



Product Review

Partners Group Global Real Estate Fund (AUD)

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 REAL ESTATE FUND (AUD)
APIR CODE	ETL0480AU
PDS OBJECTIVE	TO PROVIDE INVESTORS WITH ATTRACTIVE LONG-TERM CAPITAL APPRECIATION BY INVESTING IN A GLOBALLY DIVERSIFIED PORTFOLIO OF REAL ESTATE AND RELATED INVESTMENTS BY INVESTING IN THE UNDERLYING FUND
INTERNAL OBJECTIVE	ABSOLUTE RETURN 7-11% P.A. (NET FEES) OVER FIVE-TO-SEVEN YEARS
STATED RISK OBJECTIVE	NOT TARGETED - EXPECTED VOLATILITY OF 6-8% P.A. (STANDARD DEVIATION)
DISTRIBUTION FREQUENCY	ANNUALLY
FUND SIZE	\$114M (30 JUNE 2019)
FUND INCEPTION	01-05-2017
MANAGEMENT COSTS	1.75% P.A.
PERFORMANCE	APPLIED WITHIN THE UNDERLYING FUND ON A DEAL-FEE BY-DEAL BASIS
RESPONSIBLE ENTITY	EQUITY TRUSTEES LIMITED

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	€13BN (JUNE 2019)
YEARS MANAGING THIS ASSET CLASS	23

Investment Team

PORTFOLIO MANAGER	COMMITTEE BASED
INVESTMENT TEAM SIZE	64
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	20 OFFICES AROUND THE GLOBE, HEADQUARTERED IN ZUG (SWITZERLAND)

Investment process

TYPICAL NUMBER OF UNDERLYING POSITIONS	OVER 200 PROPERTIES
USE OF LEVERAGE	THE UNDERLYING FUND MAY BORROW UP TO 25% OF ITS ASSETS BUT FOR MEETING WITHDRAWAL REQUESTS AND MANAGING CASH FLOWS
CURRENCY APPROACH	APPROXIMATELY 70% PASSIVELY HEDGED BACK TO THE AUD
LIQUIDITY TERMS	MONTHLY (SUBJECT TO REDEMPTION RESTRICTIONS)

Fund rating history

SEPTEMBER 2019	HIGHLY RECOMMENDED
JULY 2018	HIGHLY RECOMMENDED
JULY 2017	RECOMMENDED

What this Rating means

The 'Highly Recommended' rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred 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.
- The Manager is able to leverage off a strong global network to create a pipeline of potential investment opportunities.
- Partners Group is highly experienced within private real estate investments and has developed a strong track record since 2007.

Weaknesses

- The Fund has yet to attain a meaningful track record.
- The Fund has a very 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.
- The recent soft closure of the Fund highlights the Manager's difficulty in scaling the portfolio and maintaining a balanced portfolio mix during times of strong inflows, which may lengthen holding periods of underlying portfolio companies.
- The feeder fund structure means limited income potential for investors.

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.

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BIOMetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE					●		

A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. 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 Real Estate Fund (AUD) ('the Fund') is a private market real estate fund (mainly private real estate equity but also private real estate debt) invested in a broad range of investments via a feeder fund structure. The primary focus of the Fund is to generate absolute returns from private real estate investments which is balanced through the inclusion of global listed REITs for liquidity purposes.
- The Fund is structured as an Australian registered unit trust that primarily feeds into the Partners Group Global Real Estate FCP ('Underlying Fund'), domiciled in Luxembourg.
- The Fund has a flexible mandate, allowing the Manager to strategically position the portfolio into a range of segments and instruments that appear attractive from a relative value standpoint. The Fund has the ability to invest in direct investments, primary investments (initial seed investments in externally managed vehicles), secondary investments (existing investments in externally managed vehicles) and listed REITs. Additionally, the Fund is diversified across geographic regions, real estate types and across the capital structure. On a look through basis, the Fund is expected to be invested in over 200 properties. The Fund may borrow for cash management purposes. The Underlying Fund is also permitted to borrow up to 25% of its assets to meet redemptions and manage cash flows.
- The Fund aims to provide investors with absolute returns of 7-11% 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 AUD.
- As per the PDS dated 26 April 2019, the fee disclosure for the Fund is as follows: management cost of 3.25%

p.a. comprised of a management fee of 1.75% p.a. and indirect costs of 1.50% 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 Fund but do not include transaction and operational costs. Performance fees are payable in the Underlying Fund on direct, secondary and direct debt investments, on a deal by deal basis and the estimated indirect performance related fee was 0.55% as a percentage of the NAV of the Fund, for the 12 months to 30 June 2018.

- During the financial year ended 30 June 2018, the Fund incurred estimated transaction and operational costs of 0.05%. 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 0.00% (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 **monthly redemptions**, which are subject to redemption restrictions in the Underlying Fund. The Underlying Fund has broad discretion to restrict net redemptions to no more than 5% of its shares on issue at the end of the previous calendar quarter. This can also be restricted to no more than 2.5% of its shares on issue at the end of the previous calendar quarter if deemed in the best interest of the Underlying Fund by the directors of the Underlying Fund. That said, this more restrictive 2.5% limit will only be enacted for a period of up to two years. After such a period has lapsed, the 2.5% restriction shall not be enacted for the same period for which it was most recently imposed. Further, a redemption fee of 5% may apply. Partners Group has confirmed, however, that in the Fund's history to date this fee has not been charged. 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 only for investors who do not require immediate liquidity from their investment.

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 private markets product (equity and debt assets), Lonsec considers this Fund to be best funded from within either the global real estate 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.
- While the returns of the Fund are expected to be less volatile than equities and pure listed property securities investments, investors should be aware that the Fund may experience periods of negative returns and that there is a risk of incurring capital loss on the Fund. As such, Lonsec considers the Fund suitable for medium-to-high risk profile investors

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with a five-plus year investment time horizon. The Fund will generally sit within the growth component of a balanced portfolio. Due to the Fund's significant exposure to illiquid assets (private real estate) and restricted redemption facility, liquidity risk in the Fund is deemed to be high.

- While the Manager will seek to invest in predominately private property, the Fund's returns are also subject to equity market risk. As such, movements (both positive and negative) in the listed underlying securities held in the portfolio will affect the Fund's returns. Investors should therefore be aware that there is the risk of capital loss being incurred on the investment.
- The Fund offers potential diversification benefits through moderate correlations with traditional listed real estate. That said, private 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 less frequent 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.
- Given the Fund's structure, Lonsec understands that the income generated will be captured in the Underlying Fund. As a result, Lonsec notes that the majority of returns for investors is expected to come in the form of unit price appreciation.

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

- The Fund was closed to new investors (i.e. 'soft closed') on 15 July 2019 and will not accept applications until 31 December 2019. Due to strong inflows in the first half of 2019 calendar year, the Manager determined it is in the interests of investors to soft close the Fund in order to maintain the investment level of the Fund and achieve a balanced portfolio. Existing investors, however, can still transact as per normal and make additional applications.
- 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.
- On 1 January 2019 the Underlying Fund enacted a new dual redemption limit. The previous limit of net redemptions restricted to no more than 5% of the Underlying Fund's shares on issue at the end of the previous calendar quarter remains in place. Although redemptions can now also be restricted to no more than 2.5% of the Underlying Fund's shares on issue at the end of the previous calendar quarter if deemed in the best interest of the Underlying Fund by the directors of the Underlying Fund. That said, this more restrictive 2.5% limit will only be enacted for a period of up to two years. After such a period has lapsed, the 2.5% restriction shall not be enacted for the same period for which it was most recently imposed.
- 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.
- Unlike Partners Group's two other Wholesale offerings (Global Value and Global Multi-Asset) the Global Real Estate Fund is only focused on a singular asset class. Partners Group was founded in 1996 and expanded into private real estate via the acquisition of discretionary real estate asset management business of Pension Consulting Alliance, Inc. ('PCA') on 1 July 2007. The acquisition saw key members of the PCA team join and establish the Partners Group private real estate offering. As at 30 June 2019,

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Partners Group's private real estate assets under management totaled €13 billion.

- Of Partners Group's 850 investment personnel, 63 are dedicated towards private real estate with the senior investment committee members averaging 25 years' of industry experience. Lonsec notes the high degree of cohesion displayed by the broader and dedicated real estate teams despite the obvious geographical separation of team members. Lonsec has met with a handful of the key members of the private real estate team over the years during onsite visits and consider members of the team to be of high calibre.
- 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 most 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. The Global Investment Committee (GIC) is the key decision making body for the Fund 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 Partners Group, averaging 20 years. 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 Manager's semi-liquid offerings and as such, is responsible for the Fund's 10% target allocation to listed real-estate. 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.

- 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 investment 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 real estate investments through a monthly liquid (albeit at times potentially restricted) investment structure. Private real estate investments are therefore expected to make up the majority of the Fund (over 80% over the long-term) with the balance of the Fund invested across related listed REITs, debt and cash 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 50 private real-estate 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.

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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 private real estate 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, albeit the Fund is constrained to only one asset classes which reduces the Fund's ability to navigate market environments. Nonetheless, Lonsec considers Partners Group's 'top-down' committee structure to be well-suited to the investment strategy being implemented. A commitment strategy is also employed, aimed at ensuring the Fund is close to fully invested at all times.
 - 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 the firm's three key private market segments (direct, primary and secondary). Analysts are assigned geographies and instrument types in which they are regarded as specialists. They are responsible for 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.
 - 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 real estate for more than 12 years, they have accumulated a wealth of information in its proprietary database 'PRIMERA'. PRIMERA contains financial information and insights on more than 3,200 plus property sales and historical performance information to assist in valuing and conducting due diligence on potential private real estate investments. Lonsec considers this a powerful tool, providing both a strong read on private real estate 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.
- 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;
 - Monthly applications and redemptions (subject to gates);
 - Fully paid in, meaning there are no additional capital calls; and
 - A diversified approach to private equity investing which attempts to reduce the J-Curve effect.
 - The Fund's portfolio construction is committee-based and reflects more an asset allocation decision (i.e. exposure to the instrument type, geography and property type). The choice between individual investments is also made but secondary to which market segments to tilt the Fund. Lonsec has observed the GIC in operation as part of the review process and considers the committee to be highly diligent and to demonstrate a high level of investment skill. Whilst committee-based structures have the potential to be less nimble and diminish individual accountability, Lonsec considers this approach to be particularly well-suited to the Partners Group model and this strategy. Further, Lonsec notes the central investment committee structure for all funds managed by Partners Group ensures consistency and equitable allocation of deals across all funds. 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 also notes Partners Group maintain three specialist Private Real Estate Investment Committees organised along the firm's three key private market segments (directs, primaries and secondaries). The specialist committees are responsible for investment pre-selection and deal development in their respective market segments. Whilst the specialist Private Real Estate Investment Committees can approve deals up to specified investment thresholds dependent on market segments, Lonsec notes, pleasingly, the GIC retains ultimate discretion over deal selection.
 - Lonsec highlights that the changes to the allocations are not dynamic but rather a gradual process, largely driven by the liquidity profile of the underlying investments. Lonsec considers managing liquidity as an integral element of the process, ensuring the Fund can process monthly redemption requests and maneuver the portfolio's asset allocation. To achieve this, Lonsec notes Partners Group attempts to stagger the maturity profile of the underlying investments to

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create a natural turnover of about 20% p.a. or average duration of investments of 4-5 years. Further, it is important to maintain seasonality when pursuing a greater allocation to direct investments as this will decrease overall portfolio liquidity and potentially result in a more back-ended return profile (greater j-curve effect) which needs to be carefully managed.

- That said, Lonsec notes it takes time to establish a high level of seasoning within a recently established Underlying Fund and pleasingly Partners Group has made steps to assist the scaling of the Fund by warehousing investments using balance sheet money. Lonsec considers this to be a prudent measure and demonstrates the commitment Partners Group has for the Fund. That said, inflows have been too great and the Manager has recently had to soft close the Fund until 31 December 2019. This highlights the difficulty in maintaining and altering the Fund's asset allocation and vintage diversification. As such, given the Underlying Fund's size and the low liquidity of the portfolio, consistent and stable returns and inflows may need to be maintained to enable the Manager to make meaningful asset allocation changes to the portfolio going forward. Given these difficulties, when the Fund re-opens, Lonsec will seek to meet with the Manager to assess their ability to deploy capital 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 something Lonsec will continue to monitor in future reviews.
- Lonsec has observed Partners Group's success in managing liquidity within other investment strategies albeit in a period of reasonable inflows. Lonsec notes that the Manager utilises an internally derived quantitative model to determine breathing room of monthly redemptions. This model projects short-term future cash flow receipts and exit activity while accounting for known longer-term liabilities and also allows for a variety of scenario simulations and stress testing. 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 monthly liquid structure, particularly given the Fund's size at \$114 million (30 June 2019). While Partners Group has structured the Fund to offer a reasonable level of liquidity through its allocation to listed REITs and cash (up to 20%), Lonsec highlights that the risk of redemption freezes is still very high and notes that this needs to be a key consideration for investors.
- 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'. 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, of which €13 billion is private real estate assets. The Australian fund and the underlying FCP strategy were also approximately \$114 million and \$235 million respectively as at 30 June 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.
- Lonsec also notes that the Fund has experienced strong inflows relative to its size. Prudently, Partners Group has sought to soft close the strategy on 15 July 2019 and will not accept applications until 31

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December 2019. Lonsec will seek to meet with the Manager to assess their ability to deploy capital and maintain a balanced portfolio when the Fund re-opens.

Performance

- The Fund, and the Underlying Fund, were only recently established in May and April 2017, respectively, and therefore do not have meaningful track records. That said, Partners Group have been investing in private equity real estate and debt markets since 1 July 2007 having developed a successful track record.
- Nonetheless, over the one-year period to 31 July 2019 the Fund delivered strong absolute returns of 9.8% with a volatility, as measured by standard deviation, of 3.1%. Over this period, the Fund's allocations to secondaries and directs have been the largest contributors, primaries and listed REITs to a lesser extent have also added to performance. Lonsec notes that while absolute returns over the period have been strong, the Fund has materially lagged that of the listed REIT market which has benefited strongly from the recent reduction in global interest rate with the FTSE EPRA/NAREIT Developed NR Index delivering 20.4% over the same period.

Fees

- As per the PDS dated 26 April 2019, the fee disclosure for the Fund is as follows: management cost of 3.25% p.a. comprised of a management fee of 1.75% p.a. and indirect costs of 1.50% 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 Fund but do not include transaction and operational costs.
- On top of the Fund's ongoing management fee, performance fees are also charged 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 for directs and secondary investments. The performance fee is 20% for directs and 15% for secondaries. Additionally, the Fund also charges a performance fee of 10% where an IRR of 4% p.a. has been achieved by direct debt investments. While no performance fee is explicitly imposed on the Fund for primary investments, it may nevertheless be earned and captured by the total fee that these investments charge. 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. The estimated indirect performance related fee was 0.55% as a percentage of the NAV of the Fund, for the 12 months to 30 June 2018.
- While the Fund's fees are above that charged by the average global real estate manager, Lonsec believes a higher fee is reflective of Private Equity's potential for higher returns (and risk) than in traditional asset classes and size of the team required to manage the Fund. Nonetheless, Lonsec considers the overall fee load to be very high in an absolute sense and relative to traditional listed market strategies.

Overall

- Lonsec has maintained the Fund's **'Highly Recommended'** rating. The Fund is considered to provide an attractive entry into global private real estate markets for investors in a semi-liquid structure. The Fund is also considered to be well-structured and managed to overcome some of the inherent issues in private markets investing for retail investors. Whilst the Fund has yet to attain a substantial track record, Partners Group possesses a strong track record in private real estate markets.
- Further, 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. Partners Group's proprietary database is viewed as a key strength of the firm whilst deal access and the robust due diligence process underpinning transactions are further viewed as strengths.
- Nonetheless, detracting from the rating is the Fund's fee load which is considered to be high in an absolute sense and relative to traditional listed market strategies. 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. Furthermore, in an effort to scale the Fund and maintain seasonality with a balanced portfolio mix, the Fund is soft closed until 31 December 2019. As such, when the Fund re-opens, Lonsec will seek to meet with the Manager to assess their ability to deploy capital and maintain a balanced portfolio going forward.

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.

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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
CYRILL WIPFLI	PARTNER, CO- HEAD PORTFOLIO MANAGEMENT	23 / 17
ROBERTO CAGNATI	MANAGING DIRECTOR, CO-HEAD PORTFOLIO MANAGEMENT	17 / 15
MARC WEISS	PARTNER, CO-HEAD PRIVATE REAL ESTATE	32 / 12
MIKE BRYANT	MANAGING DIRECTOR, CO-HEAD PRIVATE REAL ESTATE	28 / 3
CLAUDE ANGÉLOZ	CHAIRMAN OF PRIVATE REAL ESTATE	27 / 19
PAMELA ALSTERLIND	PARTNER, PRIVATE REAL ESTATE DIRECTS AMERICAS	31 / 12
STEFAN LEMPEN	MANAGING DIRECTOR, CO-HEAD PRIVATE REAL ESTATE EUROPE	11 / 3
FREDRIK HENZLER	PARTNER, HEAD OF INDUSTRY VALUE CREATION	24 / 7
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).

Specifically relating to this Fund, Marc Weiss and Mike Bryant lead the Private Real Estate unit as co-Heads of Private Real Estate. Claude Angeloz as Chairman of Private Real Estate focuses on real estate business development whilst Pamela Alsterlind and Stefan Lempen leads the Private Real Estate Americas and Europe, respectively.

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 Specialist 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).

Partners Group has specialist Private Real Estate Investment Committees overseen by the GIC. The specialist Private Real Estate Investment committees are responsible for investment pre-selection and development in their respective market segments and for approving investment recommendations between US \$30M-100M, however, within this range, the approval threshold varies depending on investment type (i.e. direct, secondary and primary). That said, the GIC supervises the firm's overall investment approach and is kept informed of all investment opportunities in due diligence and oversees the investment recommendations for all private market investments. The GIC retains a right of veto for all private market investment recommendations.

The Fund also leverages the Industry Value Creation (IVC) team of 30 operating specialists with both functional expertise (sales, pricing, eCommerce, Procurement, Lean Production and restructuring) and industry experience across healthcare, media/telecommunications, financials, industrials, consumer, infrastructure and real estate. 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.

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Team structure

The 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.

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 more than 3,200 plus property sales and historical performance information.

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 investment, value creation plan, property type and geographic exposure and overall portfolio fit. For primaries issues such as strategy, team, track record and peer relativity are more important.

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 and the Private Real Estate Investment committees can approve investments between US\$30-100 million with there being thresholds for direct, secondary and primary deals, respectively.

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). Specifically for direct property investments, two investment professionals are dedicated to executing the business plan for the asset. 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

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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, FCF, 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 private market investing allows the Manager to take advantage of market opportunities across the spectrum of private market real estate. The portfolio is managed in a relative value manner, aiming to tilt into those segments (e.g. investment types, geographies, property type) with high relative attractiveness. These investments are thought to offer superior risk-adjusted returns at a given point in time.

Unlike the more common private equity funds that invest solely in primaries, the Fund combines directs, primaries and secondaries which helps to mitigate the J-Curve effect and diversify the portfolio.

Strategic Asset Allocation (SAA)

The Fund has a long-term target allocation to provide a diversified exposure to private real estate 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 (10-50%), Europe (20-60%), Asia Pacific/Rest of World (10-50%)];
- Asset class (Private real estate 70-100% Liquid strategies 0-30%);
- Property type (Office, Retail, Logistics, Residential, Hospitality, Mixed use or Other); and
- Transaction type:
 - Direct investments (15-55%) (taking a direct interest in securities and debt issued by an operating company);
 - Primary investments (0-40%) – investments in newly established private equity funds;
 - Secondary investments (5-45%) – Interests in existing private equity funds that are acquired in privately negotiated transactions post the vehicle's fundraising period; and
 - Liquid strategies (0-30%) – Listed REITs, debt and cash.

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 real estate markets are assessed. A relative value matrix is used to highlight those market segments (e.g. investment types, geographies, property type) 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 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 30-40 stocks across 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 80%, MAXIMUM 100% (SOFT)
COUNTRY/REGION LIMITS	NORTH AMERICA (10-50%), EUROPE (20-60%), ASIA AND REST OF THE WORLD (10-50% EACH) - SOFT LIMITS
CASH	MAX. 20% (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.

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

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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 market investments are generally illiquid long-term investments that do not display the liquidity or transparency characteristics found in listed securities. In addition, such investments may have a limited operating history, lack an established market, or be subject to restructuring. Due to these uncertainties and other characteristics of private market investments, the value of such investments may fall and/or not be readily realisable.

Certain investments are valued 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 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 Underlying Fund. The IFRS valuation approach has been developed in co-operation with Pricewaterhouse Coopers since 2001 and is audited on an annual basis.

The Underlying Fund will regularly make investments which are settled outside of established clearing systems. For example, (i) investments made in non-listed companies/assets, (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

An investment in the Fund is suitable only for investors who do not 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.

Investors should be aware that the Fund provides monthly redemptions, which is subject to redemption restrictions in the Underlying Fund. The Underlying

Fund has the ability to restrict net redemptions to no more than 5% of the Underlying Fund's shares on issue at the end of the previous calendar quarter.

Derivative risk

The Underlying 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, for cash management purposes. The Underlying Fund may borrow up to 25% of its assets but for meeting withdrawal requests and managing cash-flows only. Borrowing has the potential to magnify gains and losses.

Currency risk

The Underlying 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 Underlying 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.

Advantages of private equity

- Higher potential returns than traditional public market asset classes, over the long-term.
- 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

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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.

Differentiation of private market investing

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

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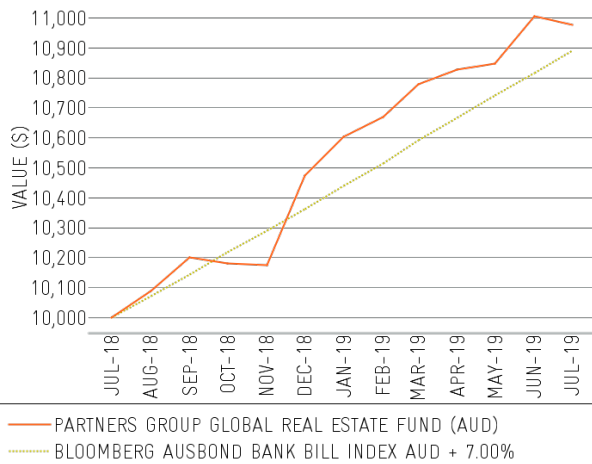
Quantitative Performance Analysis - annualised after-fee % returns (at 31-7-2019)

Performance metrics

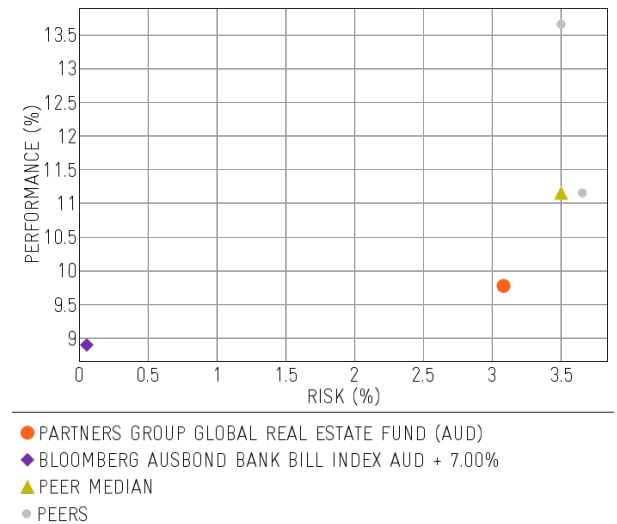
	3 MTH		6 MTH		9 MTH		12 MTH	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	1.37	2.79	3.52	6.69	7.81	10.44	9.78	11.16
STANDARD DEVIATION (% PA) *	-	-	-	-	-	-	3.08	3.50
EXCESS RETURN (% PA)	-0.72	1.10	-0.80	-0.80	1.23	1.23	0.88	0.88
OUTPERFORMANCE RATIO (% PA)	33.33	33.33	33.33	33.33	44.44	33.33	50.00	41.67
WORST DRAWDOWN (%)	-0.26	0.00	-0.26	0.00	-0.26	-0.31	-0.26	-0.31
TIME TO RECOVERY (MTHS)	NR	-	NR	-	NR	1	NR	1
SHARPE RATIO *	-	-	-	-	-	-	2.56	2.56
INFORMATION RATIO *	-	-	-	-	-	-	0.28	0.28
TRACKING ERROR (% PA) *	-	-	-	-	-	-	3.08	11.60

FUND: PARTNERS GROUP GLOBAL REAL ESTATE FUND (AUD)
 LONSEC PEER GROUP: ALTERNATIVES - GROWTH ALTERNATIVES (HIGH) - PRIVATE EQUITY
 BENCHMARK USED: BLOOMBERG AUSBOND BANK BILL INDEX AUD + 7.00%
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 * PERIODS LESS THAN 12 MONTHS ARE NOT CALCULATED
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

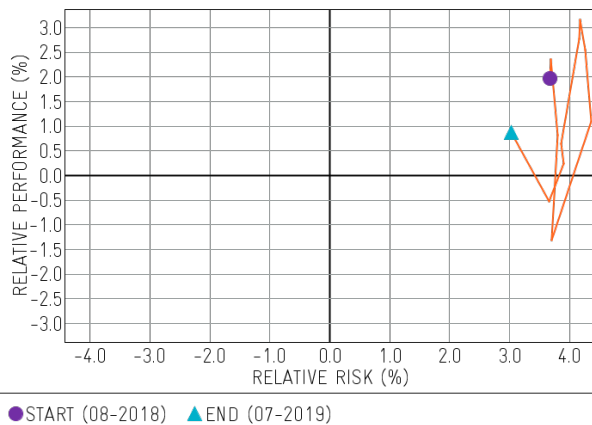
Growth of \$10,000 over one year



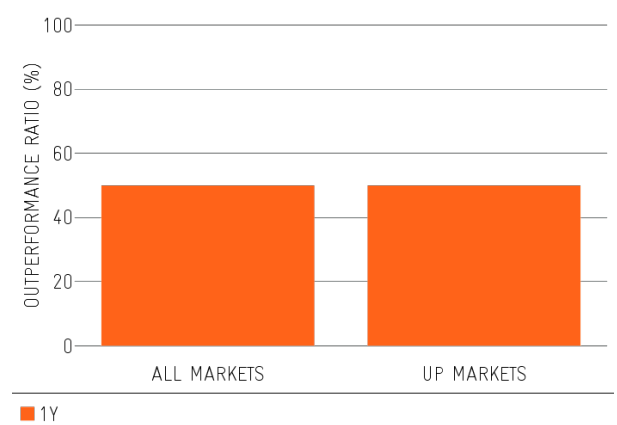
Risk-return chart over one year



Snail trail



Outperformance consistency



Partners Group Global Real Estate Fund (AUD)

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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