



Product Review

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

About this Review

ASSET CLASS REVIEWED	ALTERNATIVES
SECTOR REVIEWED	GROWTH ALTERNATIVES (HIGH)
SUB SECTOR REVIEWED	PRIVATE EQUITY
TOTAL FUNDS RATED	7

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	PARTNERS GROUP GLOBAL MULTI-ASSET FUND
APIR CODE	ETL0431AU
PDS OBJECTIVE	TO PROVIDE INVESTORS WITH ATTRACTIVE LONG-TERM CAPITAL APPRECIATION BY INVESTING IN A PORTFOLIO WITH EXPOSURE TO PRIVATE MARKETS AND RELATED ASSET CLASSES
INTERNAL OBJECTIVE	ABSOLUTE RETURN 8-10% P.A. (NET OF FEES) OVER FIVE-TO SEVEN-YEARS
STATED RISK OBJECTIVE	NOT TARGETED - EXPECTED 6-8% P.A. (STANDARD DEVIATION)
DISTRIBUTION FREQUENCY	ANNUALLY
FUND SIZE	\$184M (30 JUNE 2019)
FUND INCEPTION	14-04-2015
MANAGEMENT COSTS	1.5% P.A.
PERFORMANCE	APPLIED WITHIN THE UNDERLYING FUND ON A DEAL-BY-DEAL BASIS
RESPONSIBLE ENTITY	PARTNERS GROUP (GUERNSEY) LTD

About the Fund Manager

FUND MANAGER	PARTNERS GROUP (GUERNSEY) LTD
OWNERSHIP	100% OWNED SUBSIDIARY OF PARTNERS GROUP HOLDING AG (COMBINED, PARTNERS GROUP EMPLOYEES ARE THE LARGEST SHAREHOLDERS)
ASSETS MANAGED IN THIS SECTOR	€80BN (JUNE 2019)
YEARS MANAGING THIS ASSET CLASS	23

Investment Team

PORTFOLIO MANAGER	COMMITTEE BASED
INVESTMENT TEAM SIZE	850
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	20 OFFICES AROUND THE GLOBE, HEADQUARTERED IN ZUG (SWITZERLAND)

Investment process

TYPICAL NUMBER OF UNDERLYING POSITIONS	500-1,000 PORTFOLIO COMPANIES PLUS 30-40 LISTED EQUITIES
USE OF LEVERAGE	THE UNDERLYING FUND MAY BORROW UP TO 20% OF ITS ASSETS BUT FOR MEETING WITHDRAWAL REQUESTS AND MANAGING CASH FLOWS
CURRENCY APPROACH	APPROXIMATELY 70% PASSIVELY HEDGED BACK TO THE AUD
LIQUIDITY TERMS	DAILY (SUBJECT TO REDEMPTION RESTRICTIONS)

Fund rating history

SEPTEMBER 2019	RECOMMENDED
JULY 2018	RECOMMENDED
JULY 2017	INVESTMENT GRADE

What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- The investment team is large, well-resourced, highly motivated and of very high calibre.
- The investment process is disciplined and opportunistic with the Manager's proprietary database central to the execution of the relative value and franchise quality investment style.
- Leveraging a strong global footprint and network, Partners Group is highly experienced in making investments across a wide spectrum of private markets, and has developed a strong track record.
- The Fund provides access to private markets in a more liquid investment structure.

Weaknesses

- The Fund has yet to be tested over a full market cycle.
- The Fund has a high fee load relative to traditional listed market strategies.
- The Fund has the potential to face redemption freezes due to the limited liquidity of the underlying portfolio and therefore the daily redemption facility is potentially not maintainable.
- Recent strong inflows faced by the Manager highlights the difficulty in maintaining and altering the Fund's asset allocation and vintage diversification during times of strong inflows which may lengthen underlying portfolio company holding periods.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
CREDIT RISK			●
FOREIGN CURRENCY EXPOSURE		●	
LEVERAGE RISK			●
REDEMPTION RISK			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK			●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

BIOMETRICS

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME			●

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY			●
ESG AWARENESS		●	

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR		●	

Fee BIOMETRICS are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The Partners Group Global Multi-Asset Fund ('the Fund') is a daily liquid, diversified multi-asset fund which invests across private markets and related listed asset classes. The primary focus of the Fund is to generate absolute returns from private market investments which is balanced through the inclusion of listed assets for liquidity purposes.
- The Fund is managed towards a long-term target allocation which is split between 40% private markets (private equity, private debt, private real estate and private infrastructure), 35% credit strategies (senior loans, private market high yield and opportunistic fixed income) and 25% listed assets (listed infrastructure, listed real estate and listed private equity vehicles). In practice however, the Fund has a relatively flexible mandate, allowing the Manager to strategically position the portfolio into those segments and instruments that appear attractive from a relative value standpoint while considering liquidity requirements. Additionally, the Fund can borrow up to 20% of its assets to meet redemptions and manage cash-flows.
- The private equity component invests across a broad range of private debt and private equity investment opportunities, including: direct investments and secondary investments (existing investments in externally managed vehicles). Additionally, the Fund invests across financing stages (buyouts, venture capital and special situations), geographic regions and industries. Overall on a look through basis, the Fund will be typically invested in approximately 500-1,000 private companies and 70-100 listed investments across listed infrastructure, private equity and real-estate. The Fund does not invest in primary investments (initial seed investments in externally managed vehicles) given the duration of

these investments and the liquidity profile of the Fund.

- The Fund aims to provide investors with absolute returns of 8-10% p.a. (after fees) over five-to-seven years with an expected volatility of 6-8% p.a. over three-to-five years (although volatility is not specifically targeted). Approximately 70% of the Fund's currency exposure is passively hedged to the Australian Dollar.
- As per the PDS dated 26 April 2019, the fee disclosure for the Fund is as follows: management cost of 2.51% p.a. comprised of a management fee of 1.50% p.a. and indirect costs of 1.01% p.a. for the 12-month period ending 30 June 2018. For the current PDS, the Fund's indirect costs include fees arising from the underlying funds that are interposed vehicles but do not include transaction and operational costs. Performance fees are also payable in the private markets allocation of the Fund on a deal by deal basis and these are reflected in the indirect costs.
- During the financial year ended 30 June 2018, the Fund incurred estimated transaction and operational costs of 0.14% of which 100% were recouped by the Fund's buy/sell spread. Net transaction costs are costs incurred in managing the Fund (including explicit and implicit costs of buying and selling assets, the cost of hedging/protection strategies and/or when there are applications or redemptions of Fund units by investors) that are not covered by the buy/sell spread. The Fund's buy/sell spread is 0.30% (round-trip). These costs are reflected in the unit price of the Fund and are borne by investors, but they are not paid to the Responsible Entity or the Manager. Please refer to the Fund's PDS for further details.

Redemptions

- The Fund offers **restricted daily liquidity**. The Fund has broad discretion to restrict net redemptions to no more than 10% of the aggregate number of all units on any dealing day, 25% aggregate number of all units within the prior 30-day period or 40% aggregate number of all units within the prior 12-month period. Lonsec reminds investors to be aware of the potential limitations in their ability to withdraw from the Fund. An investment in the Fund is suitable for investors who desire daily liquidity however are comfortable that immediate liquidity may not always be available.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- As a predominately private markets product (equity and debt assets), Lonsec considers this Fund to be best funded from within either the global equity or alternative growth components of a diversified portfolio. The Fund is suitable for high risk profile investors with investment time horizons of over five-years.
- The Fund offers potential diversification benefits through low-to-moderate correlations with traditional asset classes, albeit the liquid component of the Fund likely to exhibit higher correlation to traditional asset classes. Lonsec notes private

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

equity investing is not without additional risks, and investors' tolerance for alternative asset specific risks (such as those associated with the use of leverage, illiquidity and estimated asset pricing) should also be considered.

- The Fund invests in assets that are largely denominated in non-A\$ currencies. While approximately 70% of the Fund's currency exposure is passively hedged to the AUD, the Fund will have a meaningful exposure to foreign currency risks and therefore currency fluctuations may significantly impact the value of the Fund.

Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Partners Group have continued expanding the team's headcount with employees numbering over 1,300 as at June 2019, with now more than 850 individuals in the investment team.
- As part of the team's growth, the Manager's Denver campus was opened in May 2019, it is expected that this will be the Manager's North America hub as they seek to build a greater footprint in the region, commensurate with their presence in European markets. A significant portion of the staff members located in the Manager's New York office have relocated to Denver and while there are approximately 200 staff in Denver, it is expected to grow considerably in the next five years.
- David Layton, Partner and Head of Private Equity, replaced Christoph Rubeli as Co-CEO on 1 January 2019, therefore working alongside André Frei, who has been Co-CEO since 2013. Rubeli will additionally step down from Partners Group's Executive Committee and Global Executive Board by the end of 2019, but he will remain a Partner of the firm.
- Fredrik Henzler has recently become the sole Head of the Industry Value Creation (IVC) team. Henzler was previously the Co-Head with Christian Unger, who is now the Co-Head of Operating Directors & Entrepreneurial Governance. Henzler currently remains the Head of the Industrials IVC business unit but it is expected that he will transition out of that role over the coming months.
- Lonsec has not been notified of any material changes to the investment process since Lonsec's previous review.

Lonsec Opinion of this Fund

People and resources

- Lonsec has visited some of the Manager's key offices in recent years (including Zug, New York and London) and met with the Fund's key decision makers. Partners Group is a large, well-resourced firm with over 1,300 employees located in 20 offices across the world. The group has significant depth of investment resources and personnel from which to draw on, with high levels of private markets experience embedded within the team. Lonsec notes the high degree of cohesion displayed by the team despite the obvious geographical separation of team members. Further, Lonsec considers the Manager's broad, global employee network to be a key positive in being able to provide a consistent pipeline of investment opportunities.
- Lonsec notes that overall headcount has expanded alongside Partners Group's growth in assets under management (€80bn as at June 2019). As an aside, Lonsec notes Partners Group's continual push into direct investments from a strategic asset allocation point of view since 2007 which has been a key factor of growing headcount. Lonsec is pleased to note Partners Group's expansion has occurred across all areas of the business, as direct investments require a greater level of due diligence, particularly on the operations and legal side. Pleasingly, despite growth of headcount, Partners Group has preserved a team-orientated, motivated and driven culture.
- The Manager also recently opened its new Denver campus in May 2019 which now contains close to 200 staff. It is expected that this will be the Manager's North America hub as Partner's Group seeks to build a greater footprint in the region, commensurate with their presence in European markets. Lonsec views this expansion positively, providing greater ability to source deals, however is mindful of the potential challenges the Manager may face in maintaining the culture, cohesion and consistency in process Lonsec has viewed highly to-date.
- Partners Group operates a number of committee-based structures rather than having decision making responsibilities reside with one individual. While this may serve to limit direct accountability, Lonsec believes it is important with regard to private equity investing, in ensuring fairness and consistency in accessing and allocating opportunities across the private equity programs operated across the business. That said, Lonsec considers the committee decision making structure to be somewhat less appropriate for managing the listed component of the Fund, instead preferring a more autonomous approach where decision makers can be held accountable for this component.
- In aggregate, the Global Investment Committee (GIC) is the key decision making body for the Fund, more specifically the private markets component of the Fund. the GIC is tasked with overseeing all recommendations and allocations, and the specialist Private Markets Investment Committees which are responsible for investment pre-selection and deal development in their respective market segments. The GIC is highly experienced, with an average of 25 years' industry experience, whilst its constituents possess noteworthy co-tenure at

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

Partners Group, averaging 20 years. Partners Group's Liquid Investments Investment Committee (LIIC) is responsible for the liquid investment component of the Fund, however, reports to the GIC. In addition, the Fund is monitored by a separate risk team who are supported by a compliance framework and a robust governance process.

- While Lonsec notes that the overwhelming majority of the investment team is focused on private markets, a team of nine forms part of the Liquid Private Markets team which was established in 2001. This team is responsible for the listed infrastructure, listed private equity vehicles and listed real estate components of the Fund. Lonsec considers this team of nine to be relatively small compared to most global equity fund managers, particularly when accounting for the breadth of strategies the team is responsible for. Lonsec notes the highly-targeted investment style and the team's use of quantitative screening helps to both narrow or positively identify the universe into a more manageable size as well as assisting with the timely identification of opportunities.
- Nonetheless, Lonsec considers the Liquid Private Markets team to be somewhat autonomous, to the extent that they are responsible for conducting their own 'top-down' and bottom-up' research while keeping in the guidelines of the Global Portfolio Strategy Committee (GPSC). That being said, the team have less influence over the portfolios allocation between the listed asset-classes (i.e. between listed real-estate, private equity and infrastructure).
- Given the semi-liquid nature of this Fund relative to a more traditional private equity vehicle, the management of the Fund's asset allocation and vintage diversification is an important and functional aspect. This is directly managed by the portfolio management team of 15, co-headed by Roberto Cagnati and Cyrill Wipfli in conjunction with the various committees at Partner's Group. Lonsec believes this to be a strong aspect of the offering as it is facilitated by the collaboration and consistency displayed throughout Partners Group's investment process and aids in the portfolios composition aligning with the Manager's relative value outlook.
- Lonsec considers Partners Group to have a high alignment of interests with investors and combined, employees remain the largest shareholders of the firm. Furthermore, Partners Group generally commits 1% of total commitments in its investments alongside its investors. All employees hold stock or options, with key investment staff also sharing in an allocation from performance fees earned across the business.
- Given the size and depth of experience in the team, coupled with the committee based decision-making structure, Lonsec considers key person risk to be relatively low.

Research and portfolio construction

- Lonsec highlights the primary focus of the Fund is to generate absolute returns from private market investments through a daily liquid (albeit at times potentially restricted) investment structure. Private market investments are therefore expected to make up a large component of the Fund (approx. 75% over the long-term) with the balance of the Fund invested across related listed assets to uphold the liquidity of the Fund. Lonsec considers Partners Group's research philosophy and process to be closely aligned between private and listed markets, with Partners Group employing a highly logical, robust and repeatable investment process which consists of a combination of 'top-down' and 'bottom-up' analysis.
- Lonsec considers having on-the-ground resources in key regions (US, Europe and to a lesser extent Asia and Australia) to present a competitive advantage in this approach and aids in the Manager's sourcing of deals. This is supplemented by an equally strong external network of contacts (sponsors, fund managers, banks and intermediaries) to facilitate leads and generate deal flow. On average, Partners Group sources over 450 deals per annum.
- Given Partners Group's European heritage, Lonsec considers its edge to be somewhat stronger in this market, however acknowledges that as the firm's US footprint continues to expand rapidly it will be a greater source of deal flow in the coming years. Lonsec highlights that the US market is generally considered a more competitive landscape and as such, will be closely monitoring the Manager's experience in this region, seeking to further assess the ability for Partners Group to implement their value creation philosophy as the region becomes of greater importance.
- Partners Group's 'top-down' process is designed to provide direction as to which segments of the market the investment team should focus their efforts and sets the long-term target allocation for the Fund. Recognising that different market segments perform better during different stages of the economic cycle, the Fund is tilted towards investment types, geographic regions and financing stages that offer the best relative value opportunities. Lonsec considers Partners Group to be well-positioned to determine the asset allocation for the Fund, leveraging off insights gathered from the extensive investment teams and committees.
- Individual investments are judged by specialist teams on their own merits from the 'bottom-up' and Lonsec considers the Manager's 'bottom-up' investment process to be robust and consistently applied across both the firm's three key private market segments (direct, primary and secondary) and the listed market segments (listed infrastructure, real estate and private equity). For the private markets piece, within each market segment and asset class, analysts are assigned industries in which they are regarded as specialists. While not only responsible for sourcing deals, they are tasked with conducting global industry specific research and writing reports to assist in developing deeper insight and knowledge across the business. Lonsec believes this arrangement can create additional value for investment portfolio companies through industry connections and referrals.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

P 4-14

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

- This structure is further bolstered by the presence of the Industry Value Creation (IVC) team of more than 30 highly experienced members with industry and functional backgrounds who typically sit on the board of related direct investments. The IVC is integrated into the 'Deal teams' (small working groups comprised of professionals from across the business) to ensure industry and operational expertise is embedded throughout the entire investment process from sourcing to exit. Lonsec highlights that this team has grown strongly alongside Partners Group push into direct investments and considers the integration of the IVC within the specialist market teams to be a key competitive advantage of the strategy.
- Given Partners Group has been investing in private markets for more than 20 years, they have accumulated a wealth of information in its proprietary database 'PRIMERA'. PRIMERA contains financial information and insights on more than 34,000+ private companies, allowing for a detailed assessment of a company's borrowing levels, profitability, growth and equity contributions as well as peer group comparisons. Lonsec considers this a powerful tool, providing both a strong read on private markets to set the Fund's asset allocation mix while also promoting a disciplined and repeatable investment process. Lonsec also believes it enables the investment team in expediting deal executions.
- The Fund's portfolio construction is committee based and determines the Fund's asset allocation mix (i.e. exposure to the main private equity sub-markets and liquidity requirements). The choice between individual investments is also made, but is secondary to which market segments to tilt the Fund. Lonsec considers the committee-based approach to be well-suited to the Partners Group private market investments, however, believes it is somewhat less preferred for managing the listed component of the Fund given final decisions on listed stocks may need to be made relatively quickly.
- Further, Lonsec notes the central investment committee decision making structure for all private market funds managed by Partners Group ensures consistency and equitable allocation of deals across all funds offered by Partners Group. Lonsec sees this as an attractive feature of the Fund and Partners Group's structure, which differentiates the Fund from other retail private equity offerings. Lonsec has observed the GIC in operation as part of its review process and considers the committee to be highly diligent and to demonstrate a high level of investment skill.
- There are a number of issues inherent in private equity investing which typically make it less attractive to retail investors. These include, for example, long capital lock-up periods, capital calls and the J-Curve effect (i.e. when funds experience negative returns for the first several years). That said, Lonsec believes the Fund has been cleverly designed to overcome many of these issues, offering access to private equity markets in a form more suited to retail investors. This is achieved by incorporating a number of structural features into the Fund, namely:
 - A commitment strategy that ensures capital is set to work immediately, and adjusted continuously to maintain the targeted level of private equity exposure;
 - Fully paid in, meaning there are no additional capital calls;
 - A diversified approach to private equity investing which attempts to reduce the J-Curve effect.
 - Daily applications and redemptions (subject to gates).
- That said, Lonsec is cognisant of the liability mismatch Partners Group is attempting to balance between providing investors exposure to relatively illiquid assets within a daily liquid structure and considers this to be an inherently difficult task. While Partners Group has structured the Fund to offer a reasonable level of liquidity through its allocation to listed securities and cash, Lonsec has some reservations about the Fund's ability to consistently deliver on the claimed liquidity profile, particularly in times of market stress and collective redemptions. While Lonsec recognises Partners Group has established a reasonably liquid target asset allocation (approximately 25%) for the Fund, Lonsec notes the Fund has the potential to be gated for extended periods of time and thereby not offering the liquidity profile outlined by the Fund. Further, Lonsec notes the Fund's asset allocation has the potential to be strongly dictated by the Fund's liquidity needs and as a result impacting the Fund's desired positioning and potentially impacting returns to investors.
- Assisting Partners Group to manage liquidity is an internally-derived quantitative model used to forecast liquidity events and requirements for the Fund. This model also allows for a variety of scenario simulations and stress testing. Lonsec notes, however, that this Fund is not subject to the same unpredictable nature of investor applications and redemptions. While Lonsec is pleased by the Manager's historical success in maintaining liquidity in semi-liquid investment structures, it highlights that the risk of redemption freezes is still very high and notes that this needs to be a key consideration for investors.
- Whilst the Fund has reached scale, Lonsec notes the Fund's size leaves it at somewhat of a disadvantage, given the relatively small component, in absolute terms, allocated to liquid investments to service redemption requests whilst also noting the limited natural churn within the private market component of the Fund. Lonsec believes consistent and stable inflows (and returns) may need to be maintained to assist the Manager in making meaningful asset allocation changes to the private market component of the portfolio going forward.
- Further, given the strong inflows experienced by the Manager, the ability and willingness to sell assets is something Lonsec is watching closely. The strength of inflows across the firm has outpaced the current level of opportunities and firm wide dry powder, which has previously been considered around one to two years is approaching this upper level. While this is also a function of market valuations and a level of conservatism from the Manager, the propensity for the Manager to adhere to their sell-discipline, when their ability to deploy inflows is becoming harder, is

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

something Lonsec will continue to monitor in future reviews.

- Lonsec notes the Manager's approach to currency management is to passively hedge the portfolio 70% to the Australian dollar. While this approach will reduce unit price volatility and has been stress tested by the Manager based on historical market movements, Lonsec still has some concerns around this approach given the potential implications in the event of a meaningful risk-off market environment. This reflects the possible liability mismatch which exists between the FX hedging contracts and the portfolio holdings (which are mostly illiquid) and also the tendency for the Australian dollar to sell off along with equity markets. Lonsec is also cognisant that this environment tends to result in an increase in redemptions by investors, and all of which may lead to redemptions from the Fund being closed.

Risk management

- The Portfolio and Risk Management Team of 35 is primarily responsible for measuring and managing portfolio risks for a range of funds. Importantly, this team is separate to the investment teams. Further, Partners Group has a monitoring committee, comprised of senior management members of the firm to oversee and review the performance of its investments. Lonsec considers Partners Group's multi-layered risk monitoring process to be thorough and an additional source of market insight.
- Lonsec believes Partners Group's investment philosophy, which is considered to skew towards conservatism and quality, contributes to the overall risk management of the Fund. The Manager tends to prefer quality assets with some upside, which are neither too 'mature' or too 'early-stage' (e.g. exhibiting a preference for buyouts to venture capital). While portfolio weights are largely a function of size, deals are roughly equally weighted where possible with weighting increased if deals are more defensive and vice versa. This is understood to contrast with other private equity managers which size exposures through each deal's expected return or Internal Rate of Return (IRR), which can lead to riskier outcomes (e.g. a higher IRR may be driven via leverage strategies).

Funds Under Management

- Partners Group's assets under management (AUM), as at 30 June 2019 totalled €80 billion. The Fund approximated \$220 million in size as at 31 July 2019, with approximately \$5 million of which comprised of seed money provided by Partners Group in order to establish the Fund. Lonsec notes Partners Group has drawn this seed money down from \$30m in July 2018 and is expected to reduce this further as the Fund gains a diversified book of clients and/or is materially larger. Partners Group managed US\$4.4 billion in funds under management in similar, multi-asset strategies as at 31 July 2019.
- Lonsec notes Partners Group has exponentially grown its AUM in the past three years, with an increase of close to €40 billion over this period. Lonsec notes, of the €80 billion, approximately 15% of AUM is semi-liquid (retail) money. Partners Group do not believe there is a capacity for this Fund given the size of the investment universe

available. Whilst acknowledging this, Lonsec is also conscious that larger managers will need to conduct a higher volume of deals (requiring a larger team and potentially lowering the quality of investment hurdle) and/or participating in larger deal sizes. Lonsec notes both are unfavourable, particularly moving into the larger deal space where valuations are typically higher and competition is more fierce with the likes of KKR (US\$199bn), Blackstone (US\$545bn) and The Carlyle Group (US\$223bn). Lonsec will continue to monitor the capacity of the strategy in future reviews.

Performance

- The Fund has a relatively limited track record having been established in April 2015 and accordingly, does not possess performance history over its stated time horizon (five-to-seven years). That said, Partners Group have managed a similar fund titled 'The Partners Fund', the majority of which comprises of Partners Group employee money. The track record for this Fund dates back to December 2004.
- The Fund is managed with the aim of generating 8-10% p.a. absolute returns, net of fees, over a five-to-seven-year time horizon. Over the one and three-year periods to 31 July 2019, the Fund generated a net total return of 11.2% and 11.5% p.a., respectively. Over the three-year period, the Fund's allocations to private equity secondaries and directs as well as private real-estate secondaries have been the largest contributors, the Fund's listed component and private debt to a lesser extent have also added to performance.
- That said, against listed equities (MSCI World ex Australia NR Index AUD Hedged) which have performed very strongly, the Fund has struggled, underperforming this reference benchmark over the three-years to 31 July 2019, net of fees, by -3.0% p.a.
- The Fund's low volatility, as measured by standard deviation, and strong absolute returns exhibited has translated to the Fund delivering strong risk-adjusted returns, as denoted by the Sharpe Ratio, over all time periods assessed. The Sharpe Ratio over the three years to 31 July 2019 was 2.6.
- While performance of the Fund continues to be in line with objectives, Lonsec alludes to potential headwinds for the Fund and more broadly the asset class going forward. Headwinds include relatively high valuations, extent of 'dry powder', competition within industry and degree of AUM managed by Partners Group. In Lonsec's opinion, Partners Group has a sound track record of navigating market conditions, this was evidenced by significantly expanding into secondaries over 10 years ago before switching materially into directs over the past six years.
- A key observation amongst the respective investment teams over recent years has been the belief that expected industry returns are lower than in past periods, with IRR's of available opportunities declining over recent years with increased capital driving up prices across all asset classes (i.e. Private Equity, Private Debt, Private Real Estate and Private Infrastructure). To combat such an environment, deal sourcing has been focused within more niche areas, creative debt financing solutions have been deployed and dividend re-capping of direct private equity holdings are being used to bring forward earnings.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

While Lonsec notes Partners Group is leveraging their expertise to conduct such deals, these efforts may also be associated with greater investment risk.

- Prudently, Partners Group are factoring in multiple contractions within their direct private equity investment valuations to recognise increasing valuations within the market which facilitates a greater margin of safety. Further, Partners Group continue to exercise high decline rates across directs, secondaries and primaries which provides Lonsec some comfort. Nonetheless, Lonsec believes investors need to be wary of such headwinds that need to be navigated, particularly given the liquidity profile of the Fund and underlying holdings.

Fees

- As per the PDS dated 26 April 2019, the fee disclosure for the Fund is as follows: management cost of 2.51% p.a. comprised of a management fee of 1.50% p.a. and indirect costs of 1.01% p.a. for the 12-month period ending 30 June 2018. For the current PDS, the Fund's indirect costs include fees arising from the underlying funds that are interposed vehicles but do not include transaction and operational costs.
- On top the Fund's ongoing management fee, performance fees are also payable in the private markets allocation of the Fund on private market direct and secondary investments on a deal-by-deal basis, where an internal rate of return of 8% p.a. has been achieved. The performance fee is 15% for directs and secondaries. Further, given performance fees are considered on a deal-by-deal basis, there may be times when they are incurred even when the Fund has a **negative or zero** overall performance. These costs are reflected in the indirect costs.
- While the Fund's bias towards direct investments at present may be a function of opportunity and desire for greater investment control, Lonsec notes this action also has the potential to increase the underlying performance fees paid by the Fund and in turn paid to Partners Group. Lonsec is wary of this potential conflict and its possible implications of steering the SAA decision making process. This is particularly relevant as Partners Group is a listed entity for which earnings are materially impacted by performance fees earned on investments. While cautious of this, Lonsec is comforted by Partners Group's relatively dynamic track record of allocating across the private market segments according to relative valuations which has been critical to the Partners Group's success.
- While the Fund's fees are above that charged by the average global equity manager, Lonsec believes a higher fee is reflective of Private Equity's potential for higher returns (and risk) than in traditional asset classes. Furthermore, the fees whilst high are not unreasonable given the size of the team required to manage the Fund.

Overall

- Lonsec has maintained the Fund's '**Recommended**' rating. Lonsec considers the Fund to offer an attractive proposition to investors, providing a diversified private market exposure in a daily liquid structure. The firm is staffed by a cohort of high calibre investment professionals experienced in implementing the relative value and franchise quality investment style through a disciplined and opportunistic investment process. Central to the process is Partners Group's proprietary database, which Lonsec believes is a key strength of the firm. Deal access and the robust due diligence process underpinning transactions are further viewed as strengths.
- Nonetheless, in taking this view, Lonsec remains cognisant of the liquidity mismatch profile which requires careful management. More broadly, Lonsec is circumspect about the firm's growing asset base and headwinds in private markets, both of which have the potential to translate to greater investment risk within the portfolio. Lonsec reminds investors to be cautious of such headwinds given the Fund's liquidity profile and its underlying holdings. Lonsec is also mindful of the potential challenges the Manager may face in maintaining the culture, cohesion and consistency in process as they seek to expand rapidly in the North American market via their new Denver campus.

People and Resources

Corporate overview

Partners Group Holding AG ('Partners Group') is a global private market asset management firm specialising in private equity, private debt, private infrastructure and private real estate assets. The firm managed €80 billion as at 30 June 2019 across a broad range of funds, structured products and customised portfolios.

Partners Group is headquartered in Zug, Switzerland and has offices in Europe, the United States of America, Asia and Australia. The firm is listed on the SIX Swiss Exchange and is majority owned by its partners and employees.

The Responsible Entity of the Fund is Equity Trustees Limited ('EQT'). EQT is a publicly listed company on the Australian Securities Exchange. EQT provides estate management services, trustee services, will preparation, financial and taxation advice, personal investment advice (including superannuation) and responsible entity services for external fund managers.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
RENE BINER*	PARTNER, CHAIRMAN GLOBAL INVESTMENT COMMITTEE	25 / 20
DR. STEPHAN SCHÄLI*	PARTNER, CHIEF INVESTMENT OFFICER	22 / 20
ANDREAS BAUMANN*	PARTNER, HEAD PRIVATE EQUITY INTEGRATED INVESTMENTS	16 / 15
WALTER KELLER*	PARTNER, PRIVATE EQUITY EUROPE	25 / 21
CHRISTOPH RUBELI*	PARTNER, CO-CHIEF EXECUTIVE OFFICER	33 / 21
DR. MICHAEL STUDER*	PARTNER, CHIEF RISK OFFICER AND HEAD PORTFOLIO SOLUTIONS	23 / 18
DR. MARCEL ERNI*	PARTNER, CO-FOUNDER AND MEMBER OF THE BOARD OF DIRECTORS	27 / 23
ALFRED GANTNER*	PARTNER, CO-FOUNDER AND MEMBER OF THE BOARD OF DIRECTORS	27 / 23
FREDRIK HENZLER	PARTNER, HEAD OF INDUSTRY VALUE CREATION	24 / 7
CYRILL WIPFLI	PARTNER, CO- HEAD PORTFOLIO MANAGEMENT	23 / 17
ROBERTO CAGNATI	MANAGING DIRECTOR, CO-HEAD PORTFOLIO MANAGEMENT	18 / 16
RETO MUNZ	MANAGING DIRECTOR, HEAD LIQUID PRIVATE MARKETS	19 / 13

* Members of GIC

Partners Group employs over 1,300 staff, of which approximately 850 are private market investment professionals.

The key decision making body for the Fund is the GIC. The committee consists of eight senior members of the firm and is ultimately responsible for the Fund's performance. Members of the group possess an average of 25 years' industry experience and an average of 20 years at Partners Group. The GIC governs the investment approach and process, including 'top-down' relative value analysis, portfolio management and final investment decision making.

The purpose of the Global Portfolio Strategy Committee (GPSC) is to provide asset allocation advice for discretionary private equity, private debt, private real estate and private infrastructure investment programs managed by Partners Group. In addition, the GPSC is responsible for translating the Private Markets Relative Value Committee's (PMRVC) relative value outlook into the individual products managed by Partners Group and to ensure adherence of portfolio construction with investment goals of the various clients. The PMRVC committee convenes on a semi-annual basis (usually June and November).

The liquid investment component is managed by Partners Group's Liquid Investments Investment Committee (LIIC). The committee consists of six

standing members, (three of which form part of the liquid private markets team) as well two non-voting members for risk and macroeconomic inputs with oversight provided by the CIO.

Sector and Industry Vertical Specialist investment committees (private markets)

The GIC is supported by two specialised investment committees. The Sector Specialist investment committee (SIC) consists of seven specialised private equity investment members who lead the major investment segments (i.e. Private Equity Directs, Private Real Estate etc.). The committee is responsible for investment pre-selection and deal development in their respective private equity market segment, and for approving relatively small investments (up to €30M).

The Industry Vertical Specialist investment committee consists of five members, with members having specialist knowledge and past work experience across five broad industries: Industrials, Healthcare, Consumer, Business Services and Technology, Media and Telecommunications. This committee includes members from the Industry Value Creation (IVC) team. The IVC is a team of 30 operating specialists with both functional expertise (sales, pricing, eCommerce, Procurement, Lean Production and restructuring) and industry experience. The IVC is integrated into the 'Deal teams' (small working groups comprised of professionals from across the business) to ensure industry and operational expertise is embedded throughout the entire investment process from sourcing to exit. IVC members work across equity and debt. Fredrik Henzler leads the IVC, he is a member of the Global Executive Board, the GIC, the Private Equity Directs Investment Committee and the Global Direct Debt Investment Committee.

Team structure

The private markets investment team is structured along four, interdependent functional lines (deal generation, due diligence, execution and monitoring). There is a high level of co-operation amongst these groups, where the due diligence team for example, is also expected to contribute to deal generation.

The liquid private markets team consists of nine members and is led by Reto Munz. Together the team is responsible for Partners Group's listed infrastructure, listed real estate and listed private equity strategies.

The management of the Fund's cash-flows and maintaining the portfolios exposure to the target asset allocation and vintage diversification is the responsibility of the portfolio management team of 15, co-headed by Roberto Cagnati and Cyrill Wipfli. The team is integrated into various Partners Group committees.

Alignment of interests

Partners Group operates a four-tiered compensation structure comprising base salary, annual bonus, equity and/or options (typically vested over five years) and finally, for key investment staff, a share in the carried interest bonus pool (annual allocation from performance fees earned across the business).

The majority of employees own shares or options in Partners Group Holding AG. The majority of Partners Group Holding AG shares on issue are owned by its partners and employees.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

P 8-14

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

P. 9-14

Research Approach

Overview

The investment process differs for private and listed markets.

Private market research approach

The Manager employs a structured five-step process in selecting private equity investments. While each market segment (primaries, secondaries and directs) has its own nuances, they each undergo a similar process. To ensure consistency of analysis, standard check-lists and due diligence questionnaires are used to support investment decisions. A Deal Team and a Deal Captain are assigned to each transaction, with the GIC and relevant SIC closely involved throughout the process.

1. Deal generation

Partners Group leverages its relationships with the private equity network and other professional relationships to provide a consistent pipeline of primary managers, direct and secondary transactions coming to market. Deals are sourced by the Manager's global network of investors and may also be identified via Partners Group's proprietary 'PRIMERA' database which tracks over 34,000 private market assets.

2. Pre-selection

Investment opportunities undergo preliminary assessment to determine their suitability for further analysis. The screening criteria vary depending on the type of investment. For example, for direct deals, the focus is on the size and scope of the target company, value creation plan, industry and geographic exposure and overall portfolio fit.

For opportunities that meet the minimum requirements, the findings are documented in the "First Check" report. This report, alongside the analysts' recommendation, is submitted to the responsible SIC who then decides on whether to take the opportunity further.

3. Due diligence I

A Deal Team of at least three is assigned to each deal to undertake in-depth qualitative and quantitative analysis. The focus of the analysis varies depending on the transaction type with all findings captured into a structured 'Preliminary Investment Recommendation' document. The responsible Deal Captain then presents it to the relevant SIC for detailed discussions, at which point the Deal Team may be directed to resolve any outstanding issues raised.

4. Due diligence II

The in-house legal and tax team then assesses the legal and tax implications of an investment. The terms and conditions of a deal are then negotiated. After resolving all outstanding issues and if the deal terms are satisfactory, an 'Investment Recommendation' is presented to the SIC for a final decision.

The GIC is informed of potential investments undergoing due diligence to maintain oversight of the firm's investment activities across asset classes. This committee is the final decision maker for all investments (i.e. has right to veto), although each SIC can approve investments between €10-30 million.

5. Monitoring

Investments are constantly monitored as part of the overall due diligence process. The monitoring process

is multi-layered and involves various teams (the investment committees, the investment team, product services team, risk and quantitative management team). Regular on-site visits are conducted and where appropriate, the Manager (generally a member of the IVC team) may hold a board or observer seat on the board of directors of a portfolio company. A broad range of data points are collected regularly and stored in the proprietary database, such as company performance and monthly management accounts.

Listed market research approach

The Partners Group listed market investment process largely mirrors the private market investment approach. The listed market investment process features four major steps:

- Strategic (sector) asset allocation;
- Active portfolio management through relative value analysis (tactical asset allocation);
- Stock selection; and
- Risk management.

The stock selection process comprises of the following three steps:

1. Pre-selection

Investment opportunities undergo common preliminary assessment to determine their suitability for further analysis (e.g. market capitalisation, average daily trading volume, volatility filters). The screening criteria also varies depending on the type of investment. For example, for listed infrastructure filters for 'core' infrastructure assets, i.e. the actual owners and operators of infrastructure.

For opportunities that meet the minimum requirements, the findings are documented in the "First Check/ESG Check" report.

2. Due diligence process (I) & (II)

Phase I involves qualitative and quantitative analysis. The first review focuses on the high level items such as management quality and track record, company return drivers and market positioning. All findings are captured into a structured 'Preliminary Investment Recommendation' document.

Phase II conducts more in depth qualitative and quantitative analysis with a key component being valuation assessment using common valuation methods (DCF, FCFF, DDM, Price/book, multiples).

3. Reassessment

The investment thesis and valuation of stocks are regularly re-evaluated or as required.

Portfolio Construction

Overview

Partners Group's integrated approach to equity and debt allows the Manager to take advantage of market opportunities across the spectrum of private and public markets.

The portfolio is managed in a relative value manner, aiming to tilt into those segments (e.g. investment types, geographies, financing stages) with high relative attractiveness. These investments are thought to offer superior risk-adjusted returns at a given point in time. The Fund is expected to be predominately driven by

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

its private market exposure, with listed public market exposure primarily used as a source of liquidity.

Unlike the more common private equity funds that invest solely in primaries, the Fund combines direct and secondaries which helps to mitigate the J-Curve effect and diversify the portfolio. The Fund does not invest in primary investments given the duration of these investments and the liquidity profile of the Fund.

Strategic Asset Allocation (SAA)

The Fund has a long-term target allocation to provide a diversified exposure to private markets while catering for liquidity. The Fund can and will differ from this target allocation according to PMRVC relative valuation assessment. The SAA will determine the allocation split between the following:

- Geography (North America & Europe 0-65%, Asia Pacific 10-30% and Rest of World 0-15% (per country));
- Asset class (Equity 10-40%, Credit 20-60%, Real estate 10-30%, Infrastructure 10-40%); and
- Transaction type:
 - Direct investments (80-100%) (taking a direct interest in securities and debt issued by an operating company); and listed private infrastructure, listed private real estate, listed private equity vehicles and cash; and
 - Fund investments (0-20%) such as secondary investments (interests in existing private equity funds that are acquired in privately negotiated transactions post the vehicle’s fundraising period).

In setting the long-term target allocations, consideration is given to historical data, current data from within Partners Group’s proprietary database, and input from the investment team. A macroeconomic research team is involved to analyse macroeconomic trends and assesses their impact on the Fund. Attention is also paid to the correlation and dependency between the different segments of the market.

Relative value analysis

On a semi-annual basis, market developments are evaluated and their effect on the value drivers of the private equity markets are assessed. A relative value matrix is used to highlight those market segments (e.g. investment types, geographies, financing stages) with high relative attractiveness. The Fund will then be tilted towards segments that the Manager believes will outperform at a given point in time.

Commitment strategy

Partners Group aims to ensure the Fund is as close to fully invested as possible, and employs a model to forecast expected cash flows on a rolling 12-month basis. The commitment pace (rate at which capital is invested) will be adjusted continuously to enable the Fund to achieve and maintain its target private equity exposure.

Liquid investment strategies

The listed market investment approach is primarily a ‘bottom-up’ process however is complemented with ‘top-down’ (strategic and tactical allocation) considerations provided by the PMRVC. The listed investments portfolio will typically hold 70-100 stocks across listed infrastructure, listed private equity vehicles and listed real estate. The liquid investment component is managed by the LIIC.

The GIC challenges the positioning of the LIIC to ensure adherence to the firm’s relative value view. GPSC also determine the Fund’s allocation to liquid investments based on relative value and liquidity considerations.

Risk Management

Risk limits

SEPARATE INVESTMENT RISK MONITORING	YES
ALLOCATION TO ILLIQUID ASSETS	TYPICALLY 55%, MAXIMUM 70% (SOFT)
COUNTRY / REGION LIMITS	NORTH AMERICA AND EUROPE (0-65% EACH), ASIA (10-30%), REST OF THE WORLD (0-15% PER COUNTRY) – SOFT LIMITS
CASH	MAX. 10% (SOFT)

The Fund is managed with very few ‘hard’ limits in place. The Fund has ‘soft’ country and individual investment limits to ensure the Fund is adequately diversified and liquid.

Risk monitoring

The Portfolio and Risk Management Team ensures adherence to investment guidelines and portfolio strategies, as well as limiting portfolio risks.

A range of detailed regular reports have been designed to monitor and evaluate risks within the Fund. Such reports include quantitative risk management reports, portfolio management reports (asset allocation, exposures, performance, cash flows, and valuations), risk consideration reports (liquidity, currency exposures) and direct investment monitoring reports.

Partners Group Quantitative Model (PGQM) is a proprietary tool used to forecast cash flows and manage the absolute allocation risks. Product Tracking Solution (PTS), eFront and Abacus are additional tools used to provide up-to-date fund data such as regional allocations, currency exposure and manager diversification to ensure the Fund adheres to portfolio limits.

Currency management

The Fund will typically be approximately 70% hedged back into the Australian dollar. The Portfolio and Risk Management Team are responsible for determining the portfolio’s underlying currency exposures and therefore determining the appropriate hedging parameters (e.g. size, maturity, type).

Risks

An investment in the Fund carries a number of standard investment risks associated with international investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:

Private equity specific risks

Private equity investments typically display uncertainties which do not exist to the same extent in other investments (e.g. listed securities). Private equity investments may be in entities which have only existed for a short time, have little business experience, whose products do not have an established market or which are faced with restructuring etc.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

Further, private equity investments are often illiquid long-term investments that do not display the liquidity or transparency characteristics often found in other investments (e.g. listed securities).

Investments are valued by Partners Group on the basis of estimated prices and therefore subject to potentially greater pricing uncertainties than listed securities. The Fund reports NAV on a monthly basis. Partners Group adjusts the most recent month-end net asset value based upon the following factors to derive the daily NAV: (i) linear accrual of cash and payment in-kind interest of illiquid and (semi-) liquid private debt instruments, (ii) third-party pricing of semi-liquid debt instruments according to a valuation source hierarchy, subject to availability, (iii) intra-month revaluations of portfolio funds by portfolio fund managers' reports, including rule-based expiration of fair value adjustments, (iv) quoted market prices of directly and indirectly held publicly listed securities, (v) inclusion of new investments at cost, unless an extraordinary event is identified, (vi) current inclusion of receipt of dividends, distributions or other sale proceeds, (vii) daily monitoring and identification of events deemed material and with significant impact on the valuation of an investment, in the sole discretion of Partners Group, (viii) adjustments due to foreign exchange movements, net of foreign exchange hedging positions and (ix) linear accrual of any fees and expenses.

The Fund reports NAV based on International Financial Reporting Standard valuations (IFRS). In general, private equity investments may apply different approaches for the valuation of their portfolios such as US GAAP, UK GAAP, EVCA, IFRS or others. Partners Group follows a valuation approach and guidelines which are in accordance with IFRS/IAS 39 to determine the fair value of underlying investments of the Fund. The IFRS valuation approach has been developed in co-operation with Pricewaterhouse Coopers since 2001 and is audited on an annual basis.

The Fund will regularly make investments which are settled outside of established clearing systems. For example, (i) investments made in non-listed companies, (ii) investments which are only based on agreements and for which the investor has no security as proof of the investment or (iii) investments in securities where the delivery of securities does not occur at the same time as payment of the purchase price.

Redemption risk

Investors should be aware that while the Fund provides daily redemptions, redemptions are subject to restrictions in the Fund. The Fund has the ability to restrict net redemptions to no more than 10% of the aggregate number of all units on any dealing day, 25% aggregate number of all units within the prior 30-day period or 40% aggregate number of all units within the prior 12-month period.

An investment in the Fund is therefore not suitable for investors who require immediate liquidity from their investment. Investors may be exposed to securities which are thinly traded or illiquid in nature. It may not be possible to sell such securities in a timely fashion or at a price at which is perceived to be at fair value.

Equity market

Investments in equity markets are subject to numerous factors which may have an impact on the performance

of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Derivative risk

The Fund may use derivatives or other instruments for hedging purposes. Derivative contracts are subject to certain risks, including market risk, counterparty risk (risk that a counterparty fails to perform their contractual obligations) and operations risk (risk of failure of internal controls).

Leverage risk

The Fund may borrow up to 20% of its assets but for meeting withdrawal requests and managing cash-flows only. Borrowing has the potential to magnify gains and losses.

Additionally, the Fund may invest in highly leveraged companies, i.e. in companies with a high degree of indebtedness. Companies that are highly leveraged and/or sub investment grade have a higher risk of defaulting on their debt than companies with lower leverage and/or that are rated investment grade, due to greater exposure to adverse economic factors such as rising interest rates, reduced cash flows, fluctuations in exchange rates, inflation, downturns in the economy or deterioration in the condition of the relevant company or industry.

Currency risk

The Fund invests in wide range of securities denominated in a variety of foreign currencies. A rise in the relative value of the Australian dollar vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. Additionally, hedging cash flows (losses) may materially impact the liquidity profile of the Fund.

Typically, the share class of the Fund in which this Fund invests will be 70% hedged back into Australian dollars.

Appendix: Private equity characteristics

What is private equity?

Private Equity generally refers to equity capital that is made available to companies or investors, but not quoted on a stock market.

Typically, investors (Limited Partners) will invest equity with the Investment Manager (General Partner). They will provide unlisted companies with a source of capital, on the expectation that a positive return will be generated on this investment.

Different types of private equity

There are five core components of the Private Equity market:

- **Venture capital** – Usually start-up firms, and as such this segment usually has the highest risk profile as firms are more likely to fail. Examples of investment include financing new ideas by entrepreneurs (seed investing) or financing a company where the product is only in the development stage (early seed investing).
- **Expansion stage capital** – Firms that have a track record but are looking for additional investment to grow the business. This type of Private Equity is less risky than Venture Capital.

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

P 11-14

Partners Group Global Multi-Asset Fund

ISSUE DATE 19-09-2019

- **Leveraged buy-outs** – Usually established ‘middle-market’ companies where one party (usually the original or existing management) are looking to take control through majority ownership or finance acquisitions. Typically, the management team will borrow money (via Private Equity firms), to return the company to private status, with the assets of the company used as collateral, and cash flow from the company used to repay the original loan.
 - **Mezzanine financing** – Typically a loan to a company that is subordinated to other forms of debt issued by the company, and as such is usually less secure (e.g. greater likelihood of not being repaid if the company goes into bankruptcy). To compensate, the level of interest is higher than senior forms of debt.
 - **Distressed financing/turnaround situations** – Typically involves providing finance to a company which is in (or close to) bankruptcy, on the basis that additional finance can resolve the situation and reverse the likelihood of bankruptcy, creating positive returns over the medium-to-long term.
- contribute cash flow over the life of an investment as and when new opportunities arise. Any proceeds not utilised will be held in a cash fund, until attractive opportunities are found.
- Private equity investments cannot be valued on a daily basis given their illiquid nature. Investments are generally carried at on the books at cost until realisation. This gives rise to valuation risk whereby an asset may be overvalued and actually worth less than expected when it matures or is sold.
 - Given the impact of the J-Curve effect, returns are usually not paid out as distributions until several years later. At which point, the book value of the investment will gradually decrease as capital is returned to investors.

Advantages of private equity

- Higher potential returns than traditional equity asset classes, over the long term.
- Diversification benefits from other asset classes, such as listed equities or bonds.
- Potential to increase the opportunity set for alpha generation.

Disadvantages of private equity

- Higher expected risk levels than traditional equity asset classes (see ‘Risks’ section for more explicit details on risk).
- As an illiquid asset class, investments tend to have long holding periods (i.e. long lock-up periods) which is unlikely to have a liquid secondary market.
- Given the fundamental nature of the investment process, and the general lack of information flow in this section of the market, there is greater dependency on individual investment manager skill, compared to a relative lower risk equity or a passive portfolio.
- Private equity investments in primaries typically experience negative returns and accumulated negative net cash flows (i.e. capital draw downs, investment-related fees and expenses) in the early years of investment. Investment gains and positive cash flows are then realised over an extended horizon (usually 10 to 12 years) as the investment portfolio matures and exited. This pattern of value creation is commonly referred to as the J-Curve effect.
- Private equity is typically associated with higher fees than those of an average global equity manager. Fees are typically priced higher due to Private Equity’s potential for higher returns (and risk) than in traditional asset classes.

Differentiation from listed equity investing

- Income realised from matured portfolio companies tend not to be reinvested into other opportunities but instead, any positive net cash flow is returned to investors.
- Capital draw downs are a common feature of private equity investing requiring investors to periodically

ANALYST: MATTHEW O'NEILL | APPROVED BY: JAMES KIRK

P 12-14

Partners Group Global Multi-Asset Fund

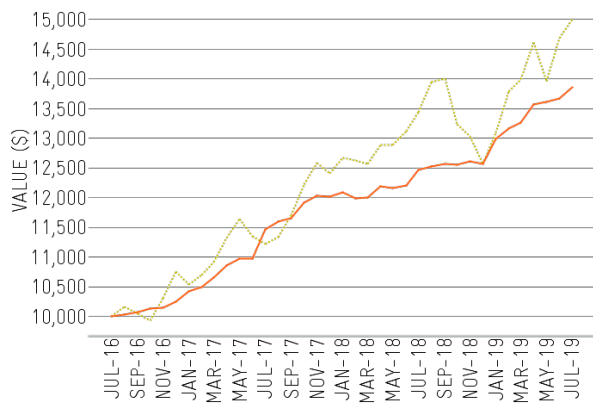
Quantitative Performance Analysis - annualised after-fee % returns (at 31-7-2019)

Performance metrics

	1 YR		2 YR		3 YR		5 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	11.16	11.16	9.96	-	11.50	-	-	-
STANDARD DEVIATION (% PA)	3.65	3.50	3.42	-	3.68	-	-	-
EXCESS RETURN (% PA)	-0.46	0.88	-5.73	-	-2.99	-	-	-
OUTPERFORMANCE RATIO (% PA)	33.33	41.67	29.17	-	33.33	-	-	-
WORST DRAWDOWN (%)	-0.31	-0.31	-0.92	-	-0.92	-	-	-
TIME TO RECOVERY (MTHS)	1	1	2	-	2	-	-	-
SHARPE RATIO	2.53	2.56	2.37	-	2.63	-	-	-
INFORMATION RATIO	-0.04	0.28	-0.67	-	-0.33	-	-	-
TRACKING ERROR (% PA)	11.60	11.60	8.62	-	8.98	-	-	-

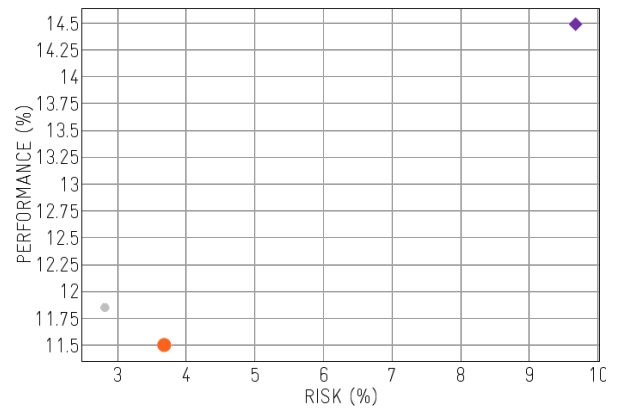
FUND: PARTNERS GROUP GLOBAL MULTI-ASSET FUND
 LONSEC PEER GROUP: ALTERNATIVES - GROWTH ALTERNATIVES (HIGH) - PRIVATE EQUITY
 BENCHMARK USED: MSCI AC WORLD EX AUSTRALIA TR INDEX AUD
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of \$10,000 over three years



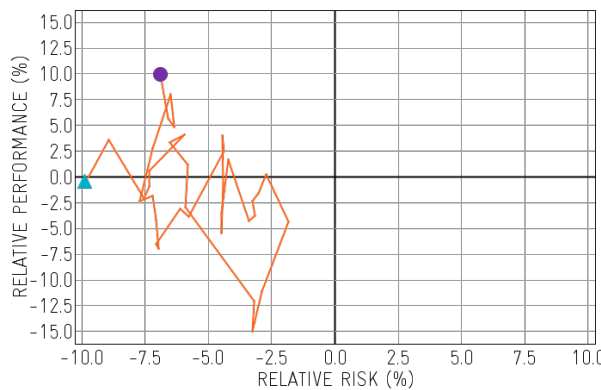
— PARTNERS GROUP GLOBAL MULTI-ASSET FUND
 MSCI AC WORLD EX AUSTRALIA TR INDEX AUD

Risk-return chart over three years



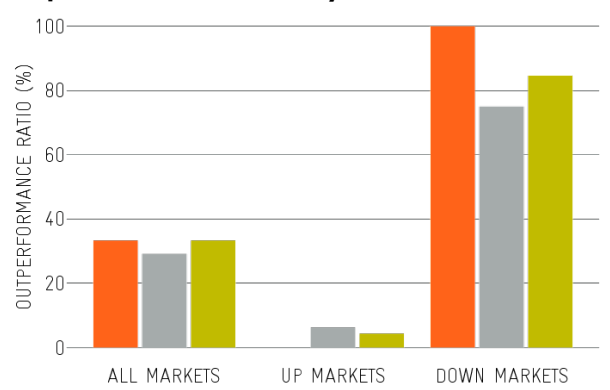
● PARTNERS GROUP GLOBAL MULTI-ASSET FUND
 ◆ MSCI AC WORLD EX AUSTRALIA TR INDEX AUD
 ▲ PEER MEDIAN
 ● PEERS

Snail trail



● START (07-2016) ▲ END (07-2019)

Outperformance consistency



■ 1Y ■ 2Y ■ 3Y

Partners Group Global Multi-Asset Fund

Glossary

Total return 'Top line' actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

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