Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

Partners Group TCFD Report 2021

Introduction and report overview:

The health of the planet is a dominant global concern. The five most critical long-term threats to the world, as well as the most potentially damaging to people and the planet, are all environmental. "Climate action failure", "extreme weather", "biodiversity loss", as well as "livelihood crises" rank as the most severe risks[1]. Unless properly managed, these risks will have costly implications on communities, businesses and investors.

While addressing climate change will require action from governments and civil society, we believe that investors and investment managers are uniquely positioned to catalyze the transition to a low-carbon economy through systematic assessment and management of climate risks and opportunities.

As a responsible investor, Partners Group has been assessing and managing climate-related risks and opportunities in relation to the investments made on behalf of its clients for many years. To continue acting in the best interest of our clients and in line with our focus on generating long-term sustainable returns and positive impact for all our stakeholders, we have made the following commitments to further mitigate investment risks resulting from climate change:

Partners Group is committed to the Paris Agreement[2] as an organization[3] and we are working towards achieving net-zero emissions for our Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions by switching to renewable energy for our offices where available, implementing energy reduction measures and by using carbon offsetting as a last resort.

Partners Group is equally committed to managing its investment portfolio[4] towards the Paris Agreement objectives, as we recognize our investment activity can have a positive impact through our transformational investing strategy.

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[1] According to the World Economic Forum: https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf

[2] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement: reduce anthropogenic impacts to reach a target of limiting global warming to well below 2°C above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5°C,

[3] Partners Group's investment portfolio, which corresponds to "category 15: investments", is excluded at the level of the organization. See the section "Metrics and Targets" for additional explanation.

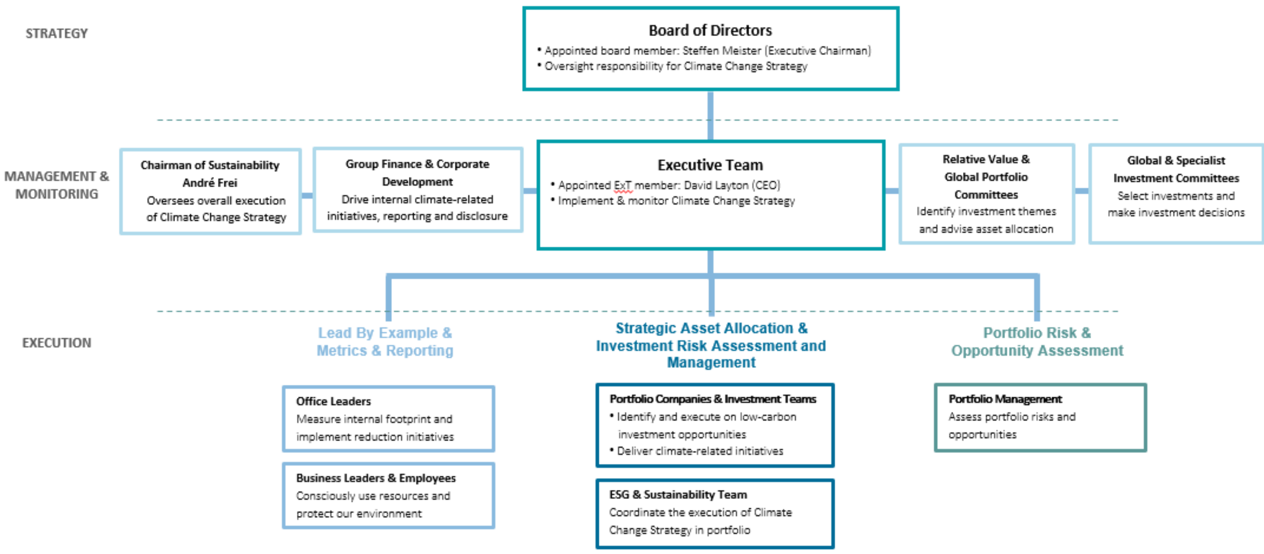
[4] For our controlled investments we have the governance and active ownership to lead assets on their path to net zero. For our non-controlled investments, climate change considerations can be addressed through the due diligence process and engagement with business partners.

Partners Group became a public supporter of the Task Force on Climate-related Financial Disclosures (TCFD) in 2020. With this report, we seek to transparently communicate our climate ambition to our clients and stakeholders as well as share our goals and milestones towards achieving a low carbon economy in line with the TCFD's recommended disclosures.

Governance

Climate Change is being acted on by the most significant governing bodies of our firm. To ensure proper oversight and implementation of our Climate Change Strategy, we have established clear governance structures and capacity building plans.

The below diagram summarizes the governance structure and key roles and responsibilities related to the implementation of the Strategy.



Governance (a): Board oversight

The Board of Directors is responsible for the Sustainability Strategy (including the Climate Change Strategy) of Partners Group as an organization and across its investment portfolio. Steffen Meister, Executive Chairman, will take over the responsibility for ESG at Board level from Grace del Rosario-Castaño, who will leave the Board on 25 May 2022.

Governance (b): Management's role

Within the Executive Team, Partners Group's CEO David Layton has assumed the responsibility for our ESG initiatives. We have linked ESG objectives to a part of the compensation of the Executive Team. Further details on our approach to compensation and benefits are available in the 2021 Compensation Report.

In 2021, André Frei, former Co-CEO of Partners Group, assumed the role of Chairman of Sustainability. In this role he drives the Sustainability Strategy and collaborates with the Executive Team and with the Head of ESG & Sustainability.

At investment portfolio level, the investment teams are responsible for the identification of climate-related risks/opportunities and the day-to-day management of climate risks during the investment due diligence phase, and for the ongoing climate risk management during the ownership period of our controlled portfolio companies. Where climate risks are identified, the investment team works with the board members and executives of controlled companies to mitigate them. The investment teams are advised and challenged by the ESG & Sustainability team. We have started to appoint three ESG responsibles at board, executive and operational level for companies where we hold a controlling stake to ensure proper implementation of ESG initiatives, including climate change related projects.

Strategy

Strategy (a): Climate-related risks and opportunities over the short, medium, and long-term

Climate change is a material topic across our portfolio, including from a business risk perspective. Climate-related physical risks, such as extreme weather events, and transition risks resulting from carbon-focused policy making and other regulatory developments, can affect the performance of our investments and our ability to deliver long-term sustainable returns to our clients. To better understand the climate resilience of our investment strategy, we plan to approach and assess the climate-related risks and opportunities in our portfolio in a more systematic manner to make informed risk management decisions.

Portfolio footprinting (direct portfolio):

We measure and report the carbon intensity of direct lead investments annually with our standardized GHG tool, which we use to create transparency at portfolio level. The GHG tool facilitates our assessment of the overall carbon risk and the identification of assets that could benefit from emissions reduction-related engagements. Carbon emissions are estimated based on the direct (Scope 1) and indirect (Scope 2) emissions of a company, and carbon intensity is measured by tCO_2e/sales. We use external service providers to calibrate our calculations where necessary, and we estimate Scope 3 emissions where appropriate.

As transformational investors, we aim to identify potential opportunities to actively and effectively reduce carbon emissions for our direct lead investments. For the development of such reduction strategies, we will prioritize direct private equity, infrastructure and real estate assets for the mid-term.

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Strategy (b): Impact on business, strategy, and financial planning

Our strategic asset allocation is in line with our broader investment strategy, which includes the thematic sourcing of opportunities: we identify assets that stand to benefit from transformative trends over the long term, and we actively seek to acquire and transform these assets during our holding period.

As part of this thematic sourcing, we have identified the global shift toward net-zero carbon as a key driver of our investment strategy for the coming years. Our asset allocation includes low-carbon investments and guides our investment teams to avoid certain carbon-related sectors to protect our clients from future carbon risks.

Next to our focus on renewable energy infrastructure, we plan to continue investing in select carbon-based assets that enable the transition towards a lower carbon economy. We regard specialized gas pipelines, treatment facilities and gas-powered plants as supportive of the transition into cleaner sources of energy in the near term, and as a bridge to accommodate more renewables.

Furthermore, we may consciously invest in certain carbon intensive assets where we identify significant value creation opportunities to reduce their carbon intensity through our ownership, leveraging our experience and making a positive contribution to the environment. Our ESG criteria will typically provide for stringent value creation requirements that can only be met with substantial carbon reductions.

Strategy (c): Resilient strategy and scenario analysis

Scenario Analysis:

We acknowledge the importance of scenario analysis as a forward-looking instrument to define risks and opportunities over different pathways. Given the complexity of various methodologies, the broad range of assumptions made, and the data availability to support assumptions during scenario analysis, we will start scenario analysis for our organization in a qualitative manner by first outlining the risks we believe are relevant at a macro-level across our portfolio.

As outlined by the TCFD, there are two main climate risks to consider when looking to identify risk in our portfolio: physical risk and transition risk.

Physical risk

Acute physical risks:

Extreme weather events like floods and fires could negatively impact revenues because of value chain repercussions (i.e. damage to production centers, supply chains, or commercial routes) or end markets. Increased severity and frequency of extreme weather events could also lead to increased capital costs (e.g., to repair damage to facilities) and increased insurance costs to hedge potential future damage.

Chronic physical risks:

Changes in weather patterns that lead to long-term drought and sea-level rise could also negatively impact revenues of business models with operations facilities in areas that are more subject to such risks (e.g., heat waves would decrease number of working hours per day for construction and thus delay development projects). Asset values in these areas could also decrease (e.g., real estate value decreases in coastal flooding areas such as Florida).

Next steps:

The next step in our physical risk assessment requires a mapping of our exposures by geography and cross referencing our exposures with potential hot spots for physical climate impacts. While such analyses were only implemented for select assets in the past, we plan to refine our approach to physical risks over the next three years.

Transition risk

Policy and regulation risks:

Implementation of a carbon tax, expanded renewable energy subsidies or restrictions on fossil fuel developments are potential risks that could affect our portfolio by creating higher operating costs for carbon intensive business models and creating higher reporting obligations and related costs (i.e. data collection) across all business models. By understanding the carbon intensity of different operations, we are able to see how directly or indirectly carbon prices might impact the portfolio under different scenarios until 2030 and beyond. More work will be performed in relation to potential carbon prices and taxes, which would impact the profitability of assets depending on their exposure and financial situation, their long-term carbon strategy and mitigation, and other factors. We will continue to look into these risks in the coming years, as we further increase the quality and coverage of our carbon data. As we move forward, our goal is to develop this analysis further to include additional asset classes and additional political and policy responses.

Technology risks:

New technologies that drive opportunities for improved energy efficiency, battery storage or cheaper renewable energy, represent not only an investment and value creation opportunity but also a risk. Emerging technologies could cause write-offs and early retirement of existing assets. Stranded assets and the associated decommissioning costs could have outsized impact on specific business models, in particular companies in the power sector and oil and gas sector. Furthermore, there could be significant cost, and thus a financial risk, to transition to lower emissions products and services. For example, power generator customers with a high share of fossil fuel generation could experience high capital expenditure requirements to decarbonize their mixes. As governments put in place policies and customers expect deployment of new technologies, these costs are something businesses will need to consider in order to remain competitive.

Market risks:

One of the largest risks across the portfolio is the shift of consumer preferences that results in reduced demand for certain goods and services. Such a shift in demand could lead to decreased revenues unless companies are able to adapt successfully to changing consumer preferences. Furthermore, large or unexpected swings in energy costs could cause outsized impact to companies that rely heavily on power generation (e.g., large infrastructure projects). Finally, market-wide repricing of assets could affect our portfolio companies balance sheets and liquidity risk levels (e.g., changes in value of fossil fuel reserves or land valuations could negatively impact a company's available cash or ability to pay back debt, etc.).

Reputational risks:

While it is not possible to provide an exact financial impact, Partners Group's share price could fluctuate or decrease for many reasons, including sustainability and climate change. Research shows that companies with strong ESG performance typically outperform, and that critical ESG-related accidents can impact the share price. This risk also applies in the case of insufficient climate action altogether, poor carbon emissions performance relative to peers, changing investor reputation etc. Non-alignment between our portfolio companies and the goals of the Paris Agreement could impact the reputation of such companies as well as Partners Group and may negatively affect financial ratings as well as ESG ratings. For companies that rely on financial ratings or ESG ratings, this could result in loss of business due to perceived or actual non-compliance. Additional scrutiny and activism from external stakeholders may damage perceptions, ultimately impacting our reputation.

Below we outline what some of these risks look like when we take a view specific to our asset classes.

Private Equity and Private Debt:

Given the broad diversification and exposure to industries and business models in our portfolio, there are a number of ways the above climate risks could affect our portfolio depending on geography, industry, and various other factors. Climate change risks include:

- Physical risks from supply chains (e.g., locations of offices and facilities, disruption to business travel, etc.)

- Transition risks from governments (e.g., environmental regulation, changes in legislative processes, etc.)
- Transition risks from customers (e.g., buying criteria, brand value, geographical differences, etc.)
- Transition risks from employees (e.g., employee activism, talent management and acquisition, etc.)
- Transition risks from partnerships (e.g., strategic alignment, technology standards, reputational risks, etc.)
- Transition risks from business partners (e.g., valuations impacted by carbon risk / exposure, ESG, etc.)

Private Infrastructure:

Extreme weather events could have an outsized impact on infrastructure services such as heating, lighting, water, mobility, and sanitation. For example, infrastructure assets could be at risk of flooding due to heavier rainfall and, when located in coastal regions, rising sea levels; higher temperatures could make railways, roads, telecommunication and electricity networks more vulnerable; storms and winds could disrupt overhead power and communication cables as well as transport networks; heavier rainfall could cause more rail embankment failures. Interdependencies of infrastructure assets could amplify the effects of climate change given that networks significantly rely on each other. Risks to assets and networks could ultimately lead to systemic risks like disruptions to supply chains and macroeconomic impacts.

Private Real Estate:

Real estate is subject to physical climate change risks. More extreme heat could stretch capacity of building air conditioners and increases utility costs; stronger and more frequent natural disasters including hurricanes could require higher resiliency of building materials and design (which could result in increased development costs); extended periods of droughts could restrict building water usage. Global warming could cause more frequent flood damage and thus create significant losses to real estate valuations. When sea levels continue to rise in coastal regions, this could result in severe damages to individual properties as well as on entire areas that might become unliveable. While insurance can be used to mitigate risks from extreme weather events, premiums in relation to climate related insurance must be expected to increase and could become a significant cost for companies who rely on them.

Next Steps:

We plan to refine our approach to transition risks over the next three years, both 'top down' at portfolio level and 'bottom up' at asset level. We plan to look at these risks both qualitatively and quantitatively, including scenario analyses. We note that data gathering will need to be intensified to increase coverage and robustness across asset classes. See also "Risk Management (b)".

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Risk Management

Risk Management (a): Processes for identifying and assessing risks

Climate change is assessed and managed alongside other ESG risks as part of Partners Group's overall investment and risk management framework, which is guided by our ESG & Sustainability Directive. We have developed specific tools and processes to integrate a range of climate change-related factors during the ESG due diligence and ownership phases of investments as shown in below illustration.

Climate change integration in the investment process

	Sourcing	Due diligence	Ownership
Direct investments (private equity, private real estate, private infrastructure)	Screening Framework: • Identify climate-related opportunities through thematic sourcing approach • Avoid certain identified carbon-related sectors such as thermal coal	ESG Due Diligence Tool: • Assess climate risk against pre-defined questions • For relevant lead investments, include climate risk analysis in third-party due diligence	Engagements and Monitoring: • Implement climate initiatives, including GHG emission reduction initiatives • Monitor performance via annual ESG KPI survey
Indirect investments (private debt, fund investments)	ESG Assessment: • For funds, assess the manager's strategy and capacity to address climate-related risks/opportunities • Review underlying assets against certain identified carbon-related sectors to be avoided	Documentation: • For funds, integrate climate-related considerations in our ESG side letter language • For debt, where feasible, include ESG margin ratchets to encourage work on climate topics	Monitoring • Screen exposure to carbon-intensive assets • Monitor performance using our enhanced monitoring procedure • Engage in case of material risks

Monitoring:

For all investment portfolios, we monitor underlying holdings on an ongoing basis through periodic company reports. In addition, there is an 'enhanced ESG monitoring' procedure to screen online sources for ESG-related news on our portfolio, including climate-related news. Our investment teams are responsible for addressing material risks identified, and clients are informed through existing reporting channels. For direct investments, we use our annual ESG KPI survey as a basis to measure and identify potential climate issues that should be acted upon by management. We plan to increase our data measurement and quality by further improving our

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ESG KPI survey and data collection process through the establishment of control frameworks and assurance processes.

Partners Group supports the following external climate-related initiatives:

- We have voluntarily participated in the CDP (formerly Carbon Disclosure Project) since 2008.
- We have been a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) since 2020.
- We have been a member of the initiative Climat International (iCI) since 2021.

Risk Management (b): Processes for managing risks

We act on risks and opportunities flagged during due diligence, if material for our portfolio companies, by identifying and initiating operational ESG projects, including projects that have a climate angle. Such projects may include conducting energy efficiency and fuel consumption reduction initiatives, conducting GHG emission assessments and setting reduction targets, assessing physical climate risks and setting climate change adaptation projects. We are refining our standard climate change approach for our direct lead investments to help our companies and management teams calculate their footprint and identify climate change-related risks and opportunities. This is also in line with how we address other material risks to our portfolio, such as health & safety, fraud risk or cybersecurity, while leveraging our experience across other assets.

Risk Management (c): Integration into overall risk management

As part of an ongoing effort to refine our ESG strategy, and the governance and control frameworks, we are embedding climate risks alongside other ESG risks within our Enterprise Risk Taxonomy ("ERT"). The ERT is a landscape and categorization of Partners Group's risks, where overarching risk themes are broken down into more specific risk categories and risk areas to facilitate risk management across all levels. The four overarching risk themes are finance risks, operational risks, regulatory, legal & conduct risks as well as investment risk (see below). Climate risks are covered within the investment risk. We follow a "two lines of defense" approach whereby the risk owners are the Investment Responsible (Line 1). The ESG & Sustainability Team acts as Line 2. The process of assessing and mitigating climate risks during the investment process is described in more detail under "Risk Management (a)". Our approach to risk management can also be found in our 2021 Corporate Sustainability Report.

Partners Group's risk governance structure

1 Specialists include Chief Technology Officer, Chief Information Security Officer etc.
2 Investment Specialists include Chief Investment Officer, Chairman Global Investment Committee etc.

Metrics & Targets

To continue acting in the best interests of our clients and in line with our focus on generating **long-term sustainable returns and positive impact for all our stakeholders**, we have made the following commitments to further mitigate investment risks resulting from climate change:

1. **Partners Group is committed to the Paris Agreement as an organization[5] and we are working towards achieving net-zero emissions for our Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions** by switching to renewable energy for our offices where available, implementing energy reduction measures and by using carbon offsetting as a last resort.

2. **Partners Group is equally committed to managing its investment portfolio[6] towards the Paris Agreement objectives.** Note that we distinguish between i) assets controlled by Partners Group in our private equity, infrastructure and real estate business, where we can be an active owner where we are the majority shareholder, and ii) non-controlled assets in private equity infrastructure and real estate, as well as investments in private debt, integrated investments and listed private markets, that are not controlled by Partners Group, thus only allowing for 'traditional ESG' through stewardship. It is crucial that we can comprehensively measure and assess our portfolio carbon footprint and that we develop meaningful and efficient GHG reduction programs.

[5] Partners Group's investment portfolio, which corresponds to "category 15: investments", is excluded at the level of the organization.

[6] For our controlled investments we have the governance and active ownership to lead assets on their path to net zero. For our non-controlled investments, climate change considerations can be addressed through the due diligence process and engagement with business partners.

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Portfolio GHG Footprinting:

We advanced in the footprint assessment of our Scope 1 and 2 emissions for our direct investments in the private equity and infrastructure asset classes, which follows the GHG Protocol. Next steps include validating our footprinting model and to broaden our approach to the overall investment portfolio.

Portfolio GHG Footprinting:

In 2021, we aimed to better understand the carbon footprint of our portfolio and to identify potential reduction opportunities for some of our direct lead investments. For the development of effective emissions reduction strategies, we have prioritized a few private equity and infrastructure assets, given our direct control and the larger potential impact of these relative to our other assets. More work is needed to understand reduction pathways, including identification of relevant scenarios, estimates for the business-driven growth of emissions, initiatives and technology-driven reduction of emissions, etc.

Next steps:

In 2022, Partners Group launched its Sustainability Strategy, which includes amongst others environmental portfolio-level targets. These targets include, for example, the GHG footprint measurement and assurance requirements for our controlled portfolio companies, as well as the development of GHG reduction strategies to lower carbon equivalents by 50%+ by 2035. The focus areas for 2022 and beyond will be to develop together with our portfolio companies an understanding of the necessary initiatives to lead them on their path to net zero and achieve these targets.