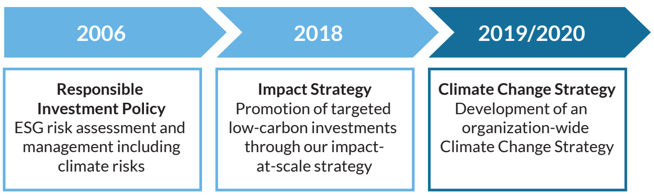
Special topic: climate change

Defining our strategy on climate change

The development of a platform-wide Climate Change Strategy was a highly relevant corporate sustainability milestone for Partners Group in 2019. This strategy defines Partners Group's approach to managing climate risks and impacts across our company and our portfolio.

Climate change has emerged as a global challenge following growing scientific consensus that the earth is warming, and that this process is likely driven by increasing greenhouse gas (GHG) concentrations. Extreme weather events, natural disasters, and unmanaged climate change are among the top five global risks, both in terms of likelihood and impact, according to the World Economic Forum. While addressing climate change requires action from governments, civil society and businesses, we believe that investors are uniquely positioned to catalyze the transition to a low-carbon economy through the systematic assessment and management of climate risks and opportunities. At Partners Group, we are committed to managing those risks for our company and our global portfolio of investments.

As a responsible investor, we have been assessing and managing the climate-related risks and opportunities of our investments for years. With the emergence of the Task Force on Climate-related Financial Disclosures (TCFD) in 2017, we saw a clear framework to organize our climate-related activities and formalize the governance structure around them. Concurrently, we have used the frameworks of the United Nations Principles for Responsible Investment (UNPRI) and the CDP (formerly Carbon Disclosure Project) to identify areas where we could take further action to enhance the climate resilience of our investments. The chart below demonstrates the evolution of our approach to climate change, culminating in the development of our Climate Change Strategy in 2019, which we plan to launch publicly by the end of 2020 as a standalone document.



Our approach to climate change aligns with the four core elements of TCFD: governance, strategy, risk management, and metrics and targets. We have embedded this approach into the key stages of our investment and ownership process from sourcing and due diligence through ownership to exit. These stages encompass our Climate Change Strategy for our investment portfolio.

Sourcing

Over the years, we have developed a set of guidelines to help us approach ESG sensitivities in fossil fuels-related investments at the sourcing and screening stage. Overall, we do not invest on behalf of our clients in companies or assets whose main business is the exploration or direct extraction or production of fossil fuel, regardless of their origin or use. In addition, we extend exclusion to:

- assets that would not exist if their main product or service did not support coal extraction, transportation, or use for energy generation;
- service providers to the coal industry that generate more than 10% of their revenue from thermal coal and have no plans to reduce this percentage over time;
- service providers for the shale oil and gas industry, such as drilling rig operators, frac sand suppliers, and oilfield service providers;
- treatment and logistics services for tar sands and heavy oil;
- deforestation or the burning of vast natural ecosystems for the purpose of land clearance.

We regard gas pipelines, treatment facilities and gas-powered plants as supportive of the transition to cleaner sources of energy, as it is more sustainable to convert coal power plants to gas power plants and decrease overall GHG emissions, especially when they play a key role in providing baseload power and grid balancing. We are also actively targeting low-carbon and climate-resilient investments, with a heavy focus on renewable energy development.

Due diligence

We have updated our internal ESG Due Diligence Assessment to ensure early identification of climate risks by our investment teams. In addition, we now require external ESG due diligence providers to include a section dedicated to climate-related risks and opportunities in their final deliverables for all lead direct private equity and private infrastructure investments. This allows us to have a clear sense of risks, impact mitigation and value creation opportunities related to climate change for all potential lead investments.

Ownership

We have made significant efforts to more accurately measure our portfolio's emissions. This year, we completed a GHG footprinting exercise for our portfolio of direct lead investments to help us identify where our greatest risks and opportunities lie. Through this exercise, we identified and prioritized key actions

Sourcing	Due diligence	Ownership	Exit
Screening Framework: • Carbon exclusion list • Climate-sensitivity materiality screening based on sub-industry classification framework	**ESG Due Diligence Assessment:** • Assess climate risk against pre-defined questions integrated in our assessment tool • For lead investments, include climate risk in third-party due diligence	**Engagement and monitoring:** • Implement climate engagement projects/sweeps • Offer GHG emissions/ energy efficiency reduction toolkit • Monitor climate risk mitigation/adaptation performance through annual ESG KPI survey	**Engagement summaries:** • Highlight climate engagements in seller materials through case studies and climate metrics • Identify and meet climate-related market requirements (e.g. mandatory climate disclosures for listed companies)

to take over the coming years, including:

- increasing data quality and tracking capabilities for companies that are unable to accurately report on their GHG footprint;
- developing and implementing company-specific actions, such as energy efficiency or fuel reduction initiatives and physical climate risk assessments and mitigation strategies;
- building out a climate change "sweep" for our portfolio to ensure a systematic approach to improving our companies' performance on this topic during ownership;
- monitoring climate risk/impact mitigation performance for all lead investments annually through our ESG KPI survey;
- reporting progress publicly through our ESG Dashboards.

Exit

The goal of our efforts is to demonstrate a material improvement in our portfolio companies' climate risk and impact mitigation performance over the lifetime of our investments. The steps outlined during sourcing, due diligence, and ownership will allow us to highlight climate-related improvements in seller materials and meet climate-related market requirements, such as mandatory climate disclosures for listed companies, by the time we seek to exit.

In carrying out the early stages of our Climate Change Strategy for our portfolio, we are humbled by the tremendous task facing us and the industry, but we are also excited to explore the climate opportunities that might gradually change the way we invest in and build our businesses. We look forward to reporting on the success of the measures we have taken and the impact they have on our portfolio in the years to come.

Lead by example

In addition to addressing climate-related risks and impacts at our portfolio companies, we are committed to addressing our own corporate impact and leading our portfolio companies by example. Despite the relatively low carbon-intensive nature of our industry, we nevertheless want to make a fair contribution to reducing our GHG footprint and consider our firm, as well as all individual employees, directly responsible for protecting our environment.

At corporate level, we recognize that business travel is by far our greatest source of GHG emissions. The aim of any business trip is to ensure we stay close to our clients, source new investment opportunities and work with our portfolio companies on ESG engagements and value creation initiatives – all to build better assets for our stakeholders. However, we are committed to reducing our impact and, as a first step, we are fully offsetting our CO_2 emissions from corporate air travel. To achieve this, we have teamed up with Natural Capital Partners, a leading expert on carbon neutrality and climate finance. Together, we have built a global portfolio of low carbon sustainable development projects that we are financing in order to offset our CO_2 emissions according to the highest international standards. In 2019, we offset close to 16,000 metric tons of CO_2e generated by our global air travel activities throughout the year.

Today, our compensation portfolio comprises a mix of global afforestation, reforestation, forest protection and water infrastructure projects. Over time, we will also explore other CO_2 compensation options, such as sponsoring and collaborating with other leading organizations on research projects and finding additional entrepreneurial projects that have a high CO_2 compensation multiplier.

In addition to offsetting our emissions from corporate air travel, we also encourage all employees to travel in an efficient manner and avoid unnecessary trips through our Travel Policy. We also continue to invest in installing video conferencing systems in all our offices globally to support the reduction of business travel between offices.

Examples of projects included in our 2019 offsetting portfolio are shown below:

Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

NATURAL CAPITAL PARTNERS

Acre Amazonian Rainforest Conservation, Brazil

Project type: agricultural, forestry and landscapes
Region: Latin America
Standards: VCS, CBB-Gold

Description

The project prevents deforestation in 28,000 hectares of pristine rainforest in western Acre state, Brazil, home to the Amazon basin and some of the world's most biodiverse habitats. The project works with communities and local groups and uses carbon revenues to help protect ecosystem services. Around 35 communities live inside the project area, all in close proximity to the northern banks of the Valparaiso River, a major tributary of the Amazon that provides critical ecosystem services. Improvements to roads leading to the area have greatly increased the pressures on the land.

Sustainable Development Goals supported

In addition to delivering approximately 150,000 tonnes of emissions reductions each year to tackle climate action, the project delivers a number of other sustainable development benefits. These include:

- **Life on Land:** a key part of the project is the land owners working with the families to give them formal rights to individual parcels of land in return for assistance in preventing deforestation.
- **Zero Hunger:** the local farmers' association is being supported through the project to help build a local crop processing plant, and new equipment to increase the productivity of the land.

Find out more about the project here:
naturalcapitalpartners.com/projects/project/acre-amazonian-rainforest-conservation

Improved water infrastructure, Sub-Saharan Africa

Project type: water
Region: Sub-Saharan Africa
Standard: Gold Standard

Description

It is estimated that at least two billion people worldwide do not have access to safely managed drinking water. This Gold Standard project provides clean drinking water to small rural communities in Sub-Saharan Africa by repairing and drilling new boreholes. Boreholes can be used as water wells by installing a vertical pipe casing and well screen, which allows water to be extracted from the ground, even during dry seasons. By providing clean water, communities no longer need to purify water through boiling. This alleviates pressure on local forests – the predominant source of firewood – and reduces greenhouse gas emissions.

Sustainable Development Goals supported

In addition to delivering approximately 140,000 tonnes of emissions reductions each year, the project delivers a number of other benefits, including:

- **Good Health and Wellbeing:** in Uganda, ten rehabilitated boreholes serve 5,700 people, preventing 100 cases of diarrhea and six fatalities each year.
- **Industry, Innovation and Infrastructure:** locally-appropriate technology is used, such as Afridev hand pumps, maintained by local mechanics trained under the project to maintain a long-term solution.
- **Climate Action:** the rehabilitated boreholes provide the communities with access to clean ground water, making them less susceptible to severe droughts.
- **Gender Equality:** boreholes greatly reduce the time needed to collect water and fuel, and purify water, which are typically tasks handled by women. On collection alone, the boreholes reduced the time spent daily on this activity by over 70%.

Find out more about the project here:
naturalcapitalpartners.com/projects/project/sub-saharan-africa-improved-water-infrastructure

Q&A on climate change with Carmela Mondino and Mátyás Csiky

Mátyás Csiky Global Head PG Impact (Verein) and **Carmela Mondino** ESG & Sustainability

What climate impacts are most material from a corporate and investment perspective?

Carmela: From an investment perspective, climate change definitely presents a number of material risks and potential impacts. These include policy developments such as carbon taxes, which could increase the cost of operations across our portfolio, or physical risks such as floods and wildfires, which can cause serious damage to businesses and communities, as is evident from the wildfires in Australia this year. We closely monitor and manage these risks across our global portfolio on an ongoing basis.

Mátyás: From our own corporate perspective, the climate impacts we deal with are fewer compared to those we see across our global portfolio of businesses and assets. As an investment manager, we do not produce physical goods or have long supply chains. Our direct environmental impact is mainly generated through our office buildings and through business travel, particularly air travel. Just as we assess material impacts across our portfolio, we also discuss the impact of our own operations on a regular basis in order to find ways to reduce it. Since air travel is currently our most significant source of GHG emissions, it is the first issue we have decided to tackle.

How do you incorporate climate change risks and opportunities into the investment process?

Carmela: Through the platform-wide Climate Change Strategy we are developing, we have established action items for each step in the investment lifecycle. On the sourcing side, we have an explicit exclusion list for certain types of industry, such as coal-fired power plants and coal mines. We also have a climate change sensitivity assessment, which helps us identify particularly carbon-intensive businesses or assets. At the same time, just as we are excluding certain types of investments, we are also overweighting others that help tackle climate change, such as investments in renewable energy and energy efficiency.

We have also incorporated climate change criteria into our ESG Due Diligence Assessment so that our investment teams can identify potential climate change risks or areas that require further engagement with a target asset on our part. Within our existing portfolio of companies and assets, we have started to assess our carbon footprint. If you look at our ESG Dashboards on pages 25, 32 and 38, you will see a new column showing each asset's estimated carbon footprint. We acknowledge that we are still not able to gather this information for every single asset, but we are setting a baseline so that we can start acting on it.

Mátyás: While on the traditional investment side it has been easier to identify opportunities that support the environment, when it comes to our philanthropic activities through PG Impact, our employee foundation, it is harder to find projects that have a pure climate action focus. Many of the foundations we come across focus on social impact and might lead to environmental benefits as a by-product. The market is not that mature yet, but I think this will change in the near future as climate change becomes an increasingly pressing global issue.

What is Partners Group doing to address climate change at both the corporate and portfolio level?

Mátyás: As a firm, we have committed to fully offsetting our annual corporate air travel emissions as a first step towards reducing our impact on the environment. In 2019, we teamed up with Natural Capital Partners to offset these emissions by building and financing a globally diversified portfolio of low carbon sustainable development projects. These include forest protection and reforestations projects, as well as water infrastructure projects that also have a social component to them. For example, one of the projects we are financing helps provide clean drinking water to rural communities in Sub-Saharan Africa while protecting local forests.

Carmela: On an investment portfolio level, our environmental impact is less related to travel and more related to energy consumption. That is why most of our environmental engagements with portfolio companies focus on reducing energy consumption and increasing energy efficiency.

These engagements can generate significant energy savings. For example, if a company has never implemented any energy efficiency measures, it has the potential to save over 10% of its energy consumption through relatively simple initiatives. And the great thing about these initiatives is that they are not only good for the environment, but also have a positive impact on our portfolio companies' bottom line. With our portfolio company KinderCare, a provider of early childhood education in the US, we did just that. By installing remote control systems that allow lights and air conditioning systems to be switched off remotely when areas are not in use, we saved over 5.8 million kWh in energy consumption, equivalent to more than four tons of CO2 and USD 990,000 in annual savings.

We also conduct what we call portfolio "sweeps," identifying our most successful ESG projects in areas that are material to most businesses, such as health & safety, cybersecurity, fraud risk and energy management, and applying them systematically across our lead direct portfolio. Through these sweeps, we have been able to develop a standardized toolkit for energy and fuel management that we apply across our portfolio. Building out a climate change sweep will be a focus area for us in 2020.

"If a company has never implemented any energy efficiency measures, it has the potential to save over 10% of its energy consumption through relatively simple initiatives."

What are the main climate-related challenges and opportunities for Partners Group going forward?

Mátyás: From a corporate perspective, an important challenge will be aligning our environmental objectives with the growth of our business. As we continue to grow and increase the number of our employees, clients and assets under management, we will also inevitably see an increase in our emissions. While our emissions will grow, the goal is to keep their growth to a minimum by encouraging employees to travel in an efficient manner and avoid unnecessary trips.

At the same time, this is also an opportunity. Through our action on climate change, we can help educate our employees and other stakeholders on this critical topic and hope that this trickles into their private lives.

It is the beginning of the journey not just for Partners Group but for other investment managers. As we undertake this journey, we will continuously improve our response to the challenges posed by climate change, but we believe it is critically important to start acting today.

Carmela: On the investment side, I see a couple of specific challenges. First, there is the difficulty of collecting emissions data from our portfolio companies. We find that, at entry, many of the companies we invest in have never measured their carbon footprint, which makes it harder to get initiatives up and running. We are seeing regulatory developments, especially in Europe, which force companies to get a grip on their consumption data, but this is not a global phenomenon yet.

Second, when people talk about climate change, they often reference "scenario analysis." This refers to the ability to model the potential impact of climate change on a business. However, the truth is that, today, there are no standard tools to help conduct scenario analyses across an investment portfolio spanning multiple industries and geographies. While we always aim to quantify the ESG impact of our portfolio as much as possible, it is hard to come by accurate climate change figures we can incorporate into our models.

However, there are also lots of investment opportunities that address the impacts of climate change. Our investment on behalf of our clients in Techem, a leading European energy efficiency business, is one great example. The company contributes to global climate protection objectives by installing and maintaining sub-metering devices in properties which allow for more efficient energy use and significant energy savings. Another example is our portfolio of investments in renewable energy infrastructure, which currently totals 4.8GW in generation capacity.

Finally, for an investment manager, focusing on climate change risks and opportunities can also be a differentiating factor. Our industry is not as mature as others when it comes to addressing climate change, and this gives us an opportunity to be a leader in this space.