was instrumental to the flow of debt capital. The rating agencies, disparaged during the GFC for their slow response to a changing market, were much faster this time. Rating downgrades have more than doubled during the last twelve

months, leading to a growing single-B universe in leveraged loans. Loans for large-cap corporations that would have traditionally sought financing in the primary market struggled to syndicate and often found solutions in the private debt market, albeit at lower volumes, due to speed and certainty.

This trend created opportunities for us, as we were equipped to understand the nuances around ratings and the relative value that comes from offering private financing solutions to strong businesses. While the flow of capital around financial markets will continue to be disjointed in an environment coming to terms with COVID-19, rebounding private equity investment volumes strengthen our belief that we will continue to see demand for private debt. The private direct debt market has grown to USD 848 billion¹ and will be an integral source of financing for middle and upper mid-market companies as other sources of financing decline due to withdrawals, redemptions and a potential rise in the number of non-performing loans.

¹ Preqin as of March 2020.

Leveraged loan rating action: LTM Upgrade/Downgrade Ratio



Source: Bloomberg, September 2020.

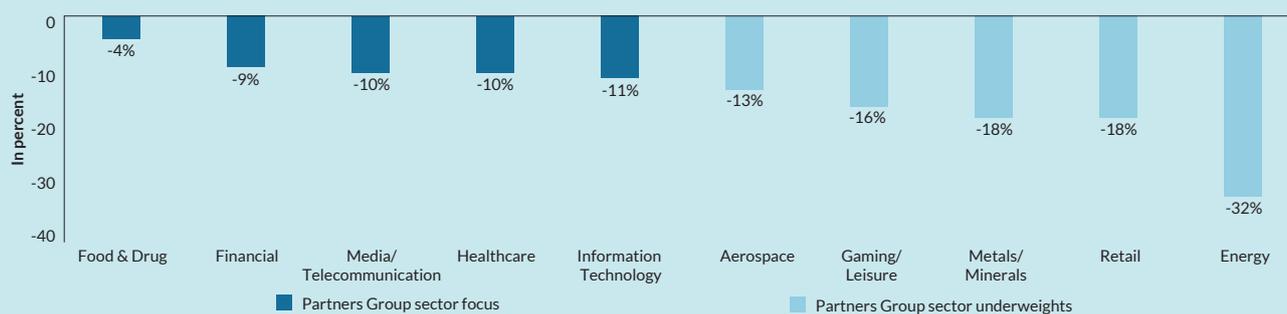
Performance

Our direct debt portfolio performance during COVID-19 has remained steady. Our direct exposure to cyclical industries (energy, retail, metals/mining, gaming/leisure, aerospace) is limited to less than 5% of portfolio NAV compared to nearly 15% for public loan indices.

We had a limited number of credits that required a more substantial restructuring, and we incurred only a modest level of aggregate impairments relative to our firm's overall private debt AuM of USD 22 billion. Our average global loss rates for first lien and second lien positions remained a modest 0.2% through Q1 2020².

² Loss rate and default rate are calculated based on the simple average of annual rates, since the inception years of each strategy, 2012 for direct debit first lien and 2006 for direct second lien.

Credit Suisse Leveraged Loan Index total return sector performance during March 2020



Source: Credit Suisse, March 2020.

Current investment themes

When we look at the current market, we see relative value in large and mid-cap direct senior secured loans, especially “club-style” financings, where the limited number of lenders in a debt tranche increases negotiation power. We focus on category leaders in non-cyclical, COVID-19 resilient, established businesses with stable cash flows and attractive profitability and provide them with new or incremental financing.

Despite some rebound in credit metrics, which followed the significant financial support infused into financial markets, we still see investment opportunities with better credit documentation and lower absolute leverage than we did prior to the outbreak. Leverage levels for US buyout transactions have decreased to 5.4x compared to 5.8 to 6.0x in previous years, while equity cushions in the US and Europe have increased to around 50%³.

Securing more favorable post-COVID-19 terms

In July 2020, we invested in the unitranche financing of a European developer and manufacturer of hygiene and disinfectant products. **Project Tangerine** is a healthcare business that is well-positioned to benefit from the tailwinds relating to the need for sanitation products. Project Tangerine first came to market pre-COVID-19 with a two-tiered capital structure, net total leverage targeted at around 6.5x, and a blended target return in the mid-single digits. The terms provided no hard pre-payment protection and were covenant

lite. At the July closing, just some four months later, the debt structure had morphed and consisted of unitranche only, at a leverage of 4.7x and senior loan spread well above the previous blended return. The more favorable terms entailed leverage covenants and pre-payment protection. The sponsor appreciated that we joined the lender group, as it knows Partners Group is a reliable partner for further follow-on financing to help position resilient companies for future growth.

A private equity-style investment process

Capital preservation is at the core of private debt investing. A misconception of private debt investors is to assume that the level of diligence needed is somehow less than that required for an equity investment. However, while losses in one private equity investment can be offset by capital gains in another, private debt has limited counterbalance in this regard. Every investment must be a success. In this context, we apply a “private equity-style”, critical due diligence approach that, while resource-intensive, has resulted in the track record and low loss rate we have today.

Thematic investing but with a nuanced approach

Akin to private equity, we proactively source investment opportunities in sectors and companies that benefit from transformational change. Also aligned with private equity, we identify thematic investment areas at the industry level. Achieving sustainable above-average growth enhances capital preservation. While there are many similarities that guide our thematic sourcing in private debt, quality and resilience

³ S&P LCD, Q3 2020.

Maria Weber Investment Operations | **David Barst** Private Debt Europe

of growth outweigh quantity. Our considerations revolve specifically around idiosyncratic risk and we avoid disruption risk.

A good example to illustrate our more nuanced private debt approach is our investment in **Project Python**. Project Python is a leading cloud-based SaaS business. IT software and the attractive revenue model underlying SaaS is also a focus area for our private equity business. However, the characteristics of Project Python mean it would not allow for the upside we would look for in a private equity investment, where we would expect to lead value-add initiatives, such as product expansion or sector consolidation. Project Python provides online communication and collaboration, remote working and remote helpdesk support to small- and medium-sized enterprises (SMEs). The SME market is large, underpenetrated, underserved, and typically lacks IT specialists to adequately support the shift toward the cloud and increased adoption of online communication and collaboration. The company behind Project Python offers simple and intuitive programs. It differentiates itself by offering a unified platform that combines cloud telephony, video conferencing and collaborative tools, which were historically bought separately. Individual end markets of the company's different product offerings are expected to grow at a CAGR of 7-9% until 2023, accelerated by COVID-19. These market dynamics and the company's favorable positioning provide scope for sustainable growth. However, there is limited consolidation potential given the sheer size of its client base, which disqualifies it from consideration for an equity investment. From a business model perspective, we like its high recurring revenues, retention rates, and EBITDA margins and were invited to the consortium through our close relationship with the sponsor.

Other recent investments that are based on our thematic convictions and have, in fact, benefited from the pandemic include food delivery services, pet services and packaging companies. We have engaged in incremental term loans where we have been able to assess our portfolio companies' performance firsthand through the Q2 economic downturn.

Helping companies position for future growth

In addition to partnering with companies in industry thematic focus areas, we also provide capital to help companies capitalize on transformative trends. This includes the financing of add-on acquisitions or initiatives that drive future growth.

A misconception of private debt investors is to assume the level of diligence needed is less than that required for equity investment.

One example of this is our long-standing relationship with **Diligent**, a US-based leading provider of workflow software serving nearly half of the US Fortune 1,000 companies and many other large corporates across the globe. Diligent's products allow board members, management, and administrative personnel to produce, deliver, review, and vote on board meeting materials. The investment thesis revolves around the company's market-leading position and strong cashflows, supported by market tailwinds, including the continued migration to online and digital platforms. This market segment is expected to continue performing well as global conscientiousness around compliance and corporate governance grow. Tailwinds supported Diligent during the COVID-19 pandemic as the company continued to post EBITDA and revenue growth in Q2 2020. In August 2020, Partners Group invested the equivalent of around USD 178 million in an amended and extended unitranche loan to Diligent. Our long-standing relationship has assisted the company's acquisition strategy within the US but also internationally. Partners Group is one of few investors able to readily provide funds in GBP, providing valuable solutions to companies looking to make acquisitions outside the US.

Adapting to new opportunities

Our core strategy is to provide new loans to strong businesses. Finding opportunities is often nuanced as they can come in different forms. For example, we look at new opportunities as the syndicated market remains highly selective in the post-COVID-19 world. This includes providing bilaterally arranged incremental loans that may sit alongside existing syndicated financing. These investments are typically first lien and are sought for large, performing businesses. However, due to speed and certainty of execution, the owners of these businesses have pivoted toward the direct lending market for this type of financing. Partners Group sources these investments directly through our **global sponsor network** where we can negotiate favorable economics and terms due to limited competition.

We recently completed such an investment in **Partner in Pet Food**, a leading pet food manufacturer aiming to finance an add-on acquisition. We were approached directly by the sponsor and were able to negotiate an investment as the sole lender, at an attractive discount for a target internal rate of return (IRR) of 8%. In the US, a similar opportunity arose where, again, we were approached by the sponsor and were the sole lender in an incremental first lien term loan.

The portfolio is positioned to lean towards defensive sectors, with an overweight in tech, software and healthcare pre- and post-Covid-19.

Volatility can be your friend

In uncertain economic environments, secondaries can provide attractive investment opportunities. We will look at secondary purchases during periods of market volatility such as forced sales driven by liquidity needs. We source these opportunities through our network and leverage existing portfolio knowledge; these opportunities often trade at a discount and offer favorable economics.

A recent example in our portfolio is **Pretium**, a US-based designer and manufacturer of specialized plastic packaging. The original transaction took place in January 2020 when we played an instrumental role in proposing a more attractive capital structure to the sponsor. The structure migrated from a traditional first lien/second lien to a unitranche solution. Due to the company's strong performance during Q1 2020, in June 2020, we opportunistically purchased a USD 25 million term loan from an existing lender at 96.5 original issue discount (OID).

Liquid loans

During the COVID-19 induced market sell-off in March 2020, collateralized loan obligation (CLO) issuance and primary loan issuance all but shut down due to the market's inability to price assets. The loan market, which pre-COVID-19 was prone to downgrades and increasingly dominated by B and B- rated companies, suffered aggressive rating agency downgrades as they sought to avoid criticism for being slow to act, which they received during the GFC.

Stressed debt

We selectively deploy capital in companies with intact businesses that are in need of special and timely capital solutions:

- **Stressed companies:** we can provide capital to companies that face liquidity issues or contractual constraints. Stretched or stressed capital structures prevent these companies from going to the broader market. These companies are characterized by solid business models and long-term profitability. Example: we provided fresh capital to a European hospitality business that is suffering as a result of COVID-19. The new capital allows the business to open up more effectively and gain market share from struggling competitors.
- **Stressed lenders:** we seek opportunities to provide liquidity to lenders with shifting structural or portfolio considerations by acquiring existing credit/hybrid securities. We have the ability to quickly understand and evaluate idiosyncratic or niche situations on single credit securities or portfolios. Example: we originated a tail-end fund holding several restructured loan and equity positions that we could acquire at steep discounts to going concern valuations in order to facilitate the liquidation of the selling fund.

This strategy allows us to create value by leveraging Partners Group's global platform with access to world-class operators, providing precise solutions to complex problems, solving immediate issues and supporting value creation initiatives.

We have a dedicated distressed team with diverse backgrounds from leading investment, advisory and law firms.

History of market dislocations – broadly syndicated loans: the fastest price correction, followed by a quick rebound



Source: Credit Suisse Leveraged Loan Index, October 2020.

The large single B and increasing CCC universe will likely persist for some time, and will likely pressure existing CLOs, forcing them to reject lower single B rated risk and making banks reluctant to underwrite such risk. As explained above, we expect this market gap to be increasingly filled by private debt providers who can provide execution certainty in return for better economics and structures.

The sector dispersion caused by COVID-19, with certain sectors and companies being materially more impacted than others from a fundamental business standpoint, was also visible in debt markets – any businesses involving a physical/social element, travel, or highly discretionary demand underperformed.

Despite COVID-19 vastly increasing demand for healthcare, certain categories of healthcare experienced negative effects as elective health procedures were suspended. Aerospace, gaming/leisure, metals/minerals, retail and energy suffered the biggest LLI/ELLI⁴ losses, posting high double-digit negative total returns in March 2020. The index winners were those sectors that have maintained a recurring revenue business, such as IT and software businesses, financial services, and media/telecom. Though index returns tell a predictable story, default rates by industry have illustrated that it is not enough to simply avoid historically cyclical sectors. The media/telecom industry had two of the largest defaulted loans recorded in Q1 2020: Frontier and Intelsat. The events of COVID-19 proved that no sector is fully resilient; instead, it is imperative to critically evaluate and re-assess business fundamentals, regardless of sector, to understand how a company will perform during a market downturn.

We aim to take advantage of market opportunities in cases where we have a high credit conviction if they arise. We believe that our unique ability to assess credit across syndicated and private markets and work as one team will be an advantage as the lines between these two markets blur post-COVID-19. Furthermore, our heavy focus on credit selection and active portfolio management will become even more critical over the coming months: we will apply a rigorous bottom-up credit

analysis with a post-COVID-19 lens and allocate to sectors guided by our top-down macro views.

Pre- and post-COVID-19, the portfolio is positioned to lean toward defensive sectors, with an overweight in technology, software and healthcare. Exposure to the most negatively affected sectors, such as oil & gas, airlines, hotel and restaurants, is relatively limited. The portfolio remains highly diversified, consisting of more than 450 companies.

How we enhance downside protection

Capital preservation is key in private debt investing. We apply a three-pronged strategy:

- We have a **thematic approach** to finding companies in sectors with above-average resilience on the back of transformative trends
- We invest in tranches where we are in a position to negotiate **tight credit documentation and favorable economics**, with sustainable leverage levels and attractive credit spreads
- We apply an **ownership mentality**. We invest with the conviction that we would be comfortable taking over the keys to the business and riding out any temporary challenges. Throughout the hold period, our ownership mentality means that our industry experts engage in board-level interaction to assist with growth strategies. Moreover, we work closely with sponsors to ensure liquidity availability and choose to invest alongside sponsors with a proven track record of implementing successful growth strategies and a proactive, hands-on approach, including during challenging macroeconomic periods

When needed, we have a dedicated team of restructuring experts in place to work through any issues in our portfolios.

⁴ Credit Suisse Leveraged Loan Index/European Leveraged Loan Index, March 2020.

Private infrastructure

The platform-building opportunity.

The essential nature of infrastructure has made it the private markets asset class most resilient to the impact of COVID-19. We focus on high-growth sectors where we can build platforms and implement operational improvements at the asset level.

Market overview

Resistant to the most punitive effects of the COVID-19 pandemic, the fundamentals for infrastructure assets in our investment universe remain broadly unchanged. Close to USD 70 trillion of infrastructure investment will be needed over the next 15 years to support growth¹. What is more, infrastructure is crucial for crisis recovery.

It is likely that over the coming months the global policy response will move away from short-term support measures toward long-term, productivity-enhancing infrastructure investment. The pandemic may alter infrastructure policies, such as deprioritizing mass transit and placing greater emphasis on the densification of digital infrastructure, but, overall, infrastructure spending will prove critical to international recovery plans. Sustainability is also likely to become a more dominant theme.

Our investment approach for private infrastructure combines high-growth sector selection with entrepreneurial platform-building and operational improvement at the asset level. We focus on transformational investing against a backdrop of structural change, while limiting exposure to macro, market and energy price risks. The strong performance of our direct infrastructure portfolio throughout the COVID-19 crisis is confirmation of the power of this approach and, as we will explain throughout this report, our strategy is optimally positioned going forward.

¹ McKinsey, 2017.

A proven approach

Unsurprisingly, there was a notable slowdown in transactions across all major regions as a result of the pandemic. Deal volumes were down 58% year-on-year in Q2 2020, according to Preqin. However, given the essential nature of the asset class, this decline merely reflects isolated postponements and there were no disruptions on a broader scale. Several transactions, in different sectors, closed during lockdown. This included our own acquisitions of **VSB Renewables**, a leading European developer, owner and operator of renewable energy assets, and **Murra Warra II**, a wind power platform in Australia. Indeed, private infrastructure is probably the asset class that was least impacted by COVID-19 within private markets.

That said, valuations have eased off their pre-COVID-19 peaks in many industries. In particular, assets with cash flows tied to GDP (e.g. airports), assets sensitive to commodities pricing (e.g. oil price-exposed midstream assets), and “infrastructure lite” assets (e.g. services assets) have been hit hard. Meanwhile, across sectors, assets with fragile capital structures that were over-levered or very cash tight also experienced valuation contractions (e.g. oil & gas upstream assets). This adverse impact was only partially offset by expectations of prolonged low interest rates. A notable exception is digital infrastructure, where valuations have remained elevated thanks to the resiliency of the sector and strong tailwinds in digital penetration.

Risks remain elevated for some assets and sectors, particularly those exposed to macro and market factors. This will likely have an impact on certain asset valuations in the long term. We have consciously avoided these sectors over the past years

The resilience of our portfolio during COVID-19

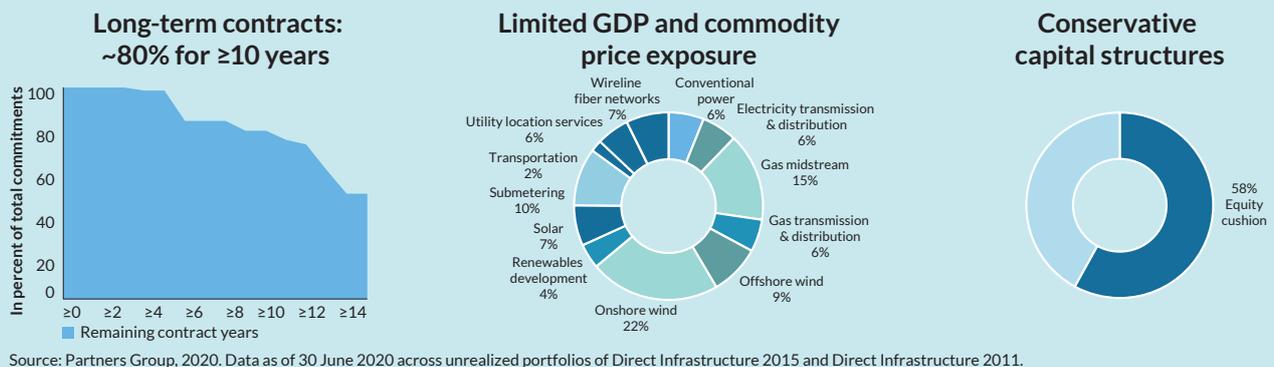
Our direct infrastructure portfolio has remained exceptionally stable in the face of COVID-19 and the resulting economic turmoil. This primarily reflects our minimal exposure to commodity prices, GDP and traffic volumes. The portfolio is broadly diversified across subsectors and is focused exclusively on essential services, such as renewable power generation, natural gas transportation and data transmission. All investments benefit from transformative trends that generate sustainable, above-average growth rates for the specific sector.

Importantly, the portfolio is characterized by conservative capital structures and is heavily overweighted towards

long-term, take-or-pay or availability-based arrangements with creditworthy counterparties. For example, our midstream assets, such as **Fermaca** and **CapeOmega**, benefit from long-term contracted “take-or-pay” revenues and were, therefore, not impacted by the volatility that has characterized much of 2020. This resilience around revenues and debt sustainability has enabled us to continue executing our value creation plans without any major disruptions or the need for unplanned equity injections.

With a 13.0% net return since 2011, when we launched our first dedicated direct private infrastructure fund, our infrastructure portfolio has significantly outperformed its public infrastructure benchmark, which returned 2.9% p.a. over the same period².

² Measured by the S&P Global Infrastructure Total Return index.



in favor of investing in long-term structural trends, which has greatly contributed to the resilience of our portfolio during COVID-19 (see box above).

Our current investment themes

COVID-19 has validated and reinforced our approach to underwriting, which focuses on principal protection from underpinning contracts, tangible value creation that is not dependent on macroeconomic or market dynamics, manageable levels of debt, and “normalized” levels of exit valuation metrics factored into underwriting.

In terms of sectors, we maintain our focus on above-average growth segments that benefit from transformative trends, such as clean energy and digitization. Within these segments, we seek out assets with true infrastructure characteristics: hard assets and strong businesses with long-term contracted cash flows and high barriers to entry. We expect that valuations for these quality assets will likely continue to be elevated and we therefore remain committed to no “cheap buys”, even in a post-COVID-19 world.

Global shift to net zero carbon

One of the key transformative trends that we are investing in is decarbonization and the energy transition. Climate change is taking center stage for policy makers and investors alike, as heightened awareness drives governments, businesses, and institutions globally to commit to net zero-carbon emission targets. These agendas are unlikely to be pulled back as a result of COVID-19, and we continue to focus on assets and businesses that benefit from this trend. Net zero-carbon is impacting and transforming many sectors and market segments, spanning from power generation to power reliability, carbon capture and storage, and mobility.

With a portfolio of over 7.7 GWs of **renewable generation** capacity worldwide, we have been a longstanding investor in clean power production. Just recently, in July 2020, we acquired our latest project, the **209 MW Murra Warra II** wind farm in Australia. The project is the second stage of our 2016 Murra Warra I investment, which we successfully delivered through to its operational phase. Together the two wind farms can generate enough clean energy to power 350,000 Australian households and offset over 1.3 million tonnes of carbon emissions every year.

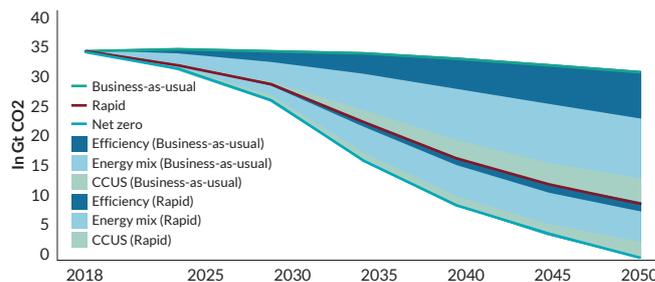
The build-out of renewable generation complements our focus on investments in **power reliability and flexibility**. This theme spans various infrastructure subsectors and includes solutions like flexible power generation, grid balancing, distributed energy, and energy storage. We also believe that **natural gas** is a necessary lower carbon complement to renewables for grid stability and flexibility. We have made several investments in the space on behalf of our clients, including the quick-start power plant **Sentinel Energy Center** in California, the **Greenlink** subsea interconnector between Great Britain and Ireland, and the Norwegian gas distribution platform **CapeOmega**, which supplies approximately 25% of Europe’s natural gas needs.

As we continue to invest behind this theme, we look for assets where revenues are backed primarily by long-term contracts with investment grade counterparties, and for segments that have high barriers to entry to avoid overbuild and compression of contract pricing. In the natural gas space, we focus on assets that allow transmission, import, downstream usage, and emission mitigation with limited exposure to commodity prices. We also invest in assets that have a positive impact on the environment and local communities. For example, Sentinel replaces coal-fired power and backs up intermittent renewables, whereas CapeOmega delivers essential cheap gas to hundreds of thousands of households in Europe.

Increasingly, we are also looking at **carbon capture and storage** opportunities. The replacement of hydrocarbons in power generation alone (via renewables) will not be enough to keep the increase in global average temperature to below two degrees Celsius above pre-industrial levels, in line with The Paris Agreement of December 2015. Industrial-based carbon emissions will also need to be significantly reduced, requiring the need for capture and storage. We see a window

of opportunity opening in the sector as policy support is driving mature technologies and existing assets and expertise (especially in the US) to be re-purposed towards carbon capture and storage on a larger scale. This will require significant expansion and infrastructure investment. Our current focus is on sequestration “hubs” and CO2 pipelines, and we are developing relationships with top industrial partners to be positioned as an early mover in this growth sector.

Carbon emissions from energy use



Source: BP Energy Outlook, 2020. CCUS stands for carbon capture, use and storage.

We are **currently in exclusivity on an opportunity in the US** to form a joint venture with one of the largest owners of CO2 infrastructure in the world to develop a platform that will build, acquire, own and operate CO2 transportation, storage, and sequestration infrastructure. The project will be anchored by blue-chip investment grade counterparties and with fixed fee take-or-pay contracts that create strong cash flow visibility. Partners Group’s value creation strategy will center on delivering, scaling up and commercializing the platform. This opportunity also has the potential to open doors for Partners Group to invest in newer technologies currently being evaluated, like Direct Air Capture, which could have an infrastructure cash flow profile within the next five years.

Infrastructure subsector matrix: relative value focus areas and investable universe

	Power	Energy infrastructure	Communications	Transport/logistics	Social infra/PPPs
Asset light Assets	Ancillary power <ul style="list-style-type: none"> Remote power Energy-as-a-service 	Energy management <ul style="list-style-type: none"> Metering/sub-metering Energy equipment leasing Utility location services 	Specialty communications <ul style="list-style-type: none"> Emergency communications Network management & monitoring Satellites 	Transport logistics <ul style="list-style-type: none"> Integrated supply chain services Mobility services/ MaaS Multi-modal transportation Air/rail/water transportation 	Public & health services <ul style="list-style-type: none"> Digitization of public services Smart cities Elderly care/ childcare Medical facilities
	Intermittency management <ul style="list-style-type: none"> Power as grid stability solution Utility scale battery storage Distributed generation 	Transmission <ul style="list-style-type: none"> Grid interconnection Electric transmission Stand-alone transmission networks 	Fiber <ul style="list-style-type: none"> Wholesale connectivity Network builds for telcos End-user/bridging rural divide 	Ports <ul style="list-style-type: none"> Port operations Terminal logistics development Automation of towage & freight handling 	Housing & education <ul style="list-style-type: none"> Building & convenience utilities Higher education asset concessions Student/military housing
	Renewable wind/ solar <ul style="list-style-type: none"> Wind & solar platforms Partnerships with developers & manufacturers Operational assets Small scale hydro 	Distribution <ul style="list-style-type: none"> Gas & electric utilities District heating/cooling Piped energy distribution systems 	Data centers <ul style="list-style-type: none"> Hyperscale data centers Asset carve-outs from strategics Regional/edge data centers 	Surface transportation <ul style="list-style-type: none"> Private & regional transport Roads & rail passenger services Next generation mobility: eVehicle infrastructure and smart tolls 	Decarbonization <ul style="list-style-type: none"> Carbon capture, use & storage Low carbon fuels Recycling & waste management Hydrogen
	Conventional low carbon <ul style="list-style-type: none"> Natural gas Co-generation Biomass 	Midstream <ul style="list-style-type: none"> Demand-pull (transport, downstream processing) Supply-push (gathering & processing) Storage, import and export 	Towers/masts <ul style="list-style-type: none"> 5G support infrastructure Telecom towers, small cells Net-co solutions: asset carve-outs from telcos 	Airports <ul style="list-style-type: none"> Terminal concessions Regional airports Fixed-base operators 	Civic and utilities <ul style="list-style-type: none"> Water (waste & desalination) Waste-to-energy Community & sports facilities Local government facilities

Abbreviations: PPP = public private partnership; NGL = natural gas liquids. Note: bullet points in black highlight Partners Group focus areas. Source: Partners Group, November 2020. For illustrative purposes only.



Telepass, a European leader in electronic toll collection.

New mobility

Another transformative theme that is critical to our investment strategy is the non-GDP exposed segment of the transportation sector, particularly technology-enabled mobility solutions for both people and freight transport. The sector is evolving rapidly, driven by the concurrent action of four technology-driven disruptive trends: electrification of vehicles, the advent of shared mobility platforms, the growing connectivity among cars, and the adoption of autonomous driving. These trends are acting as catalysts for change and are reshaping the competitive dynamics of the industry. This transformation is creating the so-called “new mobility” market.

The investment universe in this space is large and includes a range of different solutions and technologies at different stages of maturity and with different risk profiles. Therefore, it is important to approach this sector through opportunities that can offer a risk/return profile that is suitable for infrastructure investors. For us, this means companies that are focused on the provision of the physical or digital infrastructure required to enable new mobility services or companies whose business models are based on recurring revenues and limited GDP correlation.

An example is our recent acquisition of **Telepass**. Telepass is the leader in electronic tolling in Europe, with 100% market share in the Italian electronic tolling collection market and 30% market share across Europe. The core of Telepass’ business benefits from stable cash flows due to its dominant market position and high barriers to entry, as well as the subscription-based revenue model that generates over 85% of monthly revenue. In addition to the tolling business, the company offers payment and insurance services to its seven million strong client base.

Partners Group was attracted to Telepass because of its combination of highly resilient cash flows – as proven through both the GFC and the current COVID-19 crisis – as well as the opportunity to grow the company through hands-on value creation measures. We will continue our efforts to grow the

core tolling business by capturing incremental customers on a pan-European basis and enlarging the total addressable market through offer and channel segmentation. Following a platform expansion strategy, we will also seek to use the company’s unlevered balance sheet to expand its asset base and network into adjacent geographies.

Densification of digital infrastructure

The final long-term structural trend that underpins our approach to the market, is the ongoing densification of **digital infrastructure**. COVID-19 has sharpened the focus on the utility-like characteristics of digital infrastructure, and network densification and upgrades are key to meeting fast-growing data consumption globally. We look at infrastructure for better coverage, faster speed, and for the management and storage of data. The former includes assets such as macro towers, distributed antenna systems (DAS), small cells, and transport/backhaul fiber capacity. The latter focuses on data centers.

The sector has traded well throughout the COVID-19 crisis. Mature data center platforms have seen average EV/EBITDA multiples of approximately 20 times in recent transactions. This is reflective of the stickiness and low credit risk of customers and the embedded development optionality. Considering the elevated valuations for operational assets, we mostly look at building core and/or development data center opportunities in the Asia-Pacific region, where the availability of such projects is higher than in mature markets.

In the coverage space, our preference is for assets that have development constraints and market share, because these typically have high utilization and pricing power. In the US, assets based on technologies such as distributed antennae systems or small cells offer the best risk/return, whereas in Europe we see relative value in assets with large “build-to-suit” components and remain selective on fiber due to high valuations.

Existing assets in our portfolio include **Axia Covage**, a fiber platform that wins concessions to build and commercialize

fiber networks in rural and semi-rural areas in France. When we acquired the business, we first focused on enhancing governance, building a new management team around a well-connected CEO, and appointing a very experienced commercial operating director. During Partners Group's ownership, we have been able to extend the company's fiber perimeter to include 2.5 million homes through winning concessions and acquisitions. With the extension of five existing concessions we also unlocked additional subsidies. We have reached an 8% market share for fiber-to-the-home in France and are now in the process of exit (subject to regulatory clearance).

As we look to grow our portfolio, meanwhile, we are in exclusivity on a telecom tower platform in the Philippines. We like the telecom tower sector for its resilience as it provides essential infrastructure to large telecom customers under long-term contracts. The Philippines has one of the highest levels of data demand in the region. At the same time, the country is suffering from poor service levels provided by the two incumbents. As a result, the government has recently introduced a new telecom provider into the country and has set a target to build 50,000 new telecom towers over the next seven years. Partners Group has joined forces with a well-established local group to develop a TowerCo to capture a significant portion of this growth. The value creation strategy would center on delivering, scaling up and commercializing the platform.

The global policy response could move away from short-term support measures toward long-term, productivity-enhancing investment.

Value creation

As we invest behind these fundamental and transformative secular trends, we continue to focus on value creation across our three strategies: platform expansion, building core and operational value creation.

Platform expansion is particularly key and is unlike the infrastructure strategies of the old days, which simply involved owning and holding single assets for a prolonged period. It requires a keen focus on skills that have not been traditionally associated with infrastructure, such as acquisitions and business development.

As an experienced investor across private markets asset classes, with a strong focus on entrepreneurial governance, Partners Group has these skills in-house and applies them to our infrastructure portfolio. For example, as renewable energy regimes in many places shift from fixed feed-in tariffs to a mix of competitive bidding and commercial contracting, we are complementing project development teams on our renewables platforms with energy marketing experts to support the commercialization of the underlying assets.

The build-out of the **Grassroots Renewables** platform in Australia, in which we initially invested in May 2018, is a case in point. The ability to provide power via long-term offtake contract agreements to high-credit quality counterparties has been critical in building the Grassroots platform. To date, we have contracted 64% of total capacity for an average of 17 years with government entities and leading commercial and industrial customers.

How we create value at the asset level

In global private infrastructure markets, we focus on the following key investment strategies:

Capitalize on platform expansion opportunities

We look for investments that offer 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 the potential to enhance operational value through growth and efficiency improvements.

Liquid private markets

Market overview

Listed infrastructure: regulated utilities have remained rather unaffected by the pandemic and communications infrastructure has even benefited from faster digital penetration this year. With the exception of transport, business fundamentals for most infrastructure subsectors remain solid, and valuations are mostly compelling, further supported by low interest rates. The Partners Group Listed Infrastructure SICAV¹ is strongly outperforming its benchmark by over 5% YTD to 10 November 2020 and is down -10% in absolute terms. A main contributor to outperformance was the more defensive positioning that we adopted at the beginning of 2020, following strong performance in 2019. We increased allocations to less GDP-sensitive sectors, such as regulated utilities and communications infrastructure, and de-emphasized transportation (especially airports) and energy midstream.

Listed private equity: in private equity, the Partners Group Listed Private Equity SICAV² outperformed its benchmark by 5%, declining by -4% YTD to 10 November 2020. The strong relative performance was driven by an overweight to private markets managers which had exposure to sectors such as technology and healthcare, as well as an underweight to those managers with higher leverage or exposure to small cap companies. The long-term growth drivers of the sector remain intact and initial concerns by some investors were quickly overcome as managers continually reported mostly solid results and quickly rebounding NAVs for their underlying portfolios. This resulted in a swift revaluation of the entire sector and discounts to NAV have contracted back to the long-term average of 16%.

¹ Measured by Partners Group Listed Investments SICAV - Listed Private Equity I-T EUR.

² Measured by Partners Group Listed Investments SICAV - Listed Infrastructure I-T EUR.

Our current investment themes

Listed infrastructure: looking across our infrastructure universe, we remain positive on communications infrastructure as there are secular long-term drivers for the sector with increasing spend on 5G, higher data demand growth, consolidation opportunities, and rising digital penetration globally. We are at the beginning of the 5G investment cycle, and it provides a decade-long earnings growth potential for the sector. We also see more opportunities among regulated utilities, where share performance has been flat while underlying earnings growth remains consistent, leading to lower valuations for the sector. None of these utilities have modified their medium-term investment plans or seen unfavorable changes to their regulation, both of which are promising indicators for the sector's earnings growth potential. Finally, while transport was most affected by the pandemic, many companies within the sector have taken steps to solidify their liquidity position.

Listed private equity: we are positive on private markets asset managers due to two structural drivers. Firstly, institutional investors are increasing allocations to private markets as yields in traditional asset classes remain at record lows, which will translate into strong fundraising and growth in fee-related earnings. Secondly, private markets managers benefit from a growing investment universe as more and more companies prefer to stay private so they can focus on long-term value creation rather than short-term results. Lastly, the sector benefits from maturing portfolios with significant mid-term carry potential. We are also positive on direct investment companies but emphasize a selective approach. We prefer managers with a platform strategy and strong investment teams that can develop portfolio companies and benefit from NAV growth as well as discount contraction.

Relative value matrix

	NORTH AMERICA				EUROPE				ASIA/EMERGING MARKETS				
Listed infrastructure	Transport	Utilities	Comm-unications	Social/diversified	Transport	Utilities	Comm-unications	Social/diversified	Transport	Utilities	Comm-unications	Social/diversified	
Listed private equity	Direct Investment Cos			BDCs	Managers	Direct Investment Cos	Fund of funds	Active ownership	Managers	Direct Investment Cos			

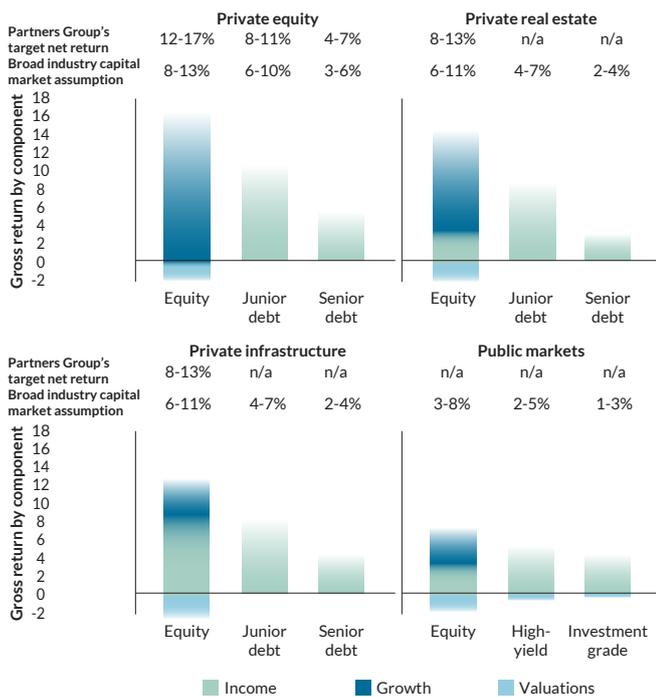
How to interpret the table: the relative value matrix divides the listed infrastructure and listed private equity markets into regions (North America, Europe, and Asia/emerging markets) and types of investment available. Green and light green highlight a segment with high relative attractiveness given Partners Group's specific capabilities. White highlights a neutral segment. Yellow and light yellow mean that Partners Group underweights the segment and requires even greater conviction during bottom-up analysis to pursue an asset.

Portfolio perspectives

Capital market assumptions: long-term return expectations for the broader industry

The COVID-19 pandemic continues to challenge the economic fundamentals in some sectors, yet valuations for many public and private markets asset classes have fully, or almost fully, recovered to the levels seen at the end of 2019. This is clearly having an impact on expected returns, which remain subdued compared with the past. However, private markets are continuing to outperform public markets – and at a rate that is above historical outperformance averages.

Partners Group Expected Return Framework: expected broad industry returns p.a. by asset class



Note: all of the above data is derived from Partners Group calculations and assumptions and should not be construed as representative of Partners Group investments. Partners Group utilizes historical market data and academic research to generate the above calculations, a full list of which can be provided on demand. Please note all value creation inputs are based solely on Partners Group's internal research. There is no assurance that expected returns will be achieved. Public asset classes are assumed to be invested passively, with a flat management fee of 0.20% p.a. for equities, 0.25% p.a. for investment grade bonds and 0.50% p.a. for high yield. The fee structure assumed for private equity includes a management fee of 2.0% p.a. and a performance fee of 20% subject to an 8% hurdle. Real estate and infrastructure fees on equity investments include a management fee of 1.5% p.a. and a performance fee of 20% subject to an 8% hurdle for real estate and 15% subject to a 6% hurdle for infrastructure. Private equity junior debt fees include a management fee of 1.25% p.a. and a performance fee of 12.5% subject to a 4% hurdle. For real estate and infrastructure junior debt, fees include a management fee of 1.25% p.a. and a performance fee of 10% subject to a 4% hurdle. Senior loan fees for all asset classes include a management fee of 0.75% p.a. and a performance fee of 7.5% subject to a 4% hurdle. Hypothetical or simulated performance results have certain limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Past performance is not a reliable indicator of future performance. High-yield and investment grade credit taken as a public proxy for junior debt and senior debt to retrieve spreads.

Source: Partners Group, November 2020. For illustrative and academic purposes only.

The relative strength of private markets' expected returns is demonstrated by our Expected Return Framework, which splits returns for each sub-asset class into three components: income, growth and change in valuations (see detailed box on page 41). Based on this framework, private equity expected returns have marginally increased versus last year and those for private debt have decreased slightly as a result of lower interest rates. Private infrastructure returns have risen, supported by low real interest rates, while private real estate returns remain unchanged, weighed down by lower rental growth.

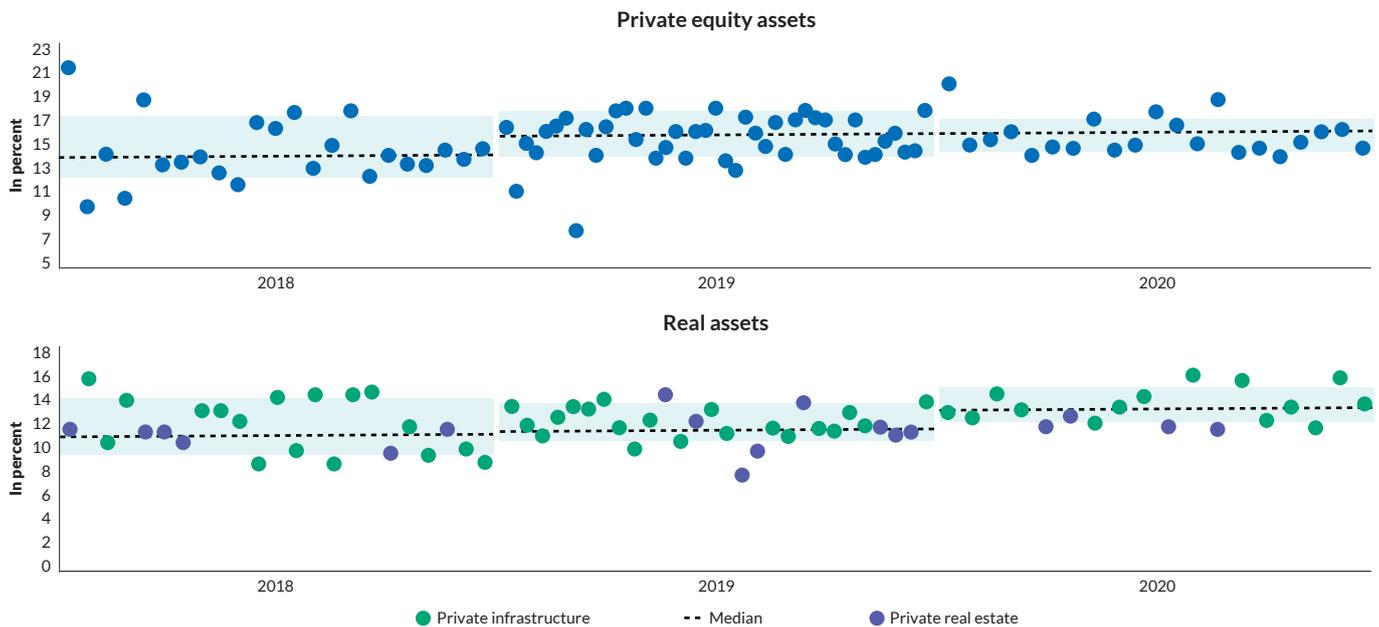
The chart also shows the target net return ranges for Partners Group investments, which are higher than the broader market assumptions. This is because we focus on carefully selected transformative growth themes, we have a rigorous asset selection process and we take a hands-on value-creation approach, as detailed in each asset class chapter. Partners Group has historically outperformed the broader industry by around six percentage points on a net annualized basis¹ across private equity, private infrastructure and private real estate.

Underwriting in a post-COVID-19 world

We do not expect our approach to underwriting to materially change as a result of COVID-19. As the charts on the next page show, our underwriting returns in 2020 are broadly in line with previous years. This reflects our continued focus on resilient, high-margin assets whose fundamentals remain intact despite the fallout caused by COVID-19. These are assets with strong growth prospects and appropriate capital structures whose valuations have remained broadly unchanged. It is worth noting that low investment activity limits the data set, especially in the case of real assets.

¹ Past performance is not indicative of future returns. Figures are as of 30 June 2020. Figures represent since inception performance of i) PE Directs investments (excluding early-stage venture) and ii) PE Directs investments (excluding early-stage venture), RE Directs, RE Direct Secondary investments (excluding core), and IN Directs (cross-over deals that are partially included in the infra track record based on pro-rata allocations to PG Infra products) that Partners Group made on behalf of its clientele. All cash flows and valuations have been converted to USD using fixed exchange rates as of report date of the track record. Gross figures are net of all underlying fund fees and carry (if any), but gross of fees to Partners Group. Model net returns assume Partners Group standard management and performance fees: management fee of 1.50% and performance fee of 20% over 8% preferred return. The model net figures do not include the impact of other possible factors such as any taxes incurred by investors, organizational expenses typically incurred at the start of the investment program, search fee, admin fees, ongoing operating costs, expenses incurred by the investment program (e.g. audit, hedging) or cash drag. The performance presented reflects model performance and does not represent performance that any investor actually attained. Partners Group investments are compared against MSCI World TR Local (Bloomberg Ticker: NDDLWI Index) and MSCI World TR USD (Bloomberg Ticker: NDDUWI Index). Benchmark return is based on public market equivalent methodology.

Net target return ranges based on Partners Group investment opportunities



Note: shows net target return ranges for direct investment opportunities only. Shaded areas represent two thirds of investment opportunities considered. Past performance is not indicative of future results. There is no assurance that similar investments will be made. Target returns are based on various Partners Group estimates. There is no guarantee that targeted returns will be realized or achieved or that the investment will be successful. Data is based on Global Investment Committee documents and hence may deviate from funding dates. For emerging market investments with local currency other than USD/EUR/GBP, hedged returns were taken (i.e. mainly translated into USD) to allow for comparison with Partners Group's funding currency. Only platform investments were considered as add-ons are typically factored in. Early IRRs are weighted by investment amount translated into EUR as a base currency. Figures calculated net of underlying fees and net of Partners Group fees.
 Source: Partners Group, August 2020. For illustrative purposes only.

How we construct integrated private markets portfolios

We apply a top-down strategy using the three components below to complement our bottom-up investment selection.

- **Capital market assumptions** guide our strategic asset allocation. They help us form relative value views and drive top-down asset allocation decisions
- **Relative value** informs how we deploy capital across segments. Considerations include the asset class within private markets, whether to invest directly or via secondaries, and the position in the capital structure
- **Thematic sourcing** identifies investment opportunities that benefit from transformative trends that lead to sustainable, above-average growth. This is a vital part of how we allocate capital within an asset class

Our integrated approach combines direct, secondary and primary investments across private markets asset classes, regions and sectors. This flexibility to invest across the entire private markets platform gives us access to a deep pool of opportunities and allows us to build diversified portfolios that meet the private markets exposure needs of our clients.

Direct, secondary and primary investments each play a different role and offer a number of diversification benefits across our integrated portfolios.

Direct investments offer relatively swift capital deployment, vintage year diversification and majority control of an asset, which provides scope to enhance returns through hands-on value creation at the asset level. We favor direct investments in the current volatile market environment because we can take an active ownership approach to companies that are well-positioned to benefit from transformative trends, while also providing adequate downside protection.

Secondaries offer enhanced diversification and early distribution that mitigates the J-curve. Both of these characteristics are crucial in the earlier stages of building a portfolio. The attractiveness of secondaries relative to other strategies at any given time depends on market valuations – sellers' price expectations adjust and discounts widen, for example, in times of market volatility.

Primaries offer diversification potential and are typically used to provide access to niche strategies and geographies. Primaries are, therefore, a good complement to a direct investment strategy.

By combining direct, secondary and primary investments, we can construct tailored portfolios with built-in diversification, resilience and growth potential, offering investors one-stop solutions in private markets.

Private markets benchmark portfolios 2021

To illustrate how we implement our relative value views, we use both a return-focused and a yield-focused private markets portfolio. Both portfolios maintain an overall diversified approach and consider technical factors, such as deal flow, the breadth of asset classes, and incremental risk/return factors.

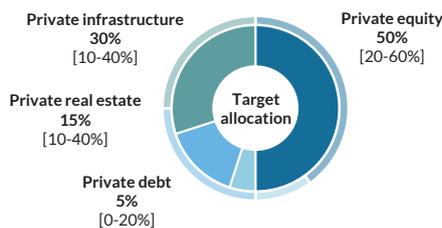
Across the infrastructure asset class, we see strong, long-term tailwinds and actively avoid direct commodity price exposure.

The return-focused portfolio combines investment themes and segments of private markets with the potential for capital appreciation, while the yield-focused portfolio focuses on income-oriented opportunities. We calculate expected returns for the model portfolios using the five-year broad industry returns capital market assumptions from our Expected Return Framework and then apply the asset-testing scenarios defined in the Private Markets Outlook section.

Return-focused portfolio

In our return-focused portfolio, we are overweight in private equity, where our allocations focus on direct investing, complemented by exposure to secondary and primary investments.

Return-focused portfolio allocation in our base case



Note: the outer circle represents long-term portfolio weights. The inner circle represents current portfolio weights. The ranges in brackets show the target bandwidths. There is no assurance that targets will be met.
Source: Partners Group, November 2020.

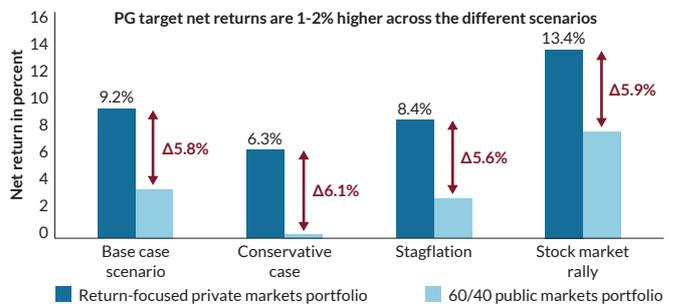
Private equity strategies enable us to build a portfolio that is driven by transformative trends and create value and resilience in the current environment. Within secondaries, we overweight inflection assets, given their longer time horizon to generate value.

We also hold infrastructure as an overweight because of the proven resilience of essential services. Across the asset class, we see strong, long-term tailwinds (e.g. renewables) and actively avoid direct commodity price exposure.

We are more cautious on real estate as we expect the effects of the pandemic to have a long-lasting impact on the market. Within real estate, we remain focused on logistics as well as residential assets in growth cities. Our investment strategy for office, meanwhile, is highly nuanced. We avoid large cities and, instead, focus on cities with lower costs of living and business-friendly characteristics. When volumes eventually start picking up, secondary opportunities in the office space may become compelling.

Finally, we underweight private debt in the return-focused portfolio. Post-COVID-19, we see better risk-adjusted opportunities in equity investments than in second lien because of the upside potential they offer. However, we retain flexibility to access opportunities in the secondary segment that may emerge from future distressed situations.

Economic scenarios applied to return-focused portfolio

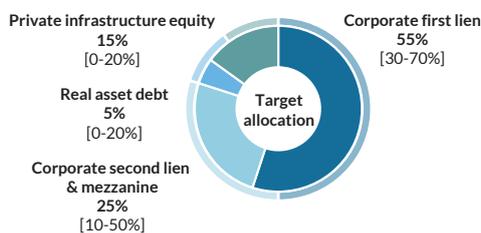


Note: asset class return expectations are based on broad industry returns as projected by the Expected Return Framework. Partners Group target returns exceed return expectations for the broader market in line with our disciplined investment approach and value creation assumptions.
Source: Partners Group, November 2020.

Yield-focused portfolio

In the yield-focused portfolio, we favour first lien debt, where our focus is on established businesses with stable cash flows and high margins. These are often companies that have remained resilient during COVID-19 and are expected to continue to do so based on our thematic convictions. In general, we do not believe that the additional risk and higher loss rates in second lien and mezzanine are adequately compensated by higher spreads. However, we will selectively consider mezzanine and may buy into the junior debt of the most resilient businesses at times of material price corrections.

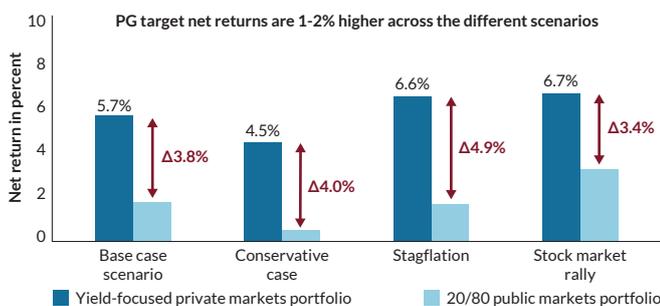
Yield-focused portfolio allocation in our base case



Note: the outer circle represents long-term portfolio weights. The inner circle represents current portfolio weights. The ranges in brackets show the target bandwidths. There is no assurance that targets will be met.
Source: Partners Group, November 2020.

We overweight infrastructure equity given the asset class' contracted cashflows and ability to capture a recurring yield. We avoid assets with significant GDP-linked exposure and high volatility or cash flows.

Economic scenarios applied to yield-focused portfolio



Note: asset class return expectations are based on broad industry returns as projected by the Expected Return Framework. Partners Group target returns exceed return expectations for the broader market in line with our disciplined investment approach and value creation assumptions.
Source: Partners Group, November 2020.

Partners Group's Expected Return Framework

Our Expected Return Framework calculates expected asset class returns for private and public markets based on income, growth, and valuation change over a five-year horizon. The framework complements our qualitative relative value investment approach by adding a quantitative component to reflect broad industry returns. Historically, underwriting and realized returns of Partners Group have been higher than these by several percentage points.

Return from income: annual cash flows from the investment and other income-like components of an asset's return, such as buyback-adjusted dividend yield on equities or interest received on a bond.

Return from growth: the rate at which the value of an investment increases as a result of fundamental drivers. For fixed income instruments, return from growth is usually zero. For equities, this is earnings growth. Private markets benefit from the beta-related earnings growth that is observed in public markets, but return from growth is enhanced by sector selection (thematic sourcing) and through value creation strategies, such as platform growth or operational improvements.

Valuation change: the change in the price the market pays for a cash flow stream consisting of both income and growth. For public market equities, this is the change in the price-to-earnings ratio; for private equity, it is a change in enterprise value (EV) to EBITDA. For private infrastructure and private real estate, it is the asset's sensitivity to a change in the underwritten IRR and cap rate, respectively. The floating-rate nature of private debt means that valuation change is usually close to zero. The underlying assumption is that valuations fully revert to long-term averages over a long-term horizon.

Private markets relative value views: by asset class

Corporate assets

Private equity

For 2021, we remain positive on the mid-cap sector, where we will emphasize direct investments in which we can build growth and resilience in targeted market segments that benefit from transformative tailwinds. From a purely top-down perspective on sectors – the corporate subsector matrix on page 13 highlights specific themes we believe are particularly attractive in the current environment, based on a bottom-up analysis – we continue to be overweight in healthcare and business services globally. We have upgraded European information technology (IT) to an overweight, where continued digitization and tech-enablement offer strong investment themes, and this now aligns with our overweight in US IT. By contrast, we remain cautious on industrials in the US because of their cyclical nature, yet we are seeing select opportunities in the sector in Europe and Asia that justify a neutral positioning. This means we focus on companies with limited GDP exposure.

For private equity secondaries, the distress window was short lived. During Q2 2020, many transactions were put on hold due to wide bid-ask spreads and challenges to underwrite portfolios against outdated NAVs given market dislocation and initial uncertainty. Since then, prices for high-quality portfolios have rebounded to their pre-COVID-19 levels. Consequently, unlike during the GFC, we have generally not seen forced sales as market sellers were not cash constrained and capital markets quickly bounced back. Should economic and capital market disruptions drag on, discounts may widen.

In the meantime, secondary market prices for high quality portfolios have rebounded to their pre-COVID-19 levels and we are committed to maintaining our price discipline and focusing on inflection assets where the value creation potential remains intact. Specifically, we pursue opportunities where we have a special angle on the situation, which might include existing knowledge of the portfolio or unique access to the underlying managers. High near-term uncertainty means we are underweight in mature/tail-end secondaries because these depend on near-term exits and, therefore, have high exposure to public markets. In primaries, we prefer US and European mid-cap buyout managers and remain cautious on growth and venture capital managers because COVID-19 has had a significant impact on early-stage companies.

We are selective on growth opportunities. Many sectors that structurally benefit from the acceleration of transformative trends triggered by the pandemic are strongly represented in the growth space. However, valuations are high, and we carefully balance these two trends when looking at opportunities.

Private debt

On the corporate debt side, we focus on the senior end of the capital structure, such as first lien and unitranche, with some highly selective junior capital investments. We look to finance (small- and) mid-cap companies in situations where we can own the majority of a tranche and, therefore, have control over the terms and conditions of the investment. We also look opportunistically at companies with robust business models that are facing temporary cash flow constraints.

The opportunity to invest in distressed situations at attractive terms was largely short lived and we primarily executed on this on the secondary loan market.

In terms of sector focus, globally, we will continue to overweight those sectors that have performed well during the COVID-19 sell-off and underweight those that have proven to be volatile. In this context, we will pursue an overweight allocation to information technology and business services, and underweight consumer and industrials. Despite previous overweight, our strategy is to remain neutral on healthcare and media/telecommunications.

Private equity matrix

	NORTH AMERICA				EUROPE				ASIA/EMERGING MARKETS				
Directs	Large	Mid	Small	Growth	Large	Mid	Small	Growth	Large	Mid	Small	Growth	Buyout
	Media/telecommunications		Consumer		Media/telecommunications		Consumer		Media/telecommunications		Consumer		Sectors
	Information technology		Healthcare		Information technology		Healthcare		Information technology		Healthcare		
	Business & financial services		Industrials		Business & financial services		Industrials		Business & financial services		Industrials		
Secondaries	Inflection assets		Mature assets		Inflection assets		Mature assets		Inflection assets		Mature assets		Buyout
	Inflection assets		Mature assets		Inflection assets		Mature assets		Inflection assets		Mature assets		Venture/growth
Primaries	Large	Mid	Small		Large	Mid	Small		Large	Mid	Small		Buyout
	Venture		Growth		Venture		Growth		Venture		Growth		Venture/growth

How to interpret the table: the relative value matrix divides the private equity market into various private equity segments, defined by regions (North America, Europe, and Asia/emerging markets) and transaction type (directs, secondaries, and primaries). For direct and primary investments, we classify the investment by size (small-cap up to EUR 250m (Europe) or USD 250m (US); mid-cap from EUR 250m to EUR 2bn (Europe) or USD 250m to USD 2bn (US); and large-cap over EUR 2bn (Europe) or USD 2bn (US) enterprise value) and also include a growth segment (for firms with positive cash flows and exceptional growth potential in need of additional capital to finance further expansion). For secondary investments, we classify by financing stage (buyout and venture/growth), and we distinguish between inflection assets (early stage) and mature assets according to asset/portfolio age. Green and light green highlight a segment with high relative attractiveness given Partners Group's specific capabilities and deal flow. White highlights a neutral segment. Yellow and light yellow mean that Partners Group underweights the segment and requires even greater conviction during bottom-up analysis to pursue an asset.

Private debt matrix

	NORTH AMERICA		EUROPE		ASIA/EMERGING MARKETS	
PIK/preferred equity	Large	Mid/(small)	Large	Mid/(small)	Large	Mid/(small)
Mezzanine direct	Large	Mid/(small)	Large	Mid/(small)	Large	Mid/(small)
Second lien direct	Large	Mid/(small)	Large	Mid/(small)	Large	Mid/(small)
First lien direct	Mid/(upper)	Mid/(small)	Mid/(upper)	Mid/(small)	n/a	Mid/(small)
Liquid loans	Primary	Secondary	Primary	Secondary	Primary	Secondary
	GLOBAL					
Industry sectors	Media/telecommunications	Consumer	Information technology	Healthcare	Business services	Industrials

How to interpret the table: the relative value matrix divides the private debt market into various private debt segments, defined by regions (North America, Europe, and Asia/emerging markets), debt strategy (PIK/preferred equity direct, mezzanine direct, second lien direct, first lien direct, first lien liquid, and liquid loan secondaries), and industry sector. In each segment, we classify the investments by size (mid-/small- and large-cap). Mid/small relates to companies with EBITDA under USD 50m. Large relates to companies with EBITDA over USD 50m. Green and light green highlight a segment with high relative attractiveness given Partners Group's specific capabilities and deal flow. White highlights a neutral segment. Yellow and light yellow mean that Partners Group underweights the segment and requires even greater conviction during bottom-up analysis to pursue an asset.

Real assets

Private real estate

The uncertainty within certain segments of the real estate market in a post-COVID-19 environment means we are focusing our efforts on select areas of the market where we have a high conviction. Logistics assets continue to be the focus for our real estate direct investments as they continue to benefit from the accelerated growth of e-commerce. We are overweight on value-add residential real estate and positive on select office assets located in low-cost, business-friendly environments that are supported by population growth. We are more cautious around office assets in dense, gateway cities in developed markets because demand remains uncertain in the post-COVID-19 environment. The retail sector continues to be a strong underweight for us because of long-running challenges faced by the sector, which have only been exacerbated by the crisis.

We continue to view traditional secondaries as attractive and we expect opportunities to pick up as the visibility of COVID-19's long-term impact increases. We see strong potential in inflection and mature secondaries that still have dry powder to capitalize on attractive investment opportunities that emerge from the crisis. For primaries, we focus on opportunistic strategies that capitalize on increased distress in the market and a low interest rate environment.

We opportunistically pursue assets with a capital-constrained ownership structure, particularly in the office and hospitality sectors, where seller distress enables us to buy core assets at a discount deep enough to generate value-added returns, or where we can provide existing ownership with high-yielding preferred equity with strong downside protection. Our opportunistic strategy is focused on the selective development of industrial and residential assets, with office development generally limited to assets with substantial pre-leases in place.

Private infrastructure

The resilience of our infrastructure assets through COVID-19 is a strong testament to our relative value views, which we will largely maintain for 2021, with some refinements. Our focus in direct investments is on above-average growth trends and creating value through platform expansion, building core and operational improvements. We maintain our overweight in communication in the Americas and Asia as COVID-19 has further accelerated digital adoption. We also view energy infrastructure in Europe as highly attractive as it is supported by green energy targets and the drive toward a net zero carbon emission world. Within transportation, we focus on the non-cyclical segments, including "new mobility", such as fleet management and electronic toll collection systems. In the US, we have lifted our sector views on social infrastructure to neutral. Following COVID-19, increased impetus for governments to augment limited resources via public-private partnerships may open opportunities, which we expect to be further supported by growing demand for decarbonization infrastructure.

In the current environment, investors are holding onto infrastructure investments because of their defensive characteristics. This means that traditional secondaries are both rare and competitively priced. We, therefore, focus our efforts on complex situations, such as liquidity solutions and stapled secondaries, that we can source off-market and in situations where we have a unique angle. In primaries, we favor managers with strong value creation capabilities who complement our direct asset portfolio investment themes through their sector knowledge, regional presence or sourcing networks.

Private real estate matrix

	AMERICAS							EUROPE						ASIA-PACIFIC														
Directs	Core			Value-added				Opportunistic			Core			Value-added			Opportunistic			Core			Value-added			Opportunistic		
Regions	North-east	Mid-Atlantic	Mid-west	South-west	West	Canada	Latin America	UK	France	Germany	Nordics	Southern	Eastern	Japan	Australia	Hong Kong	Singapore	Korea	China	India	South East Asia							
Debt	Senior			Mezzanine				Preferred equity			Senior			Mezzanine			Preferred equity			Senior			Mezzanine			Preferred equity		
Secondaries	Inflection			Mature				Tail-end			Inflection			Mature			Tail-end			Inflection			Mature			Tail-end		
Primaries	Core			Value-added				Opportunistic			Core			Value-added			Opportunistic			Core			Value-added			Opportunistic		
Sectors	Residential	Office	Logistics/industrial	Retail	Other	Residential	Office	Logistics/industrial	Retail	Other	Residential	Office	Logistics/industrial	Retail	Other	Residential	Office	Logistics/industrial	Retail	Other								

How to interpret the table: the relative value matrix divides the private real estate market into various segments, defined by regions (Americas, Europe and Asia-Pacific), investment types (directs, secondaries, and primaries), debt and sectors. Direct and primary investments are classified by investment type (core, value-added, and opportunistic). For secondaries, we distinguish between traditional and non-traditional secondaries. Green and light green highlight a segment with high relative attractiveness given Partners Group’s specific capabilities and deal flow. White highlights a neutral segment. Yellow and light yellow mean Partners Group underweights the segment and requires even greater conviction during bottom-up analysis to pursue an asset.

Private infrastructure matrix

	AMERICAS					EUROPE					ASIA/EMERGING MARKETS				
Sector	Transport/logistics	Power	Energy infrastructure	Communications	Social infra/PPPs	Transport/logistics	Power	Energy infrastructure	Communications	Social infra/PPPs	Transport/logistics	Power	Energy infrastructure	Communications	Social infra/PPPs
Strategy	Building core		Platform expansion	Operational value creation	Core	Building core		Platform expansion	Operational value creation	Core	Building core		Platform expansion	Operational value creation	Core
Directs	Equity				Junior debt	Equity				Junior debt	Equity				Junior debt
Secondaries	Inflection assets			Mature assets		Inflection assets			Mature assets		Inflection assets			Mature assets	

How to interpret the table: the relative value matrix divides the private infrastructure market into various regions (North America, Europe, and Asia/emerging markets) and segments, which are then divided into sectors (transportation/logistics, power, energy infrastructure, communications and social infrastructure/PPPs), strategy, and investment types (directs or secondaries). For directs, we distinguish between equity and debt. For secondary investments, we distinguish between inflection assets (early stage) and mature assets according to asset/portfolio age. Green and light green highlight a segment with high relative attractiveness given Partners Group’s specific capabilities and deal flow. White highlights a neutral segment. Yellow and light yellow mean that Partners Group underweights the segment and requires even greater conviction during bottom-up analysis to pursue an asset.

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