



Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

Private Markets: challenges for risk managers

1 September 2023



Private Infrastructure

Not for use in the United States



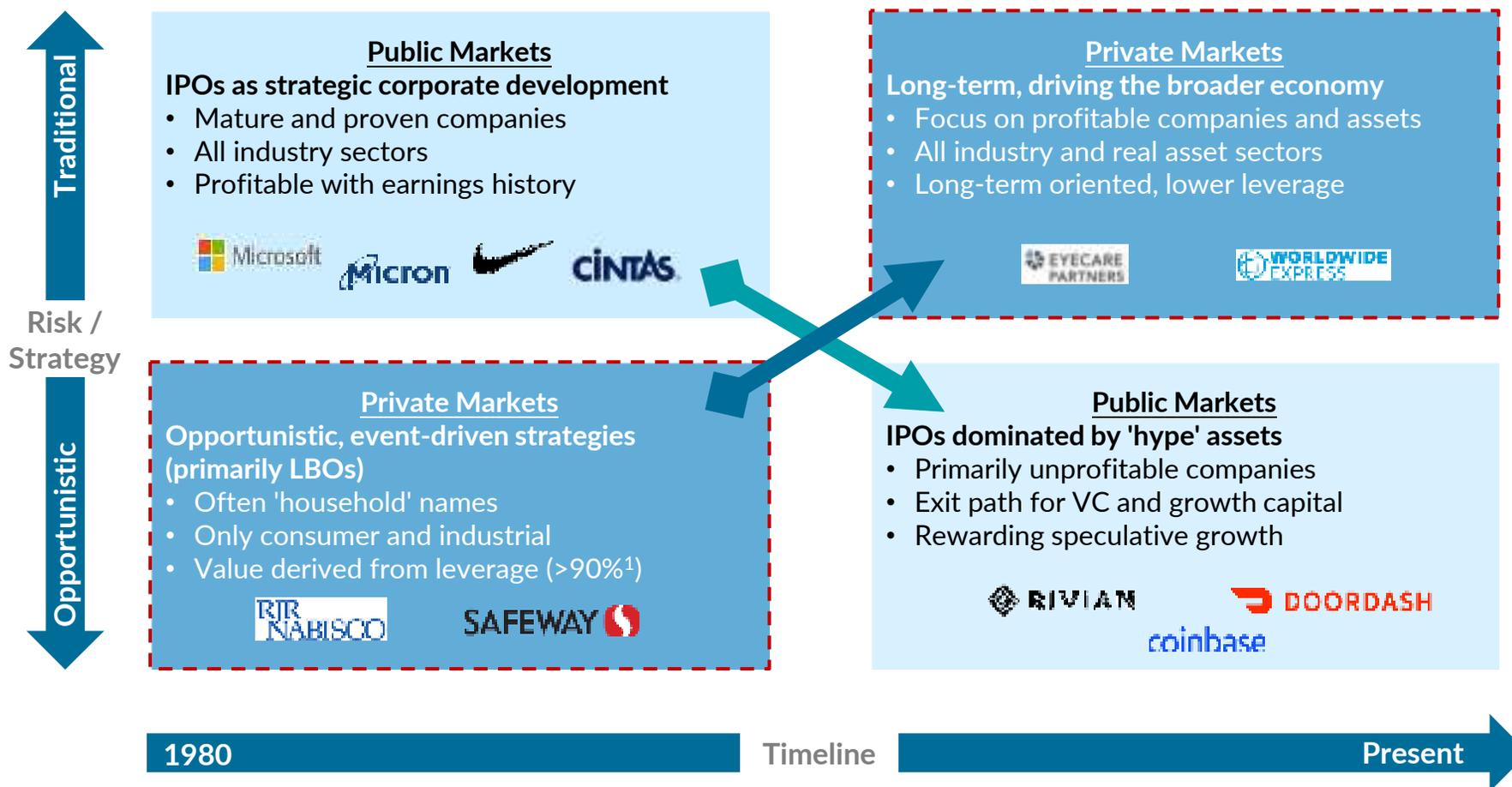
Dr. Michael Studer, Partner, Portfolio Solutions, Senior Member of Management

Dr. Michael Studer is part of the Portfolio Solutions business department, based in Zug. He is a member of the Global Investment Committee and the Private Markets Relative Value Committee and the Deputy Chair of the Global Portfolio Committee. He has been with Partners Group since 2001 and has 26 years of industry experience. Previously, he was a member of the Global Executive Board and served as the firm's Chief Risk Officer as part of the Executive Committee from 2013 to 2021. He holds a PhD in mathematics from the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland.

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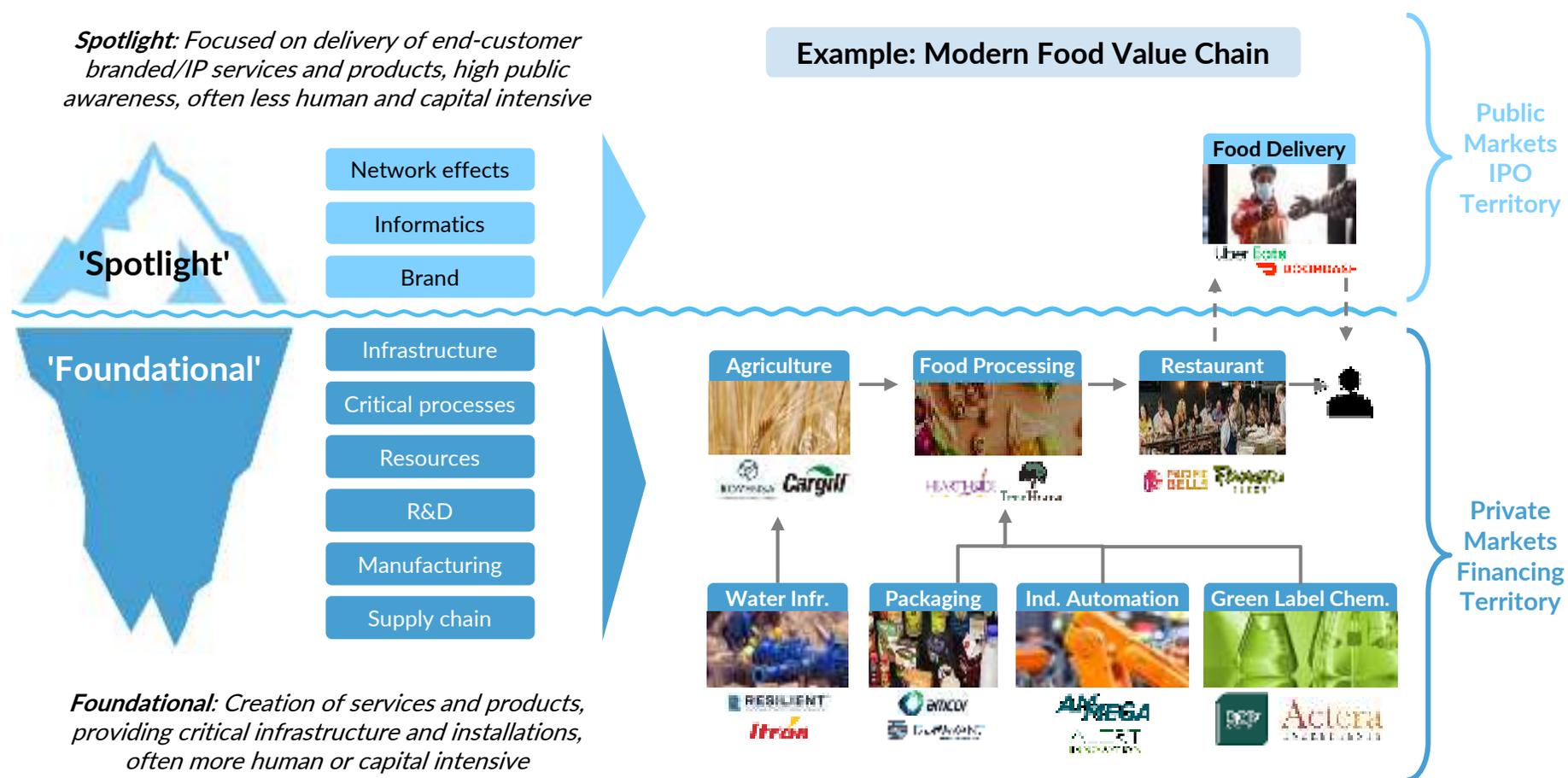
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- 1 Private Markets: New 'Traditional' Asset Class
 - 2 Measuring and managing risks
 - 3 Conclusions
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Public and private markets have swapped roles in financing the economy...



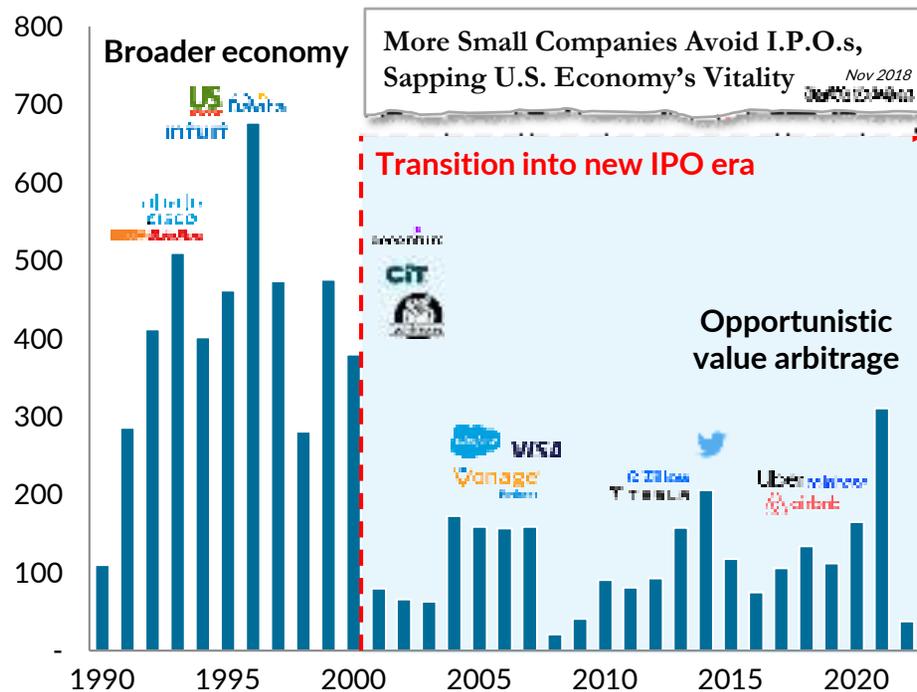
For illustrative purposes only. 1 As % of total capital in buyouts. Source: The Economist (2022).

...and have separated on backing 'Spotlight' vs. 'Foundational' businesses

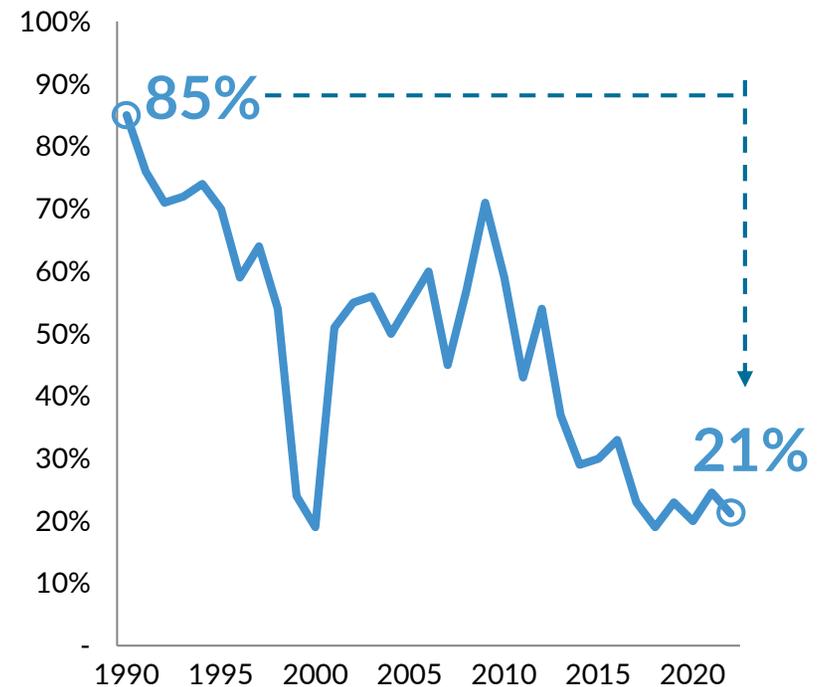


With a 'Spotlight' focus, IPOs now feature unprofitable businesses...

Number of IPOs, 1990-2022¹



% of IPO-ed businesses with positive earnings, 1990-2022¹



IPOs and public markets have shifted from the real economy to opportunistic 'Spotlight' companies

For illustrative purposes only. ¹ Earnings per share > 0; Annual data, 8,775 IPOs in total. Source: Dr. Jay Ritter's global dataset of IPOs as of 15 February 2023. Excludes IPOs with an offer price below USD 5 per share, unit offers, ADRs, closed-end funds, partnerships, acquisition companies, REITs, bank and S&L IPOs.

...whereas 'Foundational' businesses are now primarily built in the private markets

Private Equity

Goods & Products



Technology



Health & Life



Services



Infrastructure and Real Estate



Most modern transformation themes are 'Foundational' and may need private markets ownership

 'Spotlight' and 'Foundational' relevant  Primarily 'Foundational' driven

For illustrative purposes only. Source: "Private Markets Navigator", Partners Group (2022).

Investment example Private Equity: International Schools Partnership



Key Metrics



Entry Date: July 2021

Sector: Social infrastructure

EV: EUR 2.1bn



Asset Overview

- ISP is **one of the largest K-12 education platforms globally**, with its schools being non-selective, serving local children and having a strong English language offering
- Global social infrastructure platform ISP currently **educates c.55k children** in 57 schools across 16 countries

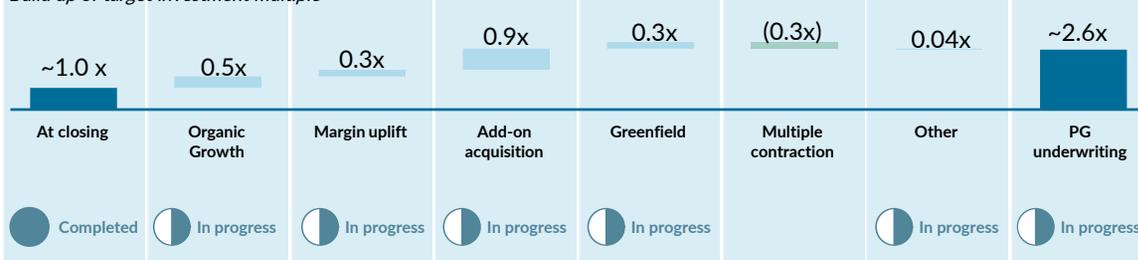
Investment Merits

- Stable cash flows:** Established sector resilience through the GFC, with average student lifetimes of 8-10 years, low churn
- Leading market position:** One of the largest K-12 education platforms globally in a highly fragmented market
- Barriers to entry:** Asset base is difficult to replicate given regulation and licensing requirements at the local level
- Low disruption risk:** Distance learning falls short in developing crucial socio-emotional skills, with a large platform such as ISP best equipped to manage changes brought on by Covid-19 and to embrace innovation

Value Creation and Key Developments

Transformational thesis – To expand International Schools Partnership (ISP) into the leading international schools group globally, with its schools recognized across local communities and the global education sector for outstanding learning outcomes, ambition and growth.

Build up of target investment multiple



- M&A strategy:** Execute on the company's proprietary M&A target database within the highly fragmented K-12 education market
- Improve educational offering and increase enrollment:** Drive growth in enrollments by leveraging (i) the strong and continuously improving educational offering, (ii) further investments in school facilities, and (iii) professionalization of admissions and marketing
- Organic growth and campus expansion:** Continue to drive growth of existing schools and addition of new ISP-developed schools to the portfolio
- Drive platform integration:** Deliver further synergies from recent acquisitions & across ISP

Key Developments

- Since PG entry, ISP acquired nine additional schools, adding c. 9k students to the platform
- Two new school opening are planned for Q3 2022 in Vietnam adding an additional 3k seats
- M&A continues to be a focus also for FY23 with a strong pipeline of schools

Past performance is not indicative of future results. For illustrative purposes only. Figures as of 30 June 2022. There is no assurance that similar investments will be made or that similar returns will be achieved. Performance is calculated net of underlying fees (if any) and gross of Partners Group fees. Targets are based on investment base case. There is no guarantee that targets will be achieved or that the investment will be successful. There is no assurance that the stated investment strategy will occur. Asset represents a typical investment in the social infrastructure sector. Source: Partners Group (2022).



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Investment example Infrastructure: VSB Group



Key Metrics



Entry Date: April 2020
Sector: Renewable Energy
EV: n.a.



Asset Overview

- VSB is a leading **European renewables platform**, active in the **development, construction and ongoing management** of projects in solar PV, wind, hydro and battery
- Key markets are **Germany and France**
- Significant operational assets** across the platform

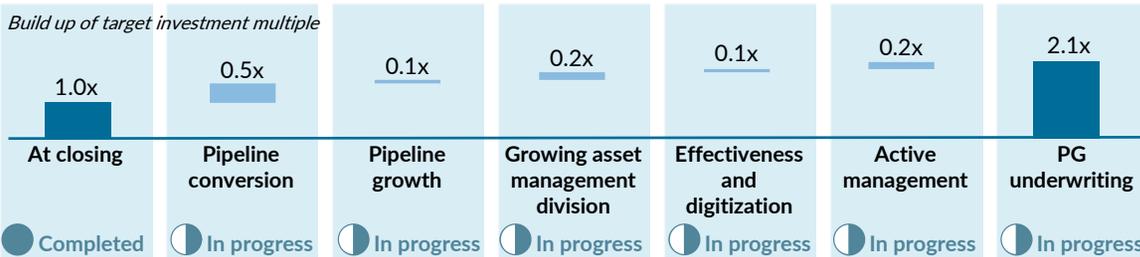


Investment Merits

- Established development platform** with more than 1.1 GW of successful project development in core European markets with long-term subsidy schemes
- Sizeable pipeline** of more than 7 GW in capacity, diversified across geographies and technologies
- Ideally positioned to benefit from the **trend of electrification** in the energy sector globally

Value Creation and Key Developments

Transformational thesis - to transform VSB into a leading European renewables platform with a strong expansion pipeline.



- Conversion of the sizable pipeline** into operating projects on time and budget as well as the continuous advancement of pipeline projects
- Pipeline growth** via investments in land & project acquisitions, a move into new markets and the positioning of VSB as a repowering pioneer
- Profitable growth in the Asset Management division** on the back of the pipeline conversion and an extended service offering into new markets and technologies to become a market leader for asset management services
- Effectiveness & digitization** by implementing a company-wide ERP system, cash-pooling and tax-efficient fiscal unity
- Active Management** through structuring of efficient financing of operational assets to recycle the cash into new developments

Key Developments

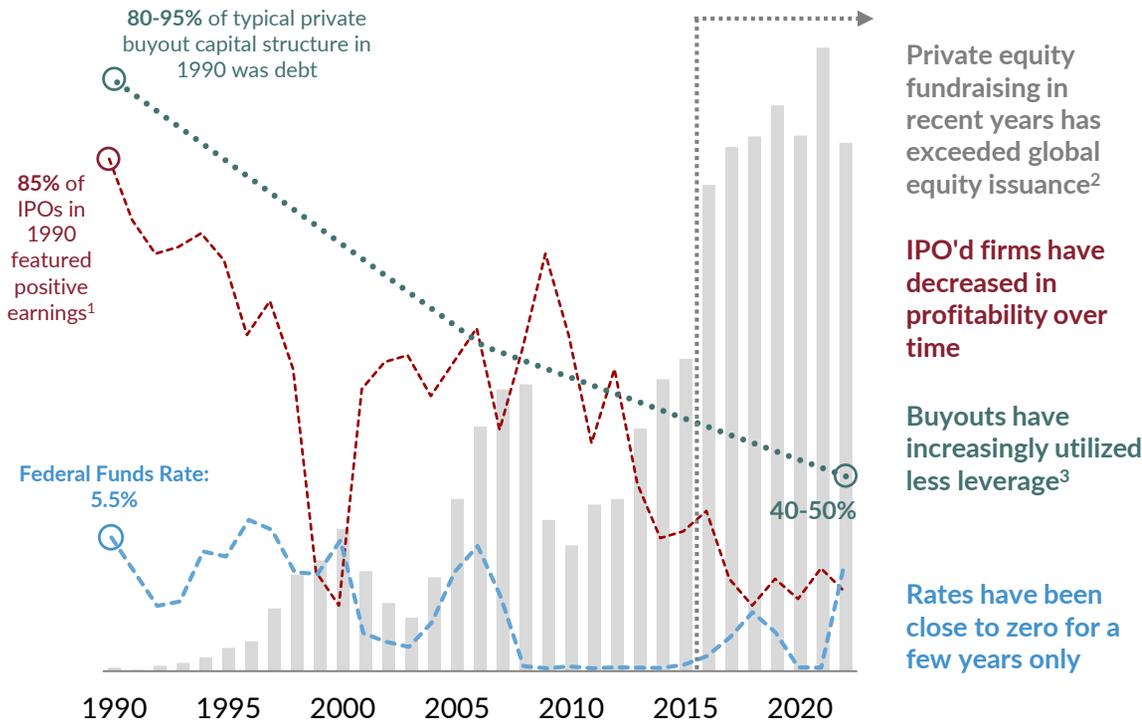
- Significant growth achieved during PG's ownership with 300MW of project rights acquired across Europe in Finland, France, Germany and Poland
- In July 2022 VSB sold two wind farms to a Finnish utility company (190 MW installed capacity)
- Over Q2 2022, PG increased its commitment to VSB to accelerate project development, unlock capital-intensive repowering projects and M&A opportunities

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The rise of private markets and its role change with public markets is structural

Private markets have grown independent of a low-rate environment



Private equity fundraising in recent years has exceeded global equity issuance²

IPO'd firms have decreased in profitability over time

Buyouts have increasingly utilized less leverage³

Rates have been close to zero for a few years only

The typical profile of an IPO investor has changed:

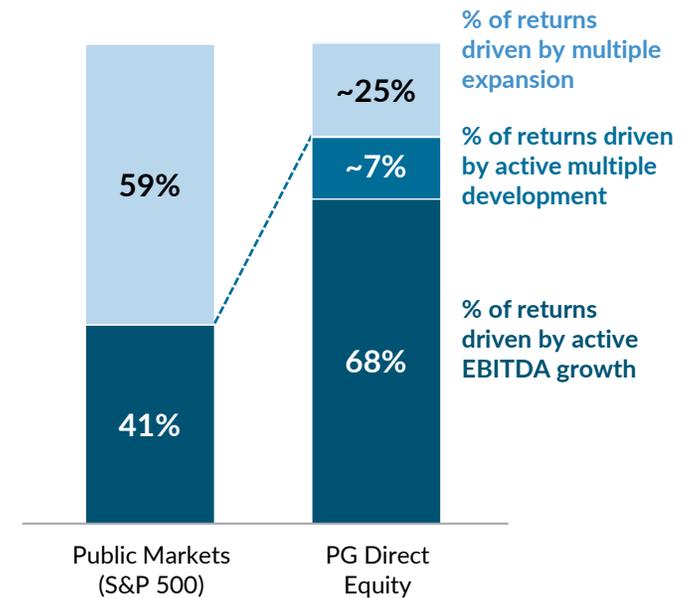
End of Era: Passive Equity Funds Surpass Active in Epic Shift

BlackRock

Retail traders are coming for the IPO market

S&P Global

Private markets drive outperformance through active EBITDA growth vs. valuation change³ (Dec 2011 – Dec 2021)



Valuation change and low rates have been an outsized tailwind for public markets, showing there was no tactical shift to private markets

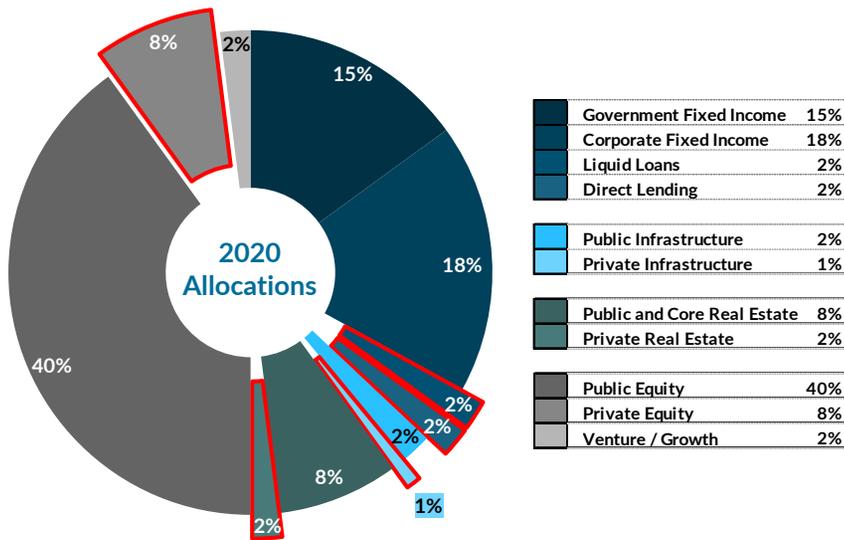
For illustrative purposes only. There is no assurance that similar results will be achieved. 1 Earnings per share > 0. Annual data, 8,775 IPOs in total. Source: Dr. Jay Ritter's dataset of global IPOs. Excludes IPOs with an offer price below USD 5 per share, unit offers, ADRs, closed-end funds, partnerships, acquisition companies, REITs, bank and S&L IPOs. 2. Figures shown are for private equity inclusive of venture capital. Source: Preqin. 3 Source: Partners Group Analysis (2023).

Significant scale of private markets will require new allocation strategies and more focus from a portfolio and risk management perspective

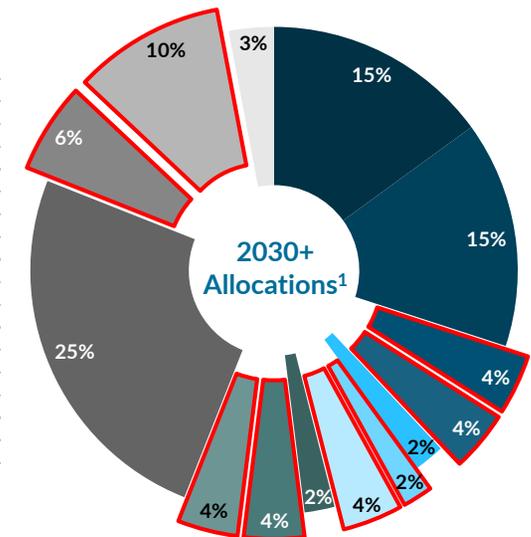
Private Markets Allocation: ~15-20%

~2x

Private Markets Allocation: ~30-40%



Government Fixed Income	15%
Corporate Fixed Income	15%
Liquid Loans	4%
Direct Lending	4%
Public Infrastructure	2%
(Passive) Core Private Infrastructure	2%
(Active) Non-Core Private Infrastructure	4%
Public Real Estate	2%
(Passive) Core Private Real Estate	4%
(Active) Non-Core Private Real Estate	4%
Public Equity	25%
(Passive) Core Private Equity	6%
(Active) Non-Core Private Equity	10%
Venture / Growth	3%



"The **trade into private assets has further to go**, the case against bonds is less strong but based on our inflation outlook, many **investors still need a higher real return**, and investors still should hold **more exposure to real assets** in their strategic allocations...**earning the equity risk premium requires a larger default level of private assets** than in earlier decades."

Jul 2022 RBC BERNSTEIN

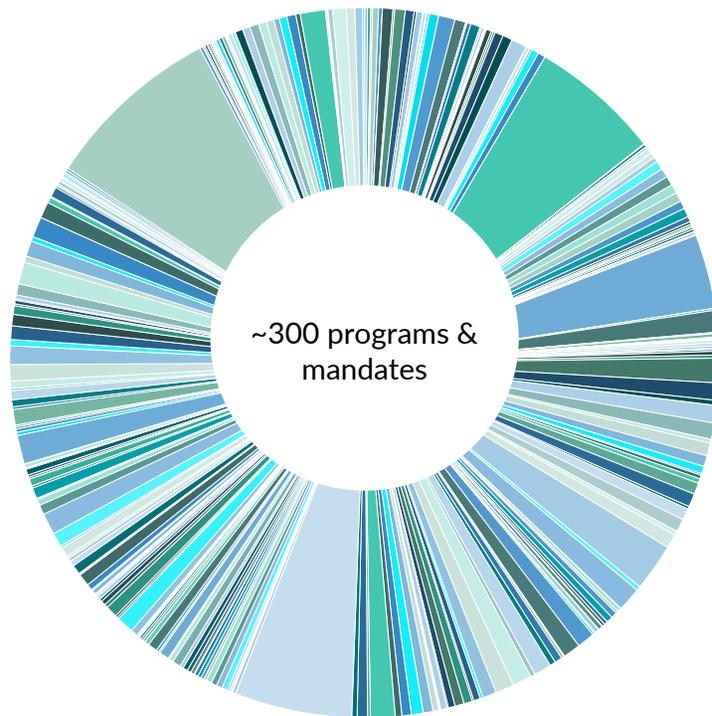
"The knock-on effect of the pandemic on listed markets since early 2020 has **accelerated asset owners' allocations to [private markets]**...At Alaska Permanent Fund Corporation, for example, private markets exposure comprised around 20% of the overall portfolio...this has risen to current levels of around **20% for private equity, 12% for real estate and 9% for private credit.**"

May 2022 M&P

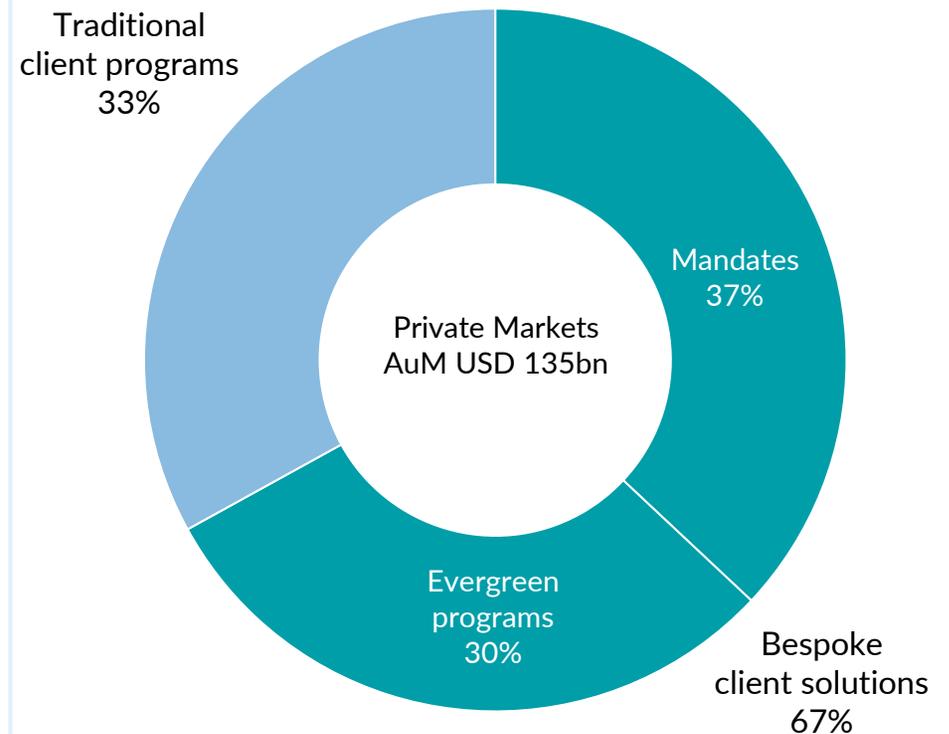
For illustrative purposes only. 1 Source: Partners Group Analysis (2023).

Mandate platform and private markets portfolio and risk management at scale

Breakdown by private market programs and mandates¹



Breakdown by program structure¹



Clients have different needs leading to a variety of challenges for risk managers

¹ Assets under management as of 31 December 2022. For illustrative purposes only. Diversification does not ensure a profit or protect against loss. Source: Partners Group (2023).

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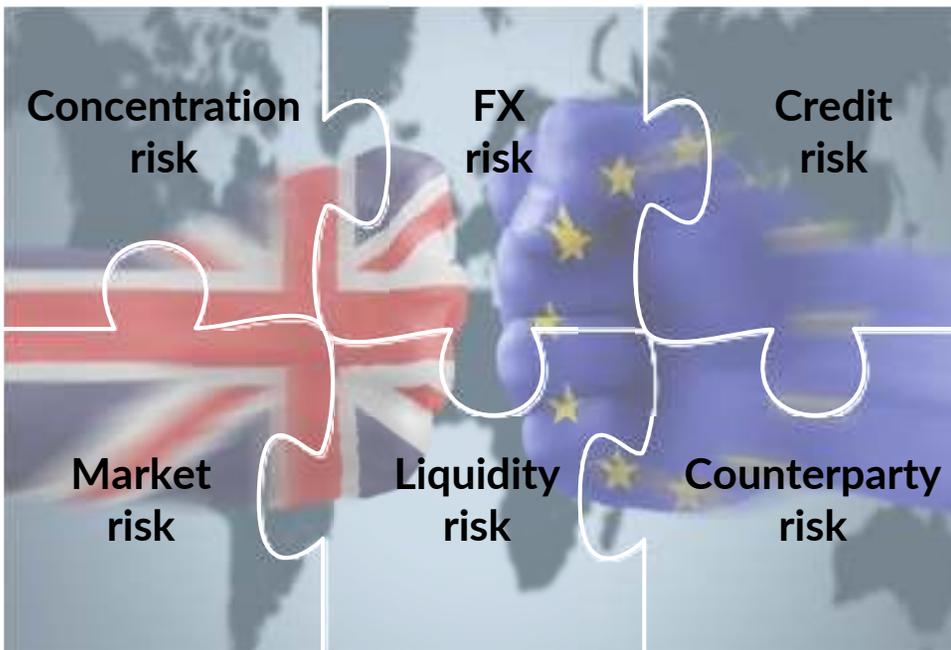
Questions for the risk manager

- 1 Data How to deal with the fact that data availability is limited and NAVs are "self-reported"?
- 2 Measures Which of the traditional risk management methods are applicable/relevant?
- 3 Liquidity How does the illiquidity of the asset class affect the challenges of a risk managers?
- 4 Access What are the consideration from the fact that the asset class is not easily accessible?
- 5 ...
 - ...

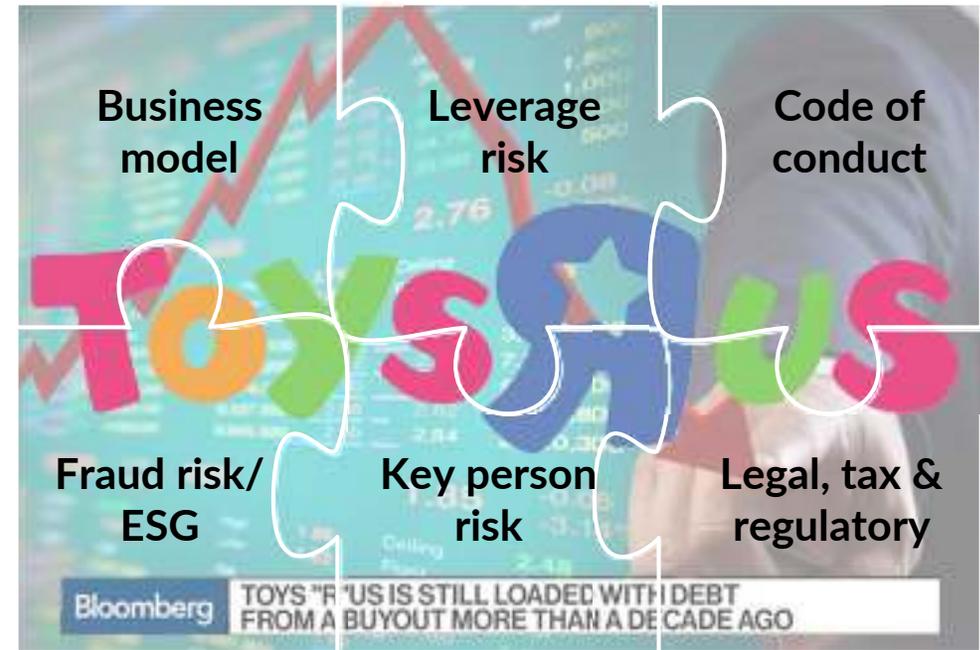
Access to data and liquidity as additional focus points for risk managers

Investment risk landscape

Portfolio risks

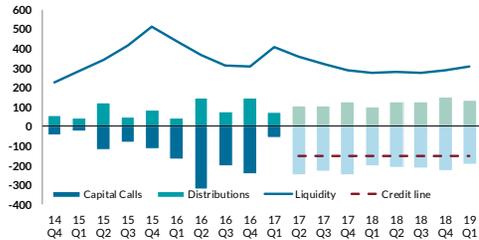


Investment specific (idiosyncratic) risks



Identifying the risk factors and developing the strategies/ways to measure risks is paramount to successfully manage risks

Investment risk management – Main responsibilities



Investment level steering / liquidity risk management

- determination of optimal investment strategy
- cash flow forecasting / stress testing

Market risk analysis

- proprietary factor modeling
- VaR / historical scenario analysis / expected shortfall

Direct asset risk tracking

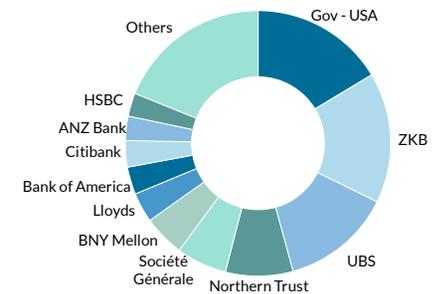
- independent risk assessment of asset specific risks
- escalation to the investment committees

FX and counterparty risk management

- currency hedging strategies
- Partners Group counterparty rating / diversification

Compliance & governance

- investment guidelines / concentration risk
- reporting to external parties (e.g. board)
- regulatory and contractual obligations



Business Unit	Year of Introduction	Segment
Private Equity	2008	Private Equity
Real Estate	2010	Real Estate
Infrastructure	2011	Infrastructure
Commodities	2012	Commodities
Art Collection	2013	Art Collection
Private Credit	2014	Private Credit
Private Equity	2015	Private Equity
Private Equity	2016	Private Equity
Private Equity	2017	Private Equity
Private Equity	2018	Private Equity
Private Equity	2019	Private Equity
Private Equity	2020	Private Equity
Private Equity	2021	Private Equity
Private Equity	2022	Private Equity
Private Equity	2023	Private Equity
Private Equity	2024	Private Equity
Private Equity	2025	Private Equity
Private Equity	2026	Private Equity
Private Equity	2027	Private Equity
Private Equity	2028	Private Equity
Private Equity	2029	Private Equity
Private Equity	2030	Private Equity

Region	Assets	Liabilities	Net Assets	Equity	Debt
EMEA	100.0	100.0	0.0	100.0	0.0
AMER	100.0	100.0	0.0	100.0	0.0
APAC	100.0	100.0	0.0	100.0	0.0
Other	100.0	100.0	0.0	100.0	0.0
Total	400.0	400.0	0.0	400.0	0.0

For illustrative purposes only.
Source: Partners Group

Liquidity risk – Cash flow and investment level forecasts allow investors to manage their exposure

Deep dive 1

Investment level steering

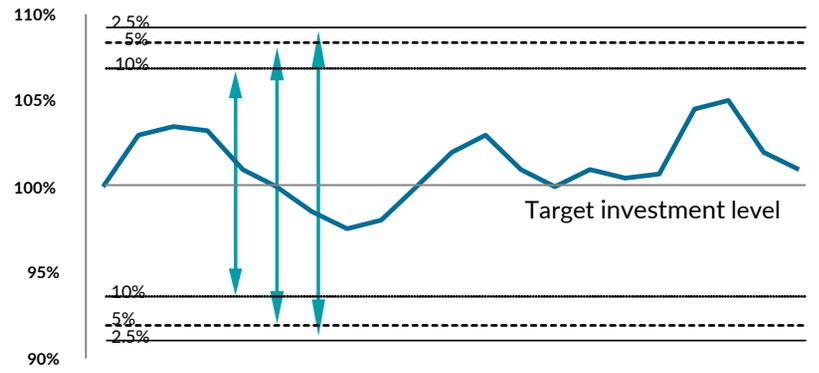
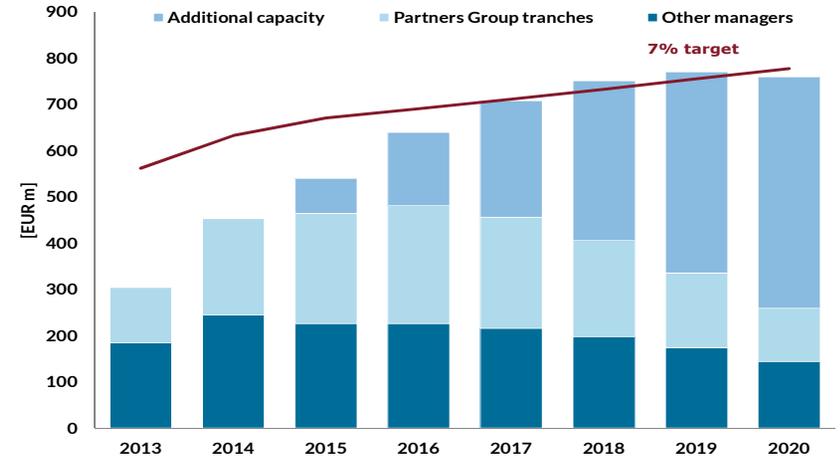
Being able to forecast exposure to private markets is a prerequisite to plan commitments, **achieve and maintain the targeted investment level and minimize return dilution**

Cash/liquidity management

Anticipating cash flows is paramount to **manage liquidity**

Risk management

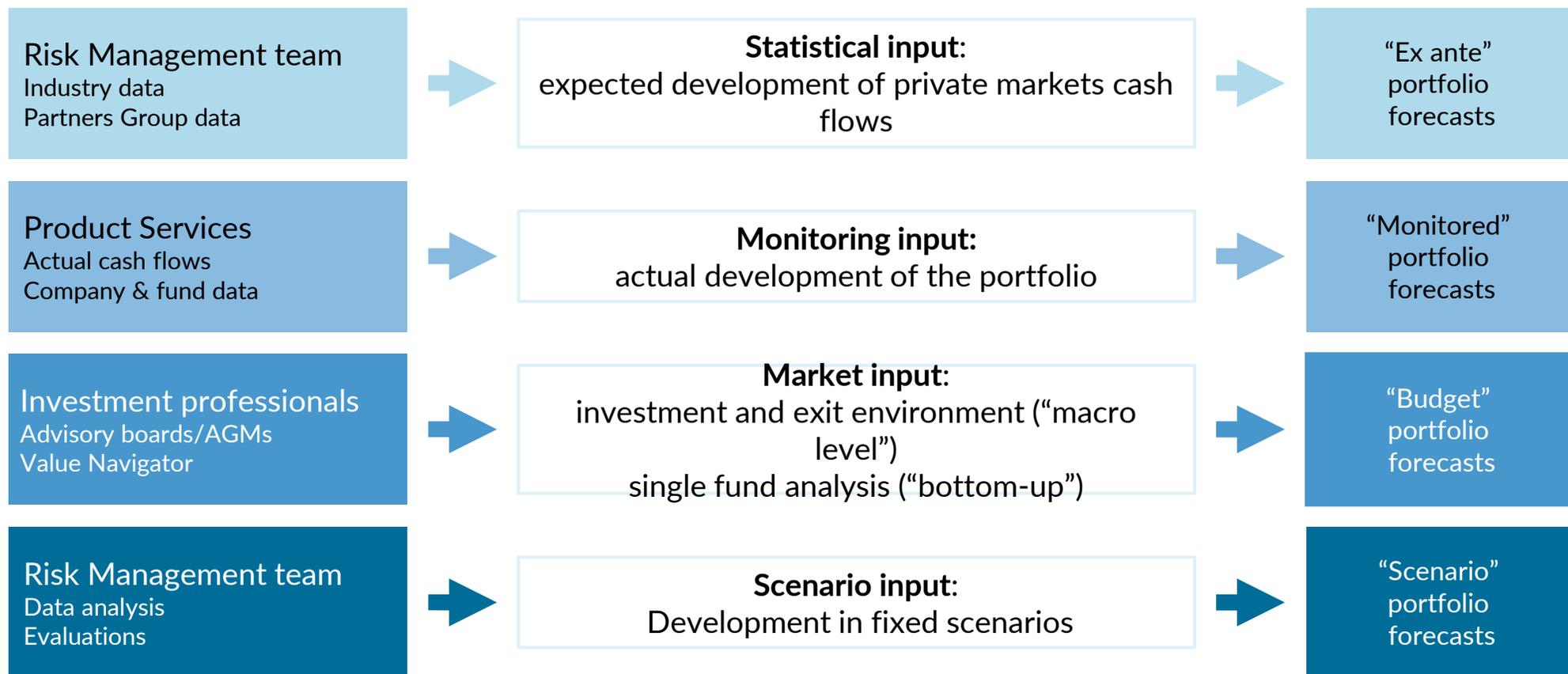
Assessing the variability of private markets cash flows, valuations, FX rates, etc., allows for **defining possible bandwidths for the portfolio development**



For illustrative purposes only. Source: Partners Group

Investment level steering - Partners Group's cash flow forecasting model

Deep dive 1

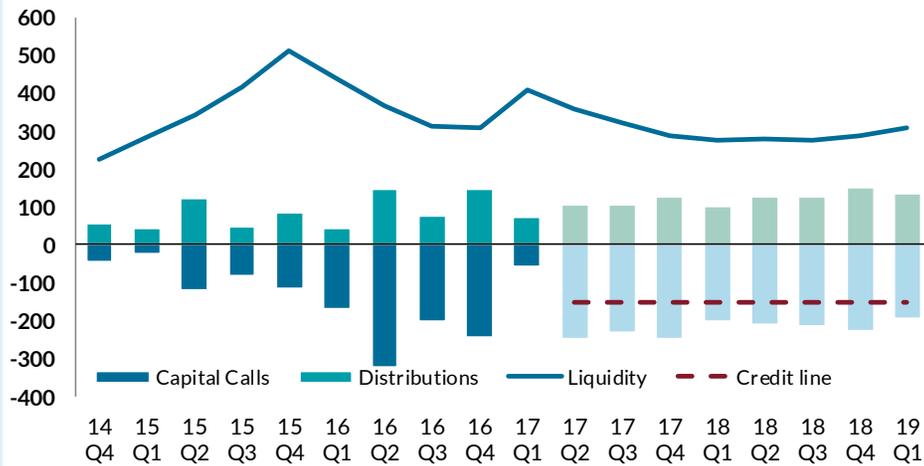


Cash flow modeling is more than statistics and mathematics

Managing liquidity and investment levels

Deep dive 1

Base case liquidity profile



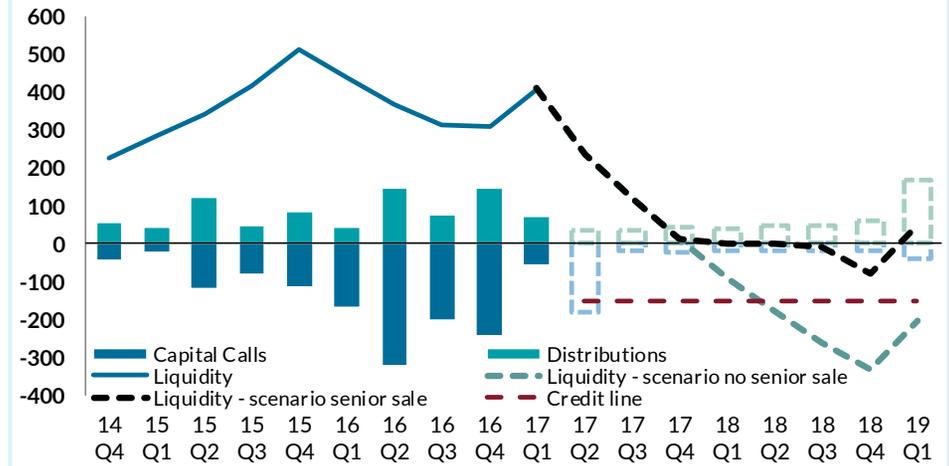
Forecast

- Net inflows
- Portfolio cash flows

Investment strategy

- How much to invest
- When to invest

Liquidity stress scenario



Stress test

- Net outflows
- Portfolio cash flows and performance

Calibrate

- Allocation to (semi-) liquid assets
- Credit line

Achieve target investment level while balancing liquidity needs and sources in stress scenarios

Illustrative examples. Source: Partners Group model based on various assumptions. The illustration includes planned commitments. The actual development can deviate significantly. Past performance is not indicative of future performance.

Direct Asset Risk Tracking (DART)

Deep dive 2

Purpose

- **Second line of defense** on direct investments
- **Comprehensive set of indicators** allow for holistic assessment of direct assets
- **Timely escalation** of underperformance to the Investment Committees

Process

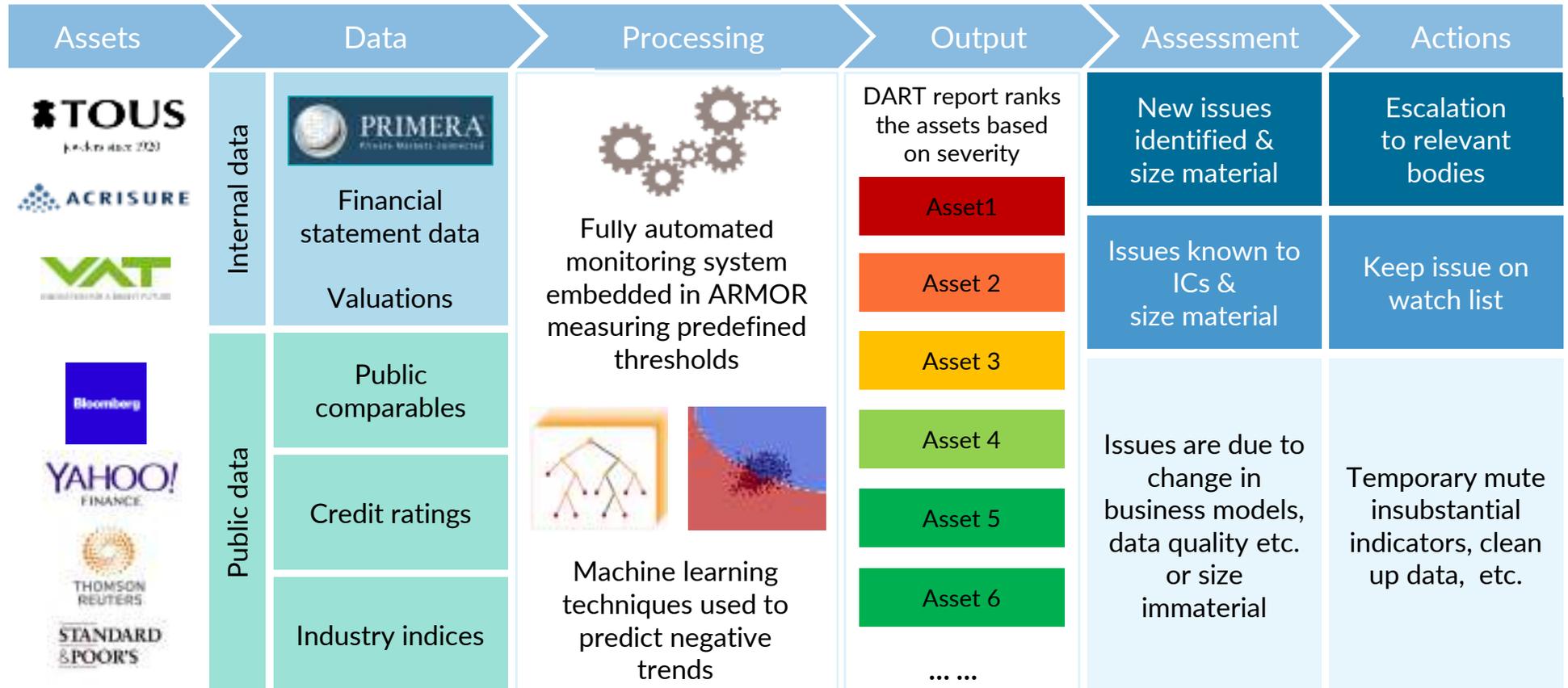
- **Independent risk assessment** of asset specific risks by the investment risk team
- **Tailored risk groups** for different private markets segments using proprietary and public data sources
- Flags are raised by comparison of several indicators against their **thresholds, which are calibrated based on regular backtesting and extensive analysis**

Outcome

- **Automated report** scheduled within the ARMOR framework (Alert and Risk Monitor) embedded in PRIMERA with qualitative overlay
- **Escalation to the Global or Specialized Investment Committees**
- **Interest rate risk monitoring** on PEDI and INFR assets

DART process overview

Deep dive 2



Timely identification and escalation of possible negative developments in portfolio assets

For illustrative purposes only.
Source: Partners Group

Data - DART indicator groups

Deep dive 2

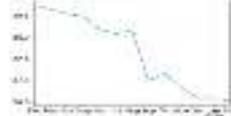
Event

Sudden movements in short-term financial developments



Trend

Continued underperformance in long-term financial developments



Leverage

Healthy debt/EBITDA ratio*



Growth

Evaluate growth using net revenues



Profitability

Monitor company profitability via EBITDA margin*



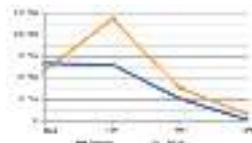
Entry

Current financial status vs entry levels



Base case / budget

Monitoring of up-to-date financial forecasts



Industry/Macro

Monitor broad industrial trends, and the country's GDP, unemployment and interest rates



Peer group

Company vs public comparables in terms of trend, growth and profitability



Covenants

Monitor company contractual obligations via leverage headroom



* For RE assets DART monitors occupancy rate, NOI and LTV instead of EBITDA, EBITDA margin and debt/EBITDA. For illustrative purposes only. Source: Partners Group

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Private Markets risk management: So What?

“

Private markets is the new 'traditional' asset class

“

Private Markets growth and role change is structural...

“

... with real economy primarily build in private markets

“

Completely re-think asset allocation

“

Significant scale will necessitate more focus

“

Liquidity risk will need to be carefully managed

“

Close collaboration between risk and investments to understand underlying



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