

March 2020

# Partners Group

## Market profile

Country	Switzerland
Sector	Private Equity
Market cap (CHF million)	23'453
52-week high / low (CHF)	960 / 694
Price per share (CHF)	864

## Key metrics (CHF)

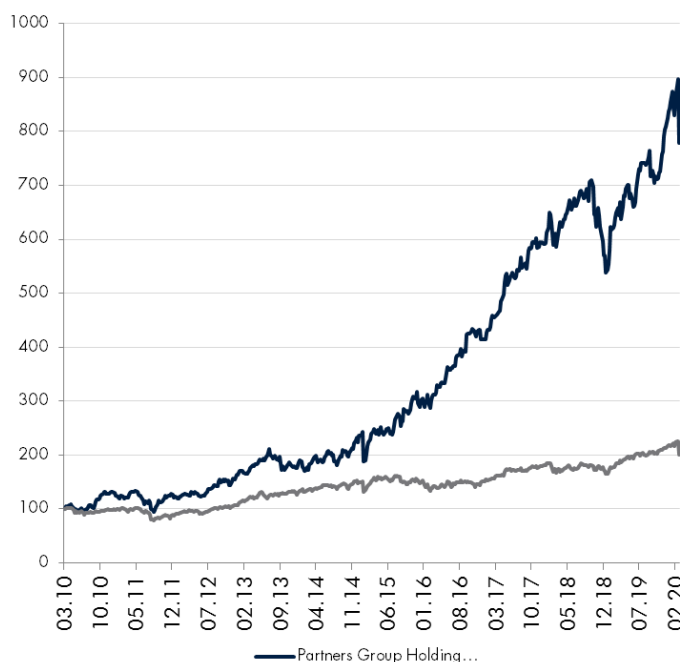
	2018	2019e	2020e
EPS	28.65	30.98	34.09
PE	30.68	28.38	25.78
EV/EBITDA	26.98	25.50	23.17
Dividend yield	3.20%	2.90%	3.00%

## Executive summary

Partners Group is one of the largest private markets investment managers in the world. Founded in 1996, the company now employs over 1300 professionals on four continents and has approximately CH 90 billion of asset under management (AuM). The group's investment approach encompasses private equity, private real estate, private debt and private infrastructure investments and focuses on investing in quality assets with growth and development potential. Partners Group has an international client base of over 850 institutions around the world. In 2018, 46% of clients were located in continental Europe, 23% in the UK, 17% in the Americas, 9% in Asia and the Middle East, and 5% in Australia. The main types of clients are public, corporate and other pension funds, representing 52% of the AuM. These investors typically seek to further enhance the risk/return profile of their portfolios by increasing their private markets exposure.

Evolution of stock price with respect to benchmark (rebased)

Source: IAM



We consider Partners Group as an attractive long term investment for the following reasons: The company is one of the leading alternative asset managers with approximately CHF 90 billion in asset under management. Partners Group's revenues consist of management fees (70-80% of revenues) and performance fees. Management fees are generally paid on committed funds, which have an average duration of 10-12 years. This gives an excellent visibility on future revenues. Partners Group is directly levered to growth in private markets, which are expected to see a strong growth over the next few years as sovereign wealth funds, retirement institutions and high net worth individuals are attracted by the higher returns provided by private markets. The company should be able to gain market shares through the implementation of its investment philosophy: Targeting sub-segments of the private market universe that are growing faster, such as private debts or private infrastructures.

# Partners Group

Olivier Aeschlimann, Senior Financial Analyst

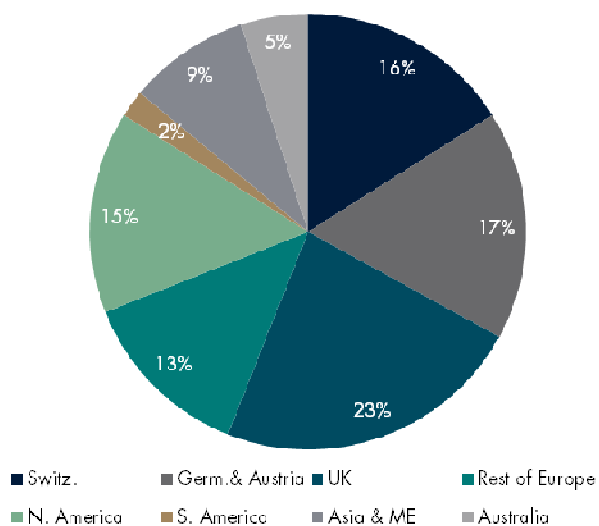
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## Company description

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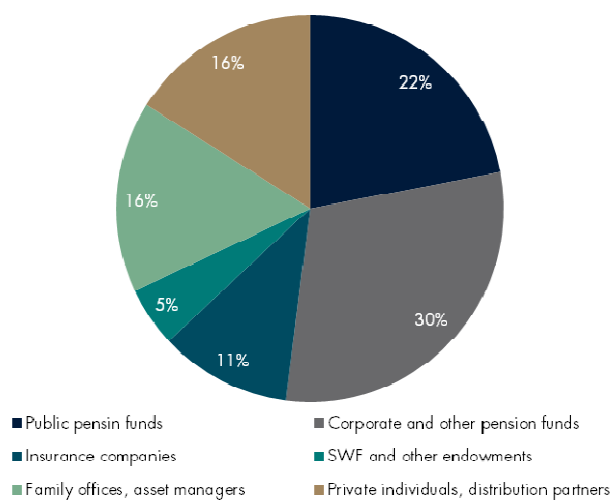
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Fig. 1: AuM by region  
Source: Partners Group



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Fig. 2: AuM by type of client  
Source: Partners Group



vestors seek to enhance the risk/return profile of their portfolios by increasing their private markets exposure.

Partners Group invest in four key asset classes: private equity represents nearly half of the AuM (49%) while Private debt accounts for 21%, Private real estate 17% and private infrastructure 13%

### **Key asset class: Private equity**

Private equity is an alternative asset class which consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies. Partners Group's private equity investment approach is based on a relative value analysis that looks at global sectors, industries and regions from a top-down perspective and identifies opportunities for investment in specific markets. Partners Group has specialized in the following sectors: healthcare, consumer, media & telecom, information technology, industrials, infrastructure/energy & utilities, financial services and real estate. The group's investment strategy is focused around three key themes:

*Platform companies.* The companies acquired have a strong management team and infrastructure in a fragmented market. From this platform, other assets or companies are purchased to create synergies and consolidate the market.

*Niche winners.* The strategy consists of acquiring companies in sub-segments of specific industries benefiting from particularly strong products or services and demonstrating an ability to grow disproportionately, often through internationalization. The goal is to institutionalize the business and extend the product or service offering.

*Franchise companies.* They are typically single assets with value creation potential and strong defensive capabilities, high cash flow generation and the ability to quickly de-leverage.

### **Key asset class: Private real estate**

The company invests in real estate through a relative value approach that looks at global sectors and regions from a top down perspective. The investment strategy is focused around three key themes:

*Select growth cities.* The target assets are located in cities supported by employment growth in the technology and education sectors.

*Source off-market.* The assets are sourced off-market through Partners Group's extensive industry network to avoid highly competitive auction process.

*Drive value creation.* Partners Group looks for assets that can provide the opportunity to actively drive the growth of the net operating income through asset-level value creation.

### **Key asset class: Private infrastructure**

Partners Group invests in essential infrastructure through dedicated teams around the world and focus on value creation opportunities. The company has specialized and built significant expertise in the following sectors globally: transportation, communication, conventional power, renewable power, energy infrastructure, water, social infrastructure and waste management. On global private infrastructure, the investment strategy is focused around three key themes:

*Capitalize on platform expansion opportunities.* Partners Group looks for investments that offer the opportunity to build scale through investing in fragmented markets that have the potential for consolidation and platform building

*Proactively build core.* The Group looks for opportunities where strong long-term fundamentals in a particular market support the demand for building a select type of infrastructure, for example due to evolving infrastructure needs or changing market fundamentals.

*Focus on operational value creation.* The focus is on investment opportunities that offer the potential to enhance operational value through growth and efficiency improvements. A key source of these opportunities is the ongoing trend for corporate owners of infrastructure to sell assets as part of a restructuring.

## Key asset class: Private debt

The company provides tailored financing solutions for many private businesses seeking non-bank funding due to their limitations in entering capital markets. Capital is provided across the whole debt structure, ranging from senior loans to mezzanine financing solutions. The investment strategy is focused around three key themes:

*Offer tailor-made structures:* Flexible tailor-made capital structures are offered, that support companies' specific cash flow profiles and working capital needs.

*Target attractive sub-sectors.* Capital is provided to sub-sectors within industries where there is above-average resilience and where Partners Group has the depth of experience and high confidence in the underlying growth fundamentals.

*Support cross-border financing.* The company supports successful sponsors in executing on cross-border investment opportunities, providing local support across regions.

## Investment approach

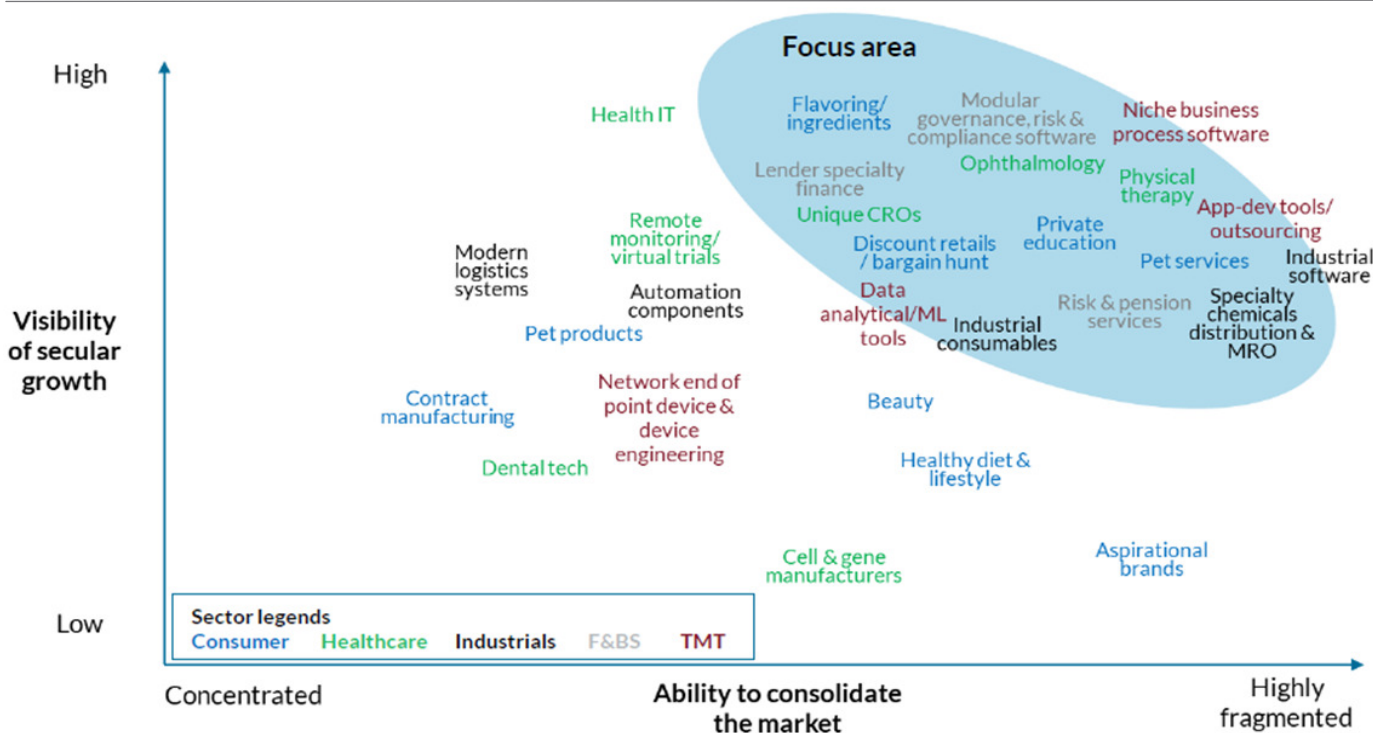
The investment approach consists of three steps: relative value investing, value creation and portfolio management.

### Relative value investing

Partners Group implements a dual approach combining both-top down and bottom-up. To benchmark the global investment opportunity set, the company identifies those areas of private markets with the greatest investment potential in the prevailing market environment and defines sectors, regions and strategies likely to offer higher value relative to other segments. This top-down view is then combined with the bottom-up analysis to identify and develop the most promising investments within local markets through large local teams and extensive network of entrepreneurs, industry experts and private market managers.

Fig3.: Thematic Sourcing Approach

Source: Partners Group

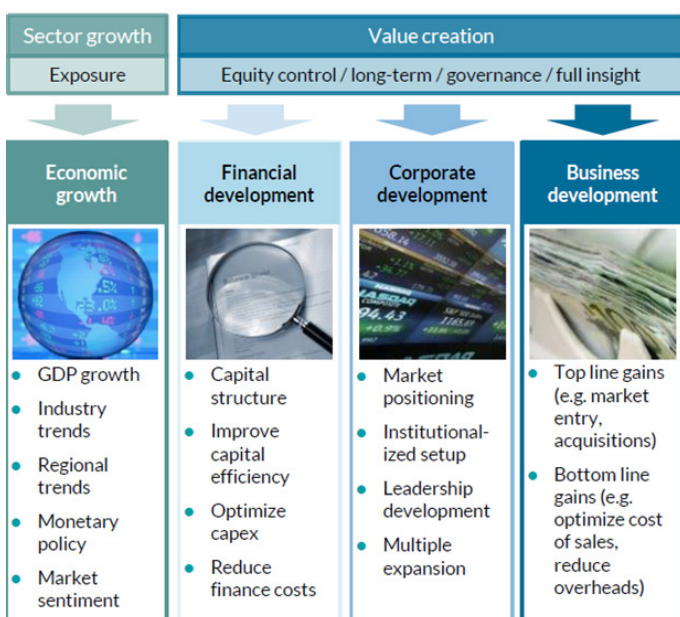


## Value creation

The goal is to realize the full development potential of the companies, real estate and infrastructure Partners Group has invested in on behalf of its clients. Partners Group operates one of the biggest Industry Value Creation (IVC) teams globally. Operational value creation typically focuses on achieving certain strategic objectives such as expansion through an organic or acquisition-based growth strategy, improving operational effectiveness through a number of focused operational projects or through capital management.

Fig.4: Value creation approach

Source: Partners Group



## Portfolio management

Partners Group's Portfolio & Risk Management team is responsible for constructing and adjusting the private markets portfolio so that they meet the required risk and return objectives of their clients. This implies the following steps:

**Portfolio strategy:** This step consists in choosing the right mix of private asset classes, and to provide diversification, while at the same time maintain the optimal level of private market exposure.

**Portfolio implementation:** clients' commitments are gradually invested based on a predefined implementation plan in accordance to time horizons.

**Portfolio servicing:** This includes portfolio planning, treasury management, customized reporting, regular valuation procedures, accounting that accommodates local requirements, and complete administrative services.

**Liquidity management:** Liquidity is managed across various structures such as limited partnerships, separate accounts as well as semi-liquid and open-ended funds.

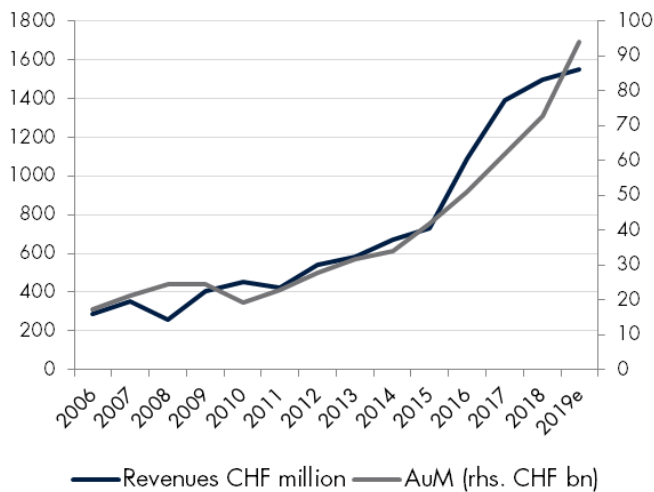
**Risk management:** a rigorous quantitative and qualitative risk management process is implemented, which can be integrated into the clients' own risk management systems.

## Financial analysis

### Revenues

Partners Group's revenues consist of management fees (70-80% of revenues) and performance fees. Management fees are generally paid on committed funds, which have an average duration of 10–12 years. This gives an excellent visibility on future revenues. Performance fees are allocated according to the European waterfall system, hence they are generally paid out 6 to 9 years after the investment. Management fees are highly correlated with asset under management and have enjoyed a stable growth over the last decade. Performance fees accelerated meaningfully from 2016 as some exits took longer than planned. Management expects a contribution of 20 to 30% of total revenue in the short term. However, the recent growth will be tough to match, especially in a more volatile macro backdrop.

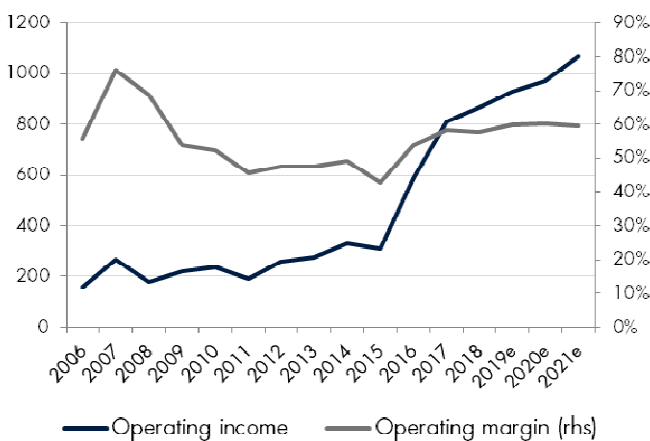
Fig5.: Evolution of revenues  
Source: Partners Group



### High and stable margins

Partners Group operates a highly efficient cost model. The company has a best in class efficiency with a cost/income ratio of approximately 35.5% which translates into an operating margin target of 60%. However, to sustain growth, the company will have to hire more skilled and expansive people. This should put some pressure on the margins, at least in the short term.

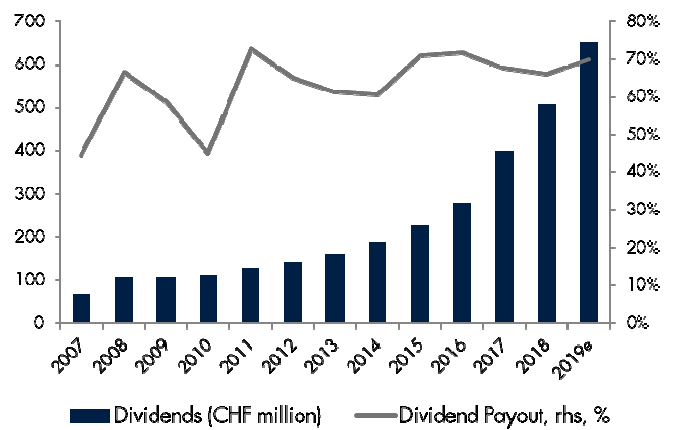
Fig.6: Operating income and margins  
Source: Partners Group



### Capital distribution

Partners Group has consistently grown its dividend distribution over time. The firm is focused on increasing the absolute amount of dividends in line with its growth in recurring earnings, regardless of the volatility of performance fees. The dividend payout ratio could increase and may reach 80% by 2023.

Fig.7: Dividends and dividend payouts  
Source: Partners Group



### Global private markets

The global private market is estimated to be around USD 9 trillions as of 2018. This includes USD 3.2 tn of private equity, USD 0.8 tn of private debt, USD 0.9 tn of real estate and 0.6 tn of infrastructure, in addition to hedge funds and natural resources. It is estimated that Partners Group has a share of approximately 15% of the overall market. The global private market is expected to grow at about 8% per year through 2023 and Partners Group is well positioned to gain incremental share of the growing pie.

Alternative markets have enjoyed significant growth in asset under management over the past few years, driven by higher returns with respect to public markets. In particular, private equity has generated a 13% internal rate of return from 2006 to 2018 whereas the S&P500 has posted 5.1% annual growth over the same period. These figures have coincided with a surge in investors in the



space, from about 3'500 in 2008 to more than 11'000 in 2018.

The stronger performance of private equity markets is partly driven by active management that characterizes private market investments, lower costs of running private companies as well as by the differences in holding periods and liquidity of the two markets. Private markets remains one of the most attractive segments within the asset management industry and this market could reach USD 14 tn asset under management by 2023 with private equity expected to realize the lion's share of growth in absolute terms and private debt markets expected to grow at the fastest pace in percent terms. Geographically, fund managers should source relatively more capital from Asia Pacific (a 60% increase). This compares to an expected increase of 34%-38% in the level of capital sources from North America Europe and emerging markets.

### Competitive position and growth potential

Since its foundation in 1996, Partners Group has seen consistent growth in asset under management. The company has experienced a higher average organic growth than its peers. Its market share is estimated at approxi-

mately 15%. Taking into account the company's past track record as well as the additional pools of demand it could tap over the coming years, we expect to see a slight increase in market share to 18% by 2023.

Many factors should allow Partners Group to growth above market levels in next few years:

#### Expansion into Asia and the US

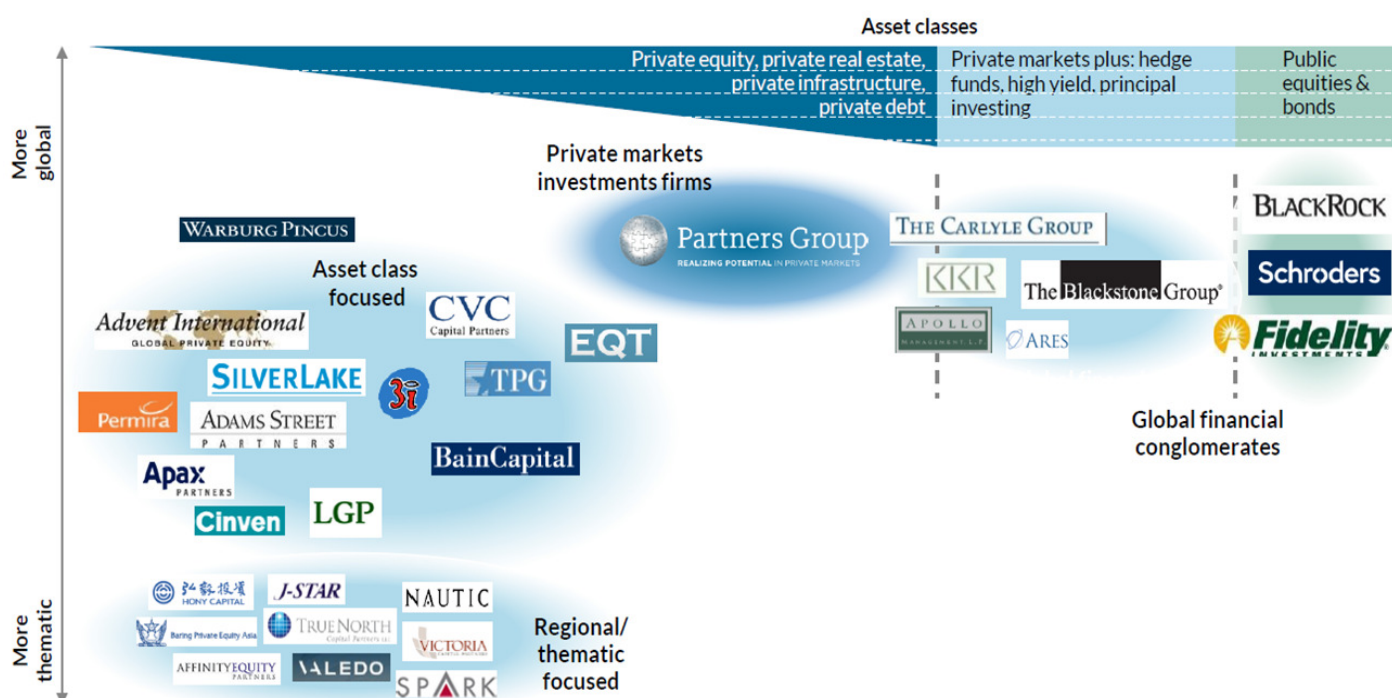
Partners Group global footprint places the company in a favorable position to tap different pools of demand. While the European client base is solid and continues to growth, Partners Group is also focusing on expanding in the US, Asia and Latin America, where the allocation to alternative investments is growing rapidly.

#### Expansion in Sovereign Wealth Funds, pension funds and the retail investor base

Sovereign Wealth Funds have an increasing appetite for alternative markets. These asset owners are specifically looking for co-investments or partnerships to gain exposure to private markets. Partners Group launched some innovative fund structures for the UK, US, and Australian Defined Contribution pension schemes, which would otherwise be restricted from investing in private markets ow-

Fig.8: Partners Group market positioning

Source: Partners Group



ing to regulatory reasons. The funds offer daily liquidity, daily valuations and lower costs than traditional private equity funds. Funds structure similar to the ones launched for pension funds are being offered to individual investors (high net worth). They are expected to be the fourth-largest contributor to private equity across the globe. Finally, insurance companies continue to grow their exposure to private markets too.

#### Debt market growth potential

Partners Group invests in two categories of the private debt market, namely direct lending (in senior and subordinated loans) and liquid loans. Its current portfolio exposure is approximately 80% towards direct loans and 20% towards liquid loans. The company's debt products have seen faster growth versus the rest of the portfolio. The debt market should continue to grow as investors look for higher yields and stable returns.

#### Outlook 2020 for private markets

Global markets are characterized by high valuations, low yields, low growth and geopolitical uncertainties. This configuration makes the market very competitive in the private equity segment. Assets considered as stable and non-cyclical are trading at record multiples. At the opposite side of the spectrum there are an increasing number of failed auctions for lower quality assets, or assets that are perceived as having exposure to cyclical or disruption risk. Within this context, Partners Group has devised an "offense is the best defense" investment philosophy. The aim is to identify transformative trends generating higher growth rates across specific sub-sectors of the private markets. Within these subsectors, Partners Group looks for companies that will enable the group to actively build out cash flows and to develop valuation resilience at the asset level through value creation and strong entrepreneurial governance.

#### Investment case

We consider Partners Group as an attractive long term investment for the following reasons:

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#### ESG engagement

In addition to traditional financial analysis, Partners Group integrates ESG (environmental, social and governance) considerations throughout the entire investment process. The company has established a rigorous framework from the sourcing to the exit of any private investment projects.

#### Sourcing

The investment project has to be aligned with identified ESG trends. This also help to avoid investing in illegal or harmful products or services. ESG can this be considered as a very effective risk control tool





## Due diligence

An ESG assessment is completed to identify and mitigate material ESG risk. The goal is to ensure an upfront alignment and buy-in from management.

## Holding








Implement priority ESG projects and monitor the ESG performance through annual ESG key performance indicators and project reporting progress.

## Exit

Highlight the ESG projects impact in seller materials through case studies. Identify and meet ESG related market requirements (i.e. IPO sustainability standards).

Fig.9: Exemples of ESG achievements

Source: Partners Group

	Category	2018 Impact Achieved <sup>2</sup>	Equivalent to
Environmental	Energy consumption reduced	203M kwh	 48'500'808 liters of gasoline consumed
	Fuel consumption reduced	2.6M liters	 1'146 passenger vehicles driven for one year
	Waste recycled	5'481 tons	 Waste produced by 11'491 European citizens in a year
	CO2 emissions avoided <sup>3</sup>	879'000 metric tons	 436'000 tons of coal burned
Economic	Jobs created	13'608	 7.6% job growth rate
Social	Pupils provided with education	255'000 pupils	 3x the size of Wembley Stadium
	Patients treated	17M	 2x population of NYC

## SWOT analysis

### Strengths

Strong business model with high visibility on future revenues and stable margins.

Unique standing in terms of asset classes and geographical diversification.

Commitment to ESG integration in the investment process.

As a market leader with strong market shares, Partners Group will benefit from the trend to concentrate allocations in the hands of a small number of large and globally active private market providers.

### Weaknesses

Still relatively small in the US.

### Opportunities

Geographical expansion in Asia and the USA

More investors are attracted by the higher returns of private markets.

Performance fees could surprise on the upside.

### Threats

Increased competition.

Fund raising could be worse than expected due to lower risk appetite in case of an economic downturn.