PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

March 2019

PATIENT CAPITAL

MADE SIMPLE GUIDE

ACKNOWLEDGEMENTS

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Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

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FOREWORD

THE ATTENTION PAID TO PATIENT CAPITAL INVESTMENTS BY GOVERNMENTS AND INVESTORS ALIKE IS INCREASING. WHILE THERE ARE A RANGE OF BENEFITS FROM INVESTING IN SUCH LONG-TERM INVESTMENTS SUCH AS PORTFOLIO DIVERSIFICATION AND POTENTIAL FOR GREATER LONG-TERM RETURNS, IT IS IMPORTANT FOR INVESTORS TO GAIN A DEEPER UNDERSTANDING OF THE TYPES OF PATIENT CAPITAL INVESTMENTS AVAILABLE, THE ACCESSIBILITY AND SUITABILITY FOR THEIR OWN SCHEMES WHILE ALSO CONSIDERING SOME OF THE DRAWBACKS SUCH AS ILLIQUIDITY AND GREATER COMPLEXITY.

Partners Group is one of the world's largest private markets investment managers, investing since 1996. Private markets investments such as infrastructure, private equity, private credit and private real estate are examples of patient capital asset classes and Partners Group currently manages USD 83 billion in such private markets investments on behalf of a global client base of institutional investors.

This guide aims to demystify the concept of patient capital and private markets investing and provide schemes with a useful tool to aid discussions with managers and members alike.

1 INTRODUCTION

PATIENT CAPITAL INVESTMENTS ENCOMPASS A WIDE RANGE OF ASSET CLASSES THAT ARE GENERALLY LONG-TERM IN NATURE SUCH AS VENTURE CAPITAL, PRIVATE EQUITY, PRIVATE DEBT, PRIVATE INFRASTRUCTURE AND PRIVATE REAL ESTATE. THIS GUIDE FOCUSES ON PRIVATE MARKET ASSET CLASSES, IN PARTICULAR PRIVATE EQUITY, PRIVATE DEBT, PRIVATE INFRASTRUCTURE AND PRIVATE REAL ESTATE.

Investors that select such long-term investments typically do so with the mind-set of foregoing immediate liquidity in anticipation of more substantial returns in the future. In addition, patient capital is said to contribute to the enhancement and growth of companies and organisations.[1]

Private markets investments by definition have existed for decades, if not for centuries. However, it is the institutionalisation of the market from the early 2000's onwards combined with the increased interest from investors searching for alternative sources of return and yield that has led to a great number of investors taking a closer look at what such private markets investments have to offer in a client's portfolio.

The interest from policy makers has also grown, which was highlighted by the PLSA in the December 2018 case study guide on patient capital.

This guide looks to explore what types of private markets investments are available for investors, while covering the benefits of such potential allocations and taking a full assessment of wider considerations that should be taken. In addition, we take a closer look at how DC schemes can access these asset classes. Thoughts will also be presented on ESG considerations within such investments and to take a closer look at a private markets investment case study. Lastly, a selection of guidance and tips are offered to help schemes navigate their options.

INTEREST IN PATIENT CAPITAL FROM POLICY MAKERS HAS GROWN, WHICH WAS HIGHLIGHTED BY THE PLSA IN THE DECEMBER 2018 CASE STUDY GUIDE

1 Financing growth in innovative firms: consultation, HM Treasury, August 2017 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/642456/financing_growth_in_innovative_firms_consultation_web.pdf

2 WHAT ARE EXAMPLES OF PATIENT CAPITAL INVESTMENTS?

PATIENT CAPITAL IS AN ALL-ENCOMPASSING TERM FOR INVESTABLE ASSET CLASSES WITH A LONG-TERM INVESTMENT HORIZON. THE SCOPE OF THESE ASSET CLASSES IS BROAD, INCLUDING VENTURE CAPITAL, GROWTH CAPITAL, PRIVATE EQUITY, PRIVATE CREDIT, PRIVATE INFRASTRUCTURE AND PRIVATE REAL ESTATE AMONG OTHERS. PATIENT CAPITAL INVESTMENTS ARE GENERALLY EXPECTED TO HAVE A HOLDING PERIOD OF SEVERAL YEARS, UNLIKE SHORTER-TERM INVESTMENTS SUCH AS PUBLIC EQUITY, BONDS AND DIVERSIFIED GROWTH FUNDS (DGFS) WHERE HOLDING PERIODS ARE GENERALLY MUCH SHORTER AND LIQUIDITY HIGHER.

Examples of private markets investments include an infrastructure investment in a solar panels platform and a transmission and conveyor belt company.

Japan Solar

AMMEGA
Ammeraal Beltech
MEGADYNE

Positive features of such private markets investments are outlined below:

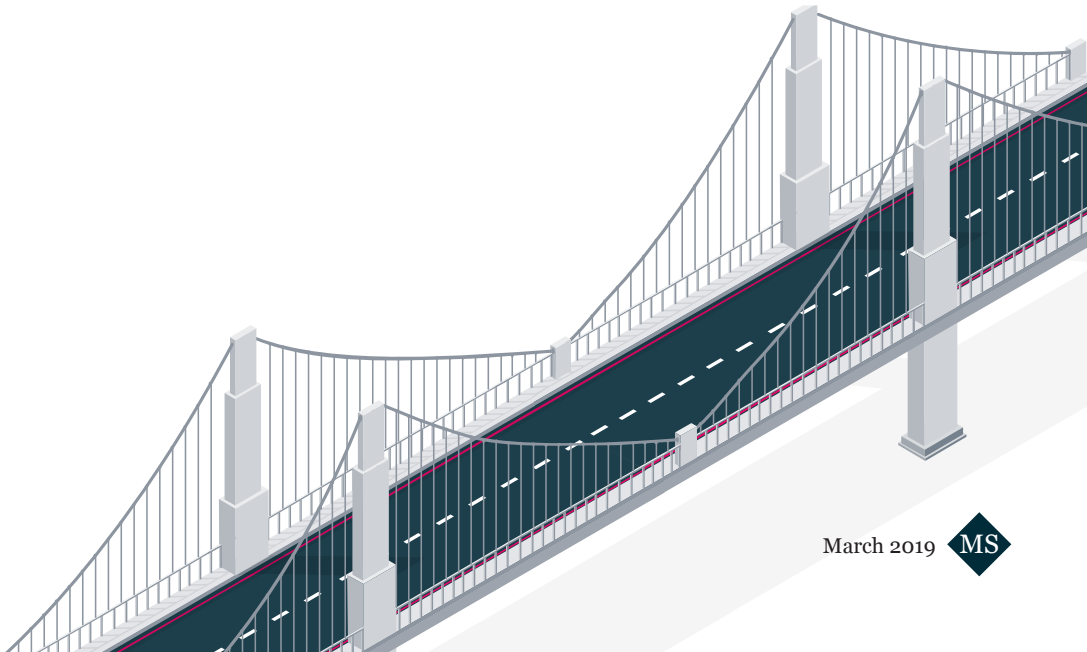
- Greater potential for long-term capital appreciation and higher investment returns
- Credit or real asset (infrastructure/real estate) investments also have the potential to provide income through a recurring yield
- Increased diversification benefits versus public markets, with alternate sources of risk / return thereby complementing a more traditional portfolio of equities and bonds
- Improved governance through a more entrepreneurial ownership approach
- Private markets benefit from increased levels of control due to larger ownership holdings and a greater emphasis on long-term thinking.

There are also some potential drawbacks to long-term investments such as the following:

- Private markets are generally illiquid and inherently have a longer term holding period (4-7 years on average)
- Greater complexity around the sourcing of underlying investments, due diligence, legal structuring and investment monitoring
- Greater cost (management fees) due to significantly increased manager resources needed to staff investment teams, perform due diligence, monitoring and sourcing of investments.

It is worth noting that private markets funds are more costly to operate because:

- Less standardisation versus buying a stock in a public company, greater complexity in buying/selling holdings
- Private markets investments require active management to create value whereas investors in a public markets stock are much less hands-on, for example attending and voting at an Annual General Meeting is the greatest involvement
- Private markets fees are more explicit in including the costs of managing such assets, whereas public market companies generally bear these costs as overheads at the business level and are not reflected in the manager's management fee
- The model in private markets is less scalable (i.e. in order to source and manage more deals, you often need more investment professionals).

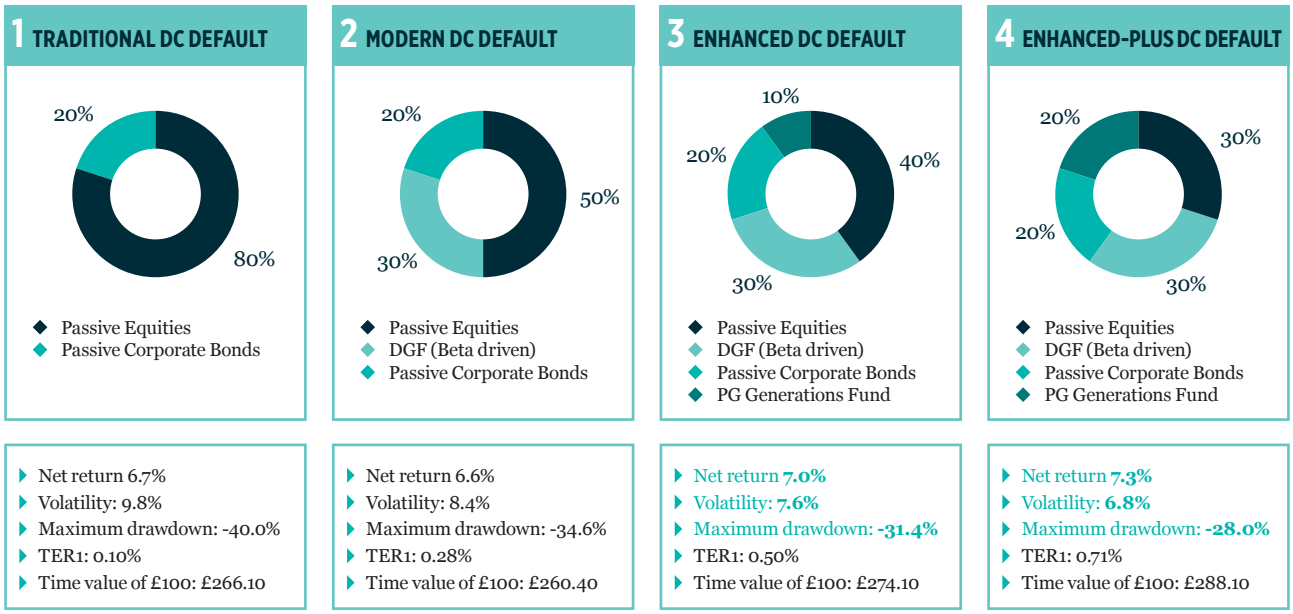


3 HOW CAN DC SCHEMES ACCESS PRIVATE MARKETS INVESTMENTS?

DB PENSION SCHEMES AND OTHER INSTITUTIONAL INVESTORS HAVE BENEFITTED FROM THE ABILITY TO INVEST IN PRIVATE MARKETS FOR DECADES. DC SCHEMES HAVE HAD LITTLE TO NO EXPOSURE TO PRIVATE MARKETS FOR VARIOUS REASONS, INCLUDING SATISFYING PLATFORM INVESTING REQUIREMENTS (I.E. RECEIVING DAILY VALUATIONS AND INVESTING IN FUNDS THAT ARE A 'PERMITTED LINK') AND ABIDING BY THE CHARGE CAP OF 0.75% P.A.[2]

However, there are now DC-eligible private markets programs worth consideration from DC investors, allowing schemes to make an allocation to private markets within their default fund and opening up to self-select investors.

The below chart illustrates a range of potential default strategies, those on the left more "traditional defaults", heavy on public equities, bonds and DGFs, which for several years were the most prevalent allocations. Now, with the increased availability of private markets programs, DC schemes are considering allocations to private markets of 10-20% within their default strategy, complementing their exposure to public equities, bonds and DGFs, as shown on the right hand side.



Source: See endnotes.

Although private markets investments are more expensive versus public markets, the targeted net of fees return is higher, with lower volatility. It is important to note that "value for money" does not simply mean cheapest. With long-term investment horizons the norm for many DC members (especially for younger members who are decades away from retirement), an allocation to private markets is worth consideration.

2 The charge cap: guidance for trustees and managers of occupational schemes, Department for Work and Pensions, March 2015, updated October 2016 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/557888/charge-cap-guidance.pdf

There are many distinct methods to gain exposure to private markets, but for structural and regulatory reasons, many traditional avenues are not viable for DC schemes. Whereas DB pension schemes have the ability to invest directly in single assets, or through a fund of funds approach or even individual closed-ended illiquid funds, these options are not easy to implement in today's DC environment. The below table highlights some of the main investment instruments in private markets and proposes that a semi-liquid, platform-enabled commingled fund is the optimal solution for DC investors. Interestingly, DB investors have also shown an increased interest in such 'evergreen' multi asset private markets programs.

	1 DIRECT INVESTMENTS	2 SINGLE FUND INVESTMENTS	3 FUND OF FUNDS	4 SECONDARY FUNDS	5 INTEGRATED SEMI-LIQUID SOLUTION
Strategy	Single company/asset investment	Single manager and strategy	Multi-manager and multi-strategy	Multi-manager, multi-strategy and multi-vintage	Fully diversified: multi-manager, multi-strategy and multi-vintage
Exposure	Single asset	Various assets, static	Various assets, static	Various assets, static	Broad – exposure to over 100 assets at any one time
Structure	Various	Limited Partnership structure	Limited Partnership structure	Limited Partnership structure	NURS operated as a FAIF Permitted Link
Admin complexity	High complexity Single priced	High complexity Capital Calls & Distributions	High complexity Capital Calls & Distributions	High complexity Capital Calls & Distributions	Daily trading, single priced, fully paid in, mutual fund like
Liquidity	Closed ended Lock-up & liquidity dependent on hold period	Closed ended Long lock-up period No liquidity	Closed ended Long lock-up period No liquidity	Closed ended Long lock-up period No liquidity	Daily dealt Daily liquidity
Minimums	n/a	£1m-£10m	£1m-£10m	£1m-£10m	£1
Fees	Potential for lower aggregate fees	Single fee layer	Numerous fee layers	Partial fee mitigation	TER cap to comply with charge cap

Source: See endnotes.

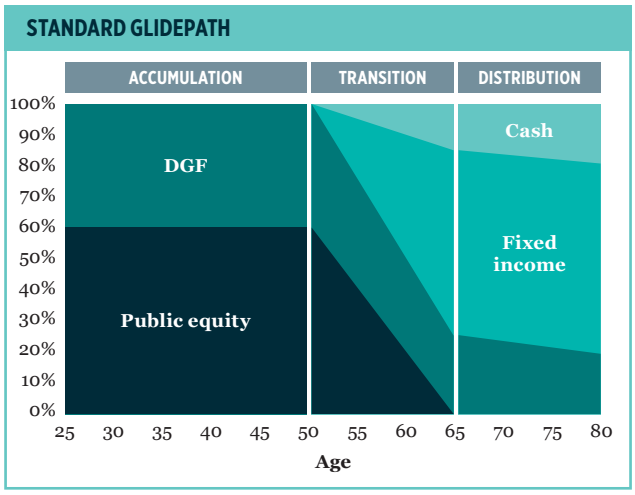
DC schemes should search for a private markets fund that is available on platforms and can offer daily valuations and the appropriate structure to meet their needs.

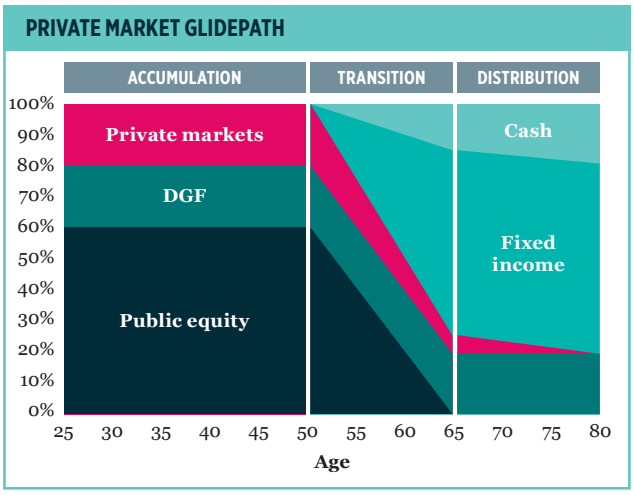
It is of course not essential for DC schemes or master trusts to use a platform to invest. However, for those plans that use platforms, it is possible to create a fund with a 'permitted link': an important element of this is that the manager of such a fund must show that the entire portfolio can be liquidated within six months once a redemption request is accepted. This enables a fund to provide the daily valuations expected by DC schemes via a permitted link, while still offering illiquid private markets exposure.

A number of DC schemes have already made allocations to private markets, through several investment platforms who have on-boarded such private markets DC-eligible funds. It is also expected that the number of managers launching such private markets funds is set to increase in 2019 and beyond, affording investors with a greater choice and availability to gain exposure to patient capital investments.

4 THE BENEFITS OF INVESTING IN PRIVATE MARKETS

PRIVATE MARKETS, DUE TO THEIR HIGHER NET OF FEES RETURN TARGET VERSUS PUBLIC MARKETS AND GREATER ILLIQUIDITY, ARE PERHAPS MOST SUITABLE FOR THE ACCUMULATION (GROWTH) PHASE OF A DC GLIDE PATH. THE BELOW CHART HIGHLIGHTS A STANDARD GLIDE PATH ON THE LEFT (MIXTURE OF PUBLIC EQUITIES AND DGFS IN THE ACCUMULATION PHASE) WHEREAS THE RIGHT HAND SIDE HIGHLIGHTS A GLIDE PATH THAT INCLUDES AN ALLOCATION TO PRIVATE MARKETS ALONGSIDE PUBLIC EQUITIES AND DGFS.





Source: See endnotes.

This average allocation to private markets throughout the glide path results in an increase to a DC member's monthly retirement income of more than 15%. Although there is a higher TER, notably the private markets glide path results in a higher net of fees return and lower volatility.

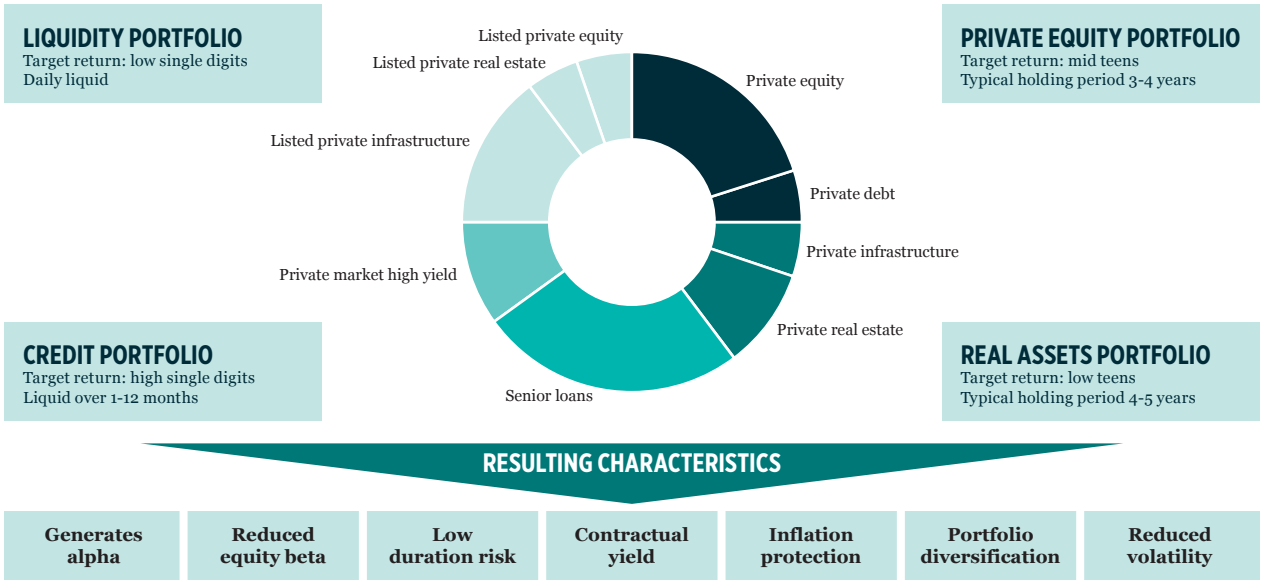
STATISTIC UP TO RETIREMENT		STANDARD GLIDEPATH	PRIVATE MARKET GLIDEPATH	PRIVATE MARKET ADVANTAGE
Monthly income at retirement in GBP		1,297	1,488	+15%
Return p.a.	Since first contribution	8.3%	8.8%	+6%
	last 20 years	5.1%	5.9%	+16%
Volatility p.a.	Since first contribution	11.1%	10.7%	-4%
	last 20 years	10.5%	9.9%	-6%
Estimated average TER (IO)		33bps	50bps	

Source: See endnotes.

Achieving better outcomes for DC members in their retirement is a distinct possibility with the inclusion of private markets investments. Especially during the accumulation phase of a member's glide path, there is greater capacity to adopt a long-term investment horizon that naturally aligns with the principles of patient capital investing.

5 WHAT AN ALLOCATION TO PRIVATE MARKETS COULD LOOK LIKE FOR DC SCHEMES

THERE ARE MANY OPTIONS FOR DC PENSION SCHEMES TO CONSIDER WHEN ASSESSING PRIVATE MARKETS FUNDS. THE BALANCE BETWEEN PRIVATE MARKETS CONTENT AND LIQUIDITY IS AN IMPORTANT FACTOR TO BEAR IN MIND, AS IS THE MIX OF ASSET CLASSES WITHIN, AIMING TO PROVIDE DIVERSIFICATION BENEFITS TO A WIDER PENSION SCHEME PORTFOLIO. THE BELOW CHART HIGHLIGHTS AN INDICATIVE PORTFOLIO OF HOW A PRIVATE MARKETS PROGRAM COULD LOOK FOR INVESTORS.



Source: See endnotes.

An allocation to both capital growth assets (e.g. private equity) and income generating assets (e.g. private infrastructure and private real estate) provides differing sources of return potential, taking advantage of the "illiquidity premium" and elements of recurring yield. A complementary allocation to more liquid investments such as credit and listed investments provides a certain level of liquidity to enable DC schemes to better manage investor flows.

It is important for investors to assess the underlying liquidity of such a fund as managers may include gating restrictions or redemption penalties to deal with significant investor outflows. This would be in the interest of investors, as selling private markets assets with short notice is likely to be at a steep discount. The listed investments in such a fund act as a liquidity reserve to manage a certain level of potential redemptions.

Ultimately, an investment in private markets is one to be taken with a multi-year holding period in mind, in line with the broader principles of patient capital investing.

6 ESG CONSIDERATIONS WITHIN PRIVATE MARKETS INVESTMENTS

SINCE THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (UN PRI) WERE LAUNCHED AT THE NYSE IN 2006, THE ACTIVE CONSIDERATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS IN INVESTMENT MANAGEMENT HAS BECOME INCREASINGLY MAINSTREAM.

For UK investors, these factors are becoming of growing importance and interest to investors, particularly now that pension schemes will be required to state their policy on taking account of ESG factors by October 2019 as well as for DC schemes required to abide by the new implementation report requirements due by October 2020.

TIME HORIZONS

Private markets investments can be made by pension schemes while simultaneously considering ESG factors. As private markets investments have a longer investment holding period versus public markets, this allows for greater potential for long-term positive changes in such private markets assets. Given the average public equity holding period fell from two months in 2008 to 20 seconds in 2018,[3] the scope to exert influence on public markets assets over the long-term, either from an ESG perspective or otherwise is arguably limited for investors. Conversely, the typical private market assets hold period is 4-7 years, meaning that there is a substantially greater potential to effect positive change over a sustained period.

In particular, the shorter investment horizons of many public equity investors may mean that they lack motivation for sustained engagement with a company on a particular point, especially as ESG issues generally have limited (positive or negative) impact on short-term earnings outside of a major ESG-related controversy. Additionally, public equity investors lack real tools for engagement with companies beside proxy votes – in fact, their most powerful weapon is either not to invest at all, or to divest.

CONTROLLING STAKES

In contrast with public markets, an important element of private markets investing is that managers typically have controlling stakes (i.e. 50% or greater of the equity holding) affording them the means to change that business, be that the markets it operates in, the products they sell or how they approach and implement ESG factors. For an institutional investor who may have GBP 10 million invested in Vodafone shares, with Vodafone's market cap of ~GBP 40 billion, the investor's 0.03% equity stake has a relatively limited impact when it comes to an AGM vote and ultimately changing the business or its practices. However, for private markets businesses, that controlling equity stake means a private markets manager can bring about changes that are more substantial.

FOR PRIVATE MARKETS BUSINESSES, A CONTROLLING EQUITY STAKE MEANS A PRIVATE MARKETS MANAGER CAN BRING ABOUT CHANGES THAT ARE SUBSTANTIAL

Given private equity's mandate to create value over a long time horizon, much of the common-sense ethos of responsible investing was already consistent with best practice in the private equity approach. As material ESG measures are highly connected to both revenue and costs in the long run, poor performance on a critical environmental, social or governance issue over a period of 4-7 years can only be detrimental to a company's financial performance – and

3 Megan Green, 'Passive investing is storing up trouble', *Financial Times*, 2 August 2018 https://www.ft.com/content/cdbdd01a-95b4-11e8-95f8-8640db9060a7

therefore to the outcome for the private equity firm and its investors. On the other hand, having a strong ESG framework can lead to a higher multiple on exit (returns), as ESG measures are increasingly becoming core to the optimal operational structure of a portfolio company.

AS A RESULT, FORMALISED ACTION ON ESG TOPICS HAS BECOME INCREASINGLY WIDESPREAD IN PRIVATE MARKETS

As a result, formalised action on ESG topics has become increasingly widespread in private markets. A recent PWC report found that 88% of private equity firms now formally monitor the ESG activities of their investments[4].

In summary, pension schemes should be asking their managers how ESG factors are considered within the full range of their investments. For those investors who have, or are considering, private markets investments they should take comfort that a more hands-on approach can be taken by private markets managers who have such controlling equity stakes. ESG remains an important facet of private markets and is likely to remain so for the future.

4 Global PE Responsible investment Survey, PwC, 2013https://www.pwc.com/gx/en/services/sustainability/publications/putting-a-price-on-esg-value.html

7
PRIVATE MARKETS INVESTMENT CASE STUDY

PATIENT CAPITAL INVESTMENTS CAN TAKE MANY FORMS AND STRETCH ACROSS SECTOR, GEOGRAPHY, ASSET CLASS AND INVESTMENT INSTRUMENT. TO HELP BRING TO LIFE THE CHARACTERISTICS OF PATIENT CAPITAL INVESTING, THE FOLLOWING PROVIDES A CASE STUDY ON VAT, A PRIVATE EQUITY INVESTMENT MADE IN A SWISS-BASED VACUUM VALVES COMPANY.

VAT

PASSION. PRECISION. PURITY.

Past performance is not indicative of future results. For illustrative purposes only. There is no assurance that similar investments will be made. Value creation initiatives are targets. Actual performance may vary. Source: Partners Group; Company information.

By way of background, VAT is a global market leader in high-end vacuum valves, a critical component in complex manufacturing processes. VAT's products and services are mainly used in semiconductor, display and solar panel manufacturing as well as in a wide range of industry and research applications.

For private equity investments, the usual holding period is 4-7 years. During this timeframe, private equity managers will seek to improve the business through various value creation initiatives. For VAT some of the value creation projects that were undertaken include:

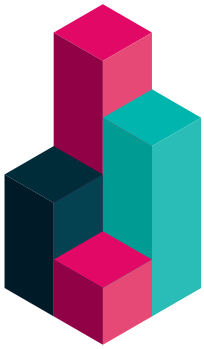
- Capturing niche demands: dedicated engineering, customer application and sales teams to provide more complex solutions
- Lean manufacturing initiatives: lean manufacturing initiatives seeking to achieve production time savings of 30-50% across all processes
- Institutionalisation of management: helping VAT evolve from a family-owned business into an institutionalised global player
- Margin improvement: value creation initiatives aim to increase EBITDA margins

8 CONCLUSION

IN SUMMARY, PRIVATE MARKETS INVESTMENTS CLOSELY ALIGN WITH THE PRINCIPLE OF PATIENT CAPITAL INVESTING. BY ADOPTING A LONGER-TERM MIND-SET TO INVESTING, BY DISREGARDING SHORT-TERM EARNINGS VOLATILITY IN FAVOUR OF LONG-TERM VALUE CREATION AND POTENTIAL FOR GREATER RETURNS, DC INVESTORS ARE WELL PLACED TO TAKE ADVANTAGE OF WHAT PRIVATE MARKETS HAS TO OFFER.

That said, not all patient capital investments are equal, nor are all private markets investment managers. There remains a range of questions that investors should consider before investing in any private markets investment manager:

PRIVATE MARKETS INVESTMENTS CLOSELY ALIGN WITH THE PRINCIPLE OF PATIENT CAPITAL INVESTING



9 QUESTIONS TO ASK MANAGERS

Are investors getting "true" exposure to private markets, and not simply a fund comprising solely listed stocks as a proxy exposure (e.g. listed infrastructure)?

Allocation of investments to a manager's DC program, are these their "flagship" deals that their DB investors are getting exposure to?

What due diligence is undertaken and what size of investment team is needed to complete this due diligence (e.g. the increased difficulty in private markets for sourcing, time needed, monitoring, resourcing). How are investment decisions made, e.g. through investment committees?

What capabilities do managers have with publishing daily prices to be suitable for platforms and DC-eligible?

If the fund is structured to allow for DC schemes to invest, e.g. on platforms, considering the charge cap, experience in publishing daily prices for private markets assets?

How deals are sourced (i.e. not just syndicated deals). Do the managers have significant deal flow to construct a portfolio of private markets assets diversified by asset class, instrument and vintage year?

As investment in illiquids becomes increasingly popular, schemes must make sure they choose a fund with a manager that they trust not only in terms of their private markets expertise but also their approach to liquidity management. How do managers prepare for the scenario of significant redemptions (e.g. through gating)?

10 GLOSSARY

PRIVATE MARKETS	Encompasses asset classes such as private equity, private debt, private infrastructure and private real estate. Investments that are not traded on a stock exchange and are held privately
VALUE CREATION	The absolute monetary gain or loss created, net of all costs and fees. Value creation is calculated as net asset value + distributions - contributions
INVESTMENT RETURN	A percentage based performance indicator, also called IRR, which measures the amount of money an investment makes as a percentage of the total amount invested
DUE DILIGENCE	the analysis and research performed by investment professionals on potential investment opportunities
YIELD	The income component from an investment, akin to a dividend
ESG	Environmental, social and governance, factors that can be considered when investing in addition to financial returns
ILLIQUIDITY	an asset which is not easily traded, and typically requires long holding periods
SINGLE ASSETS	Where an investment is made into an individual company, project or asset, typically directly, e.g. a private equity business, infrastructure project or a real estate building
FUND OF FUNDS (FOF)	Also referred to as a multi-manager investment – is an investment strategy in which a fund invests in other types of funds (rather than investing directly in individual assets)
COMMINGLED FUNDS	A commingled (or 'pooled') fund is a fund consisting of capital from several investors that are combined together
GATING	The ability for managers to introduce investor protections to restrict the outflows from a fund to prevent scenarios where investor redemptions may outweigh the ability for a manager to sell assets

ENDNOTES

Page 8: For illustrative purposes only. Past performance is not indicative of future results. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Partners Group (2019); data as of December 2018; returns shown net of fees and hedged back to GBP. 1) TER excludes platform and administration fees should any apply in specific default fund solutions. The 'traditional' and 'modern' default' asset allocations are based on assumptions made from 'Default Fund Design and Governance in DC Pensions' (NAPF,2013); 'Spence Johnson DC Monitor Research' (Spence Johnson, 2015). Chart and table: the following assumptions have been used: 1) PG Generations Fund: private markets monthly returns based on all private market investments made by The Partners Fund from January 2003 – 29 April 2016 and the actual performance of Partners Group Generations Fund from 29 April 2016 until 31 December 2018, measured by value creation (in local currency) according to modified Dietz method; gross of all Partners Group fees. Breakdown of private markets investments in The Partners Fund - Senior loans: monthly total returns from Partners Group Track record (in local currency, monthly data). Listed private markets: listed private equity and listed infrastructure track records +1.15% p.a. (before inception Dow Jones Brookfield Global Infrastructure); for listed Real Estate the FTSE/NAREIT Global Index (before inception in 2005 the FTSE /NAREIT US Index) has been used. ILS: monthly returns from Red Vega Cell +0.9% p.a. (in USD, weekly data) (before inception: Swiss Re Cat Bond Total Return Index). A TER of 1.95% p.a. has been assumed in order to approximate estimated costs. 2) Traditional default: equity returns based on the MSCI World index and bond returns based on the Citi WGBI index from Bloomberg 3) Typical diversified growth fund: allocation includes 40% equities, 20% bonds, 10% high yield debt, 5% listed infrastructure, 5% listed real estate, 3% convertible bonds, 7% hedge funds, 2% commodities, 3% catastrophe bonds, 5% cash; monthly returns based on widely accepted benchmarks available upon request. The calculation for the total portfolio returns for each default option the monthly segment returns have been weighted according to the target allocation. The returns shown are net of fees. Portfolio and benchmark returns have been adjusted for a 100% hedge of return streams back to GBP by adding the monthly GBP/USD interest rate differential for better comparison) (a lower hedging ratio is envisaged for the program). 4) Volatility is measured by the standard deviation of returns and is shown on a per annum basis 5) Time value of money is defined as the future value of the principle amount (£100) at a future point in time (10 years, ceteris paribus) 6) The TER's have been calculated using what Partners Group considers to be common fund allocations in a DC default fund – Legal & General (PMC) World (Ex-UK) Equity Index Fund TER of 0.10% has been used for 'Passive Equities'; Schroders Investment Management Schroder Life Diversified Growth Fund with a TER of 0.85% has been used as a proxy for 'DGF (beta orientated)'; L&G Euro Corporate Bond Fund with a TER of 0.10% has been used as a proxy for 'Corporate Global Bonds' 7) 'Enhanced DC Default' and 'Enhanced – Plus DC Default' are terms which are used by Partners Group for branding purposes 8) The 'charge cap' refers to the guidance issued on 6 April 2015 for occupational pension schemes which states a default arrangement should not exceed 0.75% of funds under management.

Page 9: Partners Group, H1 2019. 1) Figure relates to a fully ramped-up portfolio. For illustrative purposes only.

Page 10: Partners Group illustration, January 2019. Past performance is not indicative of future returns. The private market allocation for the enhanced glide path develops as follows: Accumulation (aged 25-50): 20%; Transition (aged 50-65): 20% gradually reduced to 5%; Distribution (aged 65+): 5% reduced to 0% over 15 years. Average allocation to private markets is 13% throughout the glide path. For illustrative purposes only. There is no assurance that similar investment allocations will be made. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested.

Page 11: For illustrative purposes only. There is no assurance targets will be achieved. Assumptions used: Contribution start date: 12/1975 Total pension contribution (employer + employee): 12% of the salary on a quarterly basis / Retirement age: 65 years in December 2015 / Life expectancy: 80 years.

1) After September 2016, expected returns based on Partners Group Expected Return Framework have been applied. Income at retirement is calculated using historical returns based on respective asset class benchmarks from 12/1975 until 09/2016 (as described in footnote 2).

2) Public equity performance is measured by the MSCI World Equity Index (NDDLWI Index) and MSCI Emerging Markets Index (MXEF Index). Investment grade bonds are measured by the Citi World Government Bond Index (SBWGL Index) (inception 03.31.1985, for the period before that 10-year Treasury Bills returns are used) and the Citi Broad Investment Grade Index (SBBIG Index) (inception March 1980, for the period before that 10-year Treasury Bills + 2.6% spread p.a.. are used). Private equity performance (buyout) is based on Cambridge Associates data (inception June 1986, for the period before that MSCI World Equity + 3% p.a. is used). Private real estate performance is measured by Cambridge Associates data (inception June 1986, for the period before that the FTSE EPRA/NAREIT United States Index is used). Private infrastructure returns are measured using Cambridge Associates data (inception March 1995, for the period before that private equity returns minus 2% p.a. are used). Allocation: the equity allocation is 90% MSCI World Equity Index and 10% MSCI Emerging Markets Index. Private market allocation is 60% private equity, 15% private real estate, 15% private infrastructure and 10% private debt. Fixed income allocation is 70% Citi World Government Bond Index and 30% Citi Broad Investment Grade index. The Diversified Growth Fund allocation is 30% MSCI World Equity Index, 10% MSCI Emerging Equity Index, 5% Citi Broad Investment Grade index, 10% high Yield (ML) index, 5% EmMa Bonds index, 5% Listed US RE index, 5% Bloomberg Commodity index, 7.5% HFRI fund of funds, 15% cash., a fee of 75bps for the DGF management has been considered. Further details on the back test methodology can be provided upon request. Hypothetical or simulated performance results have certain limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Past performance is not a reliable indicator of future performance. Returns from investments are subject to currency fluctuations, and may increase or decrease as a result. Returns have been converted from USD to GBP. All data are based on quarterly returns and portfolio performances are calculated using a quarterly rebalancing methodology. Projected returns are based on Partners Group Expected Return Framework from 09/2016 until 12/2030. The pensioner salary from 12/1975 to 12/2015 is based on the average nominal earnings from the Office for National Statistics. Fee of the DC plan has been estimated at 0.75% p.a.

3) Based on the private market allocation from the age of 25 years to 80 years.

Page 12: Partners Group (H1 2019). Target returns are based on various Partners Group estimates. There is no guarantee that targeted returns will be realized or achieved or that an investment program will be successful. There is no assurance that target returns will be achieved. Net of underlying fees and gross Partners Group fees. The fund will hold certain asset types indirectly and will invest in funds and vehicles managed by affiliates of the ACD in order to gain exposure to such asset types. Past performance is not indicative of future results. For illustrative purposes only. There is no assurance that similar investments will be made.

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