



Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

Disclosure Statement Operating Principles for Impact Management

I. Statement by authorized executive:

To our stakeholders:

Partners Group AG is a founding signatory to the International Finance Corporation's Operating Principles for Impact Management ("the Principles"). Partners Group has adopted the Principles for the following strategy for select impact investments:

PG LIFE investment strategy

The assets managed and/or advised by Partners Group in accordance with the Principles have equity commitments of approximately USD 3,818 million.

Kevin Lu, Partner
23.04.2020

II. Statement of alignment:

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social, economic, or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The strategic intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible expectation of achieving the impact objectives through the investment strategy; and that the magnitude (scale and/or intensity) of the expected portfolio impact is proportionate to the size of the investment portfolio.

- Partners Group is committed to investing responsibly and was one of the first private markets investment firms to become a signatory of the United Nations Principles for Responsible



Investment in 2008. Partners Group considers the integration of material environmental, social and governance (ESG) factors into the investment process as a core part of its duty to act in the best interests of its clients and their beneficiaries.

- In 2018, taking its approach to responsible investment one step further, Partners Group launched a dedicated investment strategy that aims to address global social and environmental challenges by investing exclusively in line with the United Nations Sustainable Development Goals (SDGs). In particular, the SDGs relating to education, healthcare, energy access, clean energy, and social inclusion are the focus of the investment strategy.
- Through the impact investment strategy, Partners Group aims to bring scale to impact by making larger investments in larger enterprises for larger impacts. The strategy enables Partners Group to deploy greater amounts of capital to the impact space and therefore aims to achieve more "needle-moving" impact. The strategy also provides a scalable channel for institutional investors to allocate to impact, thereby unlocking larger amounts of capital dedicated to this type of investing.
- In order to ensure the strategy's impact objectives are achieved, Partners Group has developed minimum investment inclusion criteria for the strategy and logic models linking an investment to potential outputs, outcomes, and ultimately SDG impacts. Partners Group has also adopted the Impact Management Project's (IMP) shared fundamentals framework, guided by rigorous scoring guidelines, to assess the expected impact for specific SDG targets and compile supporting evidence.

Principle 2: Manage strategic impact and financial returns at the portfolio level.

The Manager shall have a process to manage impact achievement at the portfolio level, similar to that of managing financial returns. The objective of the process is to establish and monitor expected impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- As part of the impact investment strategy, we have established the PG LIFE Impact Committee. The Impact Committee is the gatekeeper of individual investments included in the strategy to ensure alignment with the impact mission, review impact assessments, and recommend inclusion or exclusion for each potential investment. In addition, the Impact Committee regularly reviews the quality and consistency of the strategy's impact measurement framework and methodology to ensure any necessary remedial measures are taken.



- Partners Group manages impact achievement through its impact screening and due diligence process as part of its impact investment strategy. Investments are required to meet minimum inclusion criteria at the screening stage. At the diligence stage, a standardized impact assessment is conducted for each investment. The Impact Committee then considers and discusses the impact assessment, drawing on ratings for each of the IMP's five dimensions of impact to inform its decision-making.
- During the impact assessment, we identify relevant metrics that will indicate whether the asset is achieving the envisaged SDG impacts during ownership and help measure the scale of these impacts. During ownership, we collect data on the agreed metrics as well as information on the sources and method of data collection. Where possible, we will identify common metrics that can be aggregated across assets at a portfolio level.
- The impact investment strategy aligns staff incentives with the achievement of impact through the annual evaluation of performance against internal impact-related goals. Specifically, the individual goal setting and performance evaluation process takes into consideration, and incentivizes, among others, ensuring robust impact data quality, managing impact assessments, and designing and executing model engagements with portfolio companies.

Principle 3: Establish the investor's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible, transparent narrative on the investor's contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels, and assessed for the individual investment, or from a portfolio perspective. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- Through the impact investment strategy, Partners Group aims to bring scale to impact and signal that measurable impact matters, leveraging its governance rights to actively engage and imbue "mainstream" management teams with impact sensibilities and effective impact management capabilities; and using its resources to improve the quality of impact due diligence, measurement, and reporting.
- The strategy has a systematic process to assess and quantify its expected contribution to investments in the due diligence process. The assessment draws on a scoring rubric that characterizes contribution using the IMP's financial and non-financial channels of investor contribution, including signaling the importance of impact, engaging actively with varying degrees of governance rights, and growing undersupplied capital markets.



- The strategy seeks to continuously strengthen its contribution to generating positive impact. Partners Group is also planning to adopt an improved impact assessment methodology that will further differentiate between investment opportunities based on how active engagement could be applied, and the degree to which active engagement would contribute to the positive impact generated by a business. As the strategy invests in more assets and begins to actively manage them from an impact angle, we will also periodically evaluate and aim to improve its contribution to the achievement of impact in our impact investment strategy.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?

The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact differing from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow international best practice conventions.

- If an investment opportunity aligns with the objectives of the strategy, Partners Group's impact due diligence starts with the development of a logic model for that investment, linking the investment to potential outputs, outcomes and, ultimately, SDG impacts. Logic models help set out how society experiences the impacts generated by the activities of a company or asset, both positive and negative. Throughout the impact assessment of an investment opportunity, Partners Group works closely with an external consultant to take advantage of their industry and impact expertise.
- In a next step, the impact assessment adopts the IMP framework, which considers five dimensions of impact – What, How much, Who, Contribution and Risk. In asking relevant questions for each of these dimensions, Partners Group evaluates whether an investment meets PG LIFE's impact goals. Investments are rated on a 1-5 scale (from low to high) for each IMP dimension, with more in-depth rating scales developed for priority SDG targets. Partners



Group and its external consultant evaluate a range of data – drawn from the assets themselves, from the local context and from academic research – to score investments against these rating scales.

- The final step of the process is to identify relevant metrics that will indicate whether the asset is achieving the envisaged SDG impacts, and at what rate. The logic model(s) developed at the beginning will help identify relevant metrics. Other sources of potential metrics include the SDG indicators as well as non-financial reporting metrics such as those identified in the Business Reporting on SDGs guide and The Global Impact Investment Network's IRIS framework. Impact assessments for each potential investment capture the results of the impact due diligence process and are considered by the Impact Committee before an investment can be considered for the strategy.

Principle 5: Assess, address, monitor, and manage the potential negative effects of each investment.

For all investments, the Manager shall seek to avoid, minimize, or mitigate potential negative effects by assessing and monitoring Environmental, Social and Governance (ESG) and other non-financial risks, as well as the performance of the investee in managing material ESG issues. Where appropriate, the Manager shall engage with the investee company to seek its commitment to take action to address potential gaps in current investee systems, processes, and practices, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, provide support where appropriate, and address unexpected events.

- The impact investment strategy is built on the strength of Partners Group's existing investment process that thoroughly integrates ESG considerations. With years of experience in working directly with management teams to conceive and execute defined value creation plans over a multi-year ownership period, Partners Group establishes ESG engagements with its portfolio companies to improve the management and measurement of ESG topics. For investments included within the strategy, through these value creation plans, it aims to either mitigate ESG risks that could detract from the achievement of SDG targets, or take advantage of opportunities to further increase the impact of an investment.
- Partners Group has also developed specific tools and processes to ensure thorough integration of ESG factors throughout the entire investment process. For example, during the screening stage, the firm's Responsible Investment Screening Framework provides investment



professionals with a clear basis for assessing the potential ethical or reputational risks of a given investment. During the due diligence stage, Partners Group identifies ESG risks and opportunities through its proprietary ESG Due Diligence Assessment tool and through specialist consultants.

- Partners Group's approach to ESG integration is informed by a materiality analysis of ESG topics for each investment opportunity, drawing partly on the Sustainability Accounting Standards Board (SASB)'s materiality map, as well Partners Group's own materiality analysis tool. The tool takes into account financial impacts, regulatory drivers, industry norms, stakeholder concerns and opportunities for innovation.
- In terms of governance, Partners Group has defined clear roles and responsibilities for overseeing the integration of ESG considerations in the investment process. ESG risks, or potential negative impacts identified during due diligence, are mitigated through clearly defined ESG projects during ownership. Partners Group's ESG & Sustainability team monitors the progress of these projects. Partners Group has also set up a process to have all assets reporting ESG-related incidents in a timely manner. In addition, the firm uses an artificial intelligence-based tool to scour daily news outlets for ESG-critical incidents in both current and prospective holdings.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- Within 100 days of an investment closing, as part of the impact investment strategy, we conduct an onboarding session with the asset's senior management to fully introduce the impact investment and management concept and its strategic impact intent. The impact assessment is shared and discussed with management to ensure alignment on the logic model, the core impact metrics, and the ways in which impact integration could add value to the business.



- The onboarding sessions also cover the methods that will be employed for data collection and monitoring, data sources, responsibilities for data collection, and the strategy's reporting requirements. Partners Group also works with a third party service provider to ensure standardized reporting for a number of core metrics.
- To assess whether an asset is well-equipped to report high-quality impact data, Partners Group also undertakes steps to understand the asset's current approach to recording impact-related data through a review of its relevant processes and controls. Where gaps or weaknesses are identified, Partners Group and management will agree on any remedial measures necessary to report credibly.
- Given the impact investment strategy stipulates that the investments' business plans do not envision any deviations from the business model that is supporting the SDGs, there is a natural alignment between achieving the business case and the impact case. Partners Group's investment teams, Industry Value Creation team and Asset Management teams seek to develop a process to pursue appropriate action in the case of impact underperformance.

Principle 7: Conduct exits considering the effect on sustained impact.

The Manager shall, in good faith and consistent with its fiduciary responsibilities, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- Partners Group has not conducted an exit with its impact investment strategy. It will, however, utilize exits as an opportunity to reflect on lessons learned over the period of ownership of the asset in terms of creating, optimising and sustaining positive impact. These learnings will be reflected in the selection of new assets, and the management of current assets. For noteworthy cases, Partners Group may produce impact exit reports, summarising the impact achieved for a specific asset as well as lessons learned. Partners Group will work with internal and external partners to potentially include exit considerations during impact due diligence.



Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Partners Group ensures it is meeting its impact objectives through two oversight bodies. The Impact Committee is the gatekeeper of individual investments in the strategy. It ensures alignment with the strategy's impact mission, reviews impact assessments, and recommend inclusion or exclusion for each investment opportunity. In addition, and at least once annually, the Impact Committee will review the quality and consistency of the impact measurement framework and methodology and ensure any necessary remedial measures are taken.
- The independent LIFE Council is an oversight committee that meets once a year and provides guidance on methodology and support to the Impact Committee. The Council consists of industry leaders with sustainability expertise and select external advisors that add value to the strategy for specific needs (i.e. sourcing, impact measurement, impact management). This body provides guidance on sector-specific impact topics and ensures the overall effectiveness of the impact methodology in achieving the strategy's dual mission to contribute to measurable positive social or environmental impact, alongside financial returns.
- Through the finalization of Partners Group's annual reporting process as part of the strategy, as well as its internal review processes, Partners Group seeks to compare expected and actual impact performance and adjust its operational, decision-making, and management processes accordingly.



Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment.

The Manager shall publicly disclose, on an annual basis, the extent to which impact management systems are aligned with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall be publicly disclosed, subject to fiduciary and regulatory concerns.

- This Disclosure Note re-affirms the alignment of IFC's procedures with the Principles and will be updated annually.

- Information on the current independent verifier is as follows:

Name and Address:

Tideline

915 Battery St,

San Francisco, CA 94111,

USA

Most recent review:

19 February 2020

Next planned review:

October 2022

Funds/portfolios/strategies covered:

PG LIFE impact investment strategy

- The independent verifier statement on the alignment of IFC with the Operating Principles for Impact Management is available on the next page.

VERIFIER STATEMENT

Independent Impact Management Verification
Prepared for Partners Group: February 19, 2020



BACKGROUND

As a signatory of the Operating Principles for Impact Management (the Principles), Partners Group is committed to disclosing the degree of alignment of its impact management (IM) system with the Principles.¹ Partners Group engaged Tideline to undertake the assessment of PG LIFE, an investment strategy focused on the UN Sustainable Development Goals (SDGs).

ASSESSMENT METHODOLOGY

Tideline reviewed PG LIFE's set of IM tools and processes for the purpose of assessing its degree of alignment with the Principles.² To do so, Tideline used a proprietary rubric informed by:

1. The text of each Principle and associated implementation guidance;
2. Tideline's proprietary process assessment criteria, which are mapped to each Principle; and
3. Tideline's retained knowledge of the state of IM practices

SUMMARY ASSESSMENT

Tideline conducted an assessment to verify the PG LIFE IM system's degree of alignment with the Principles. As of February 2020, PG LIFE's total assets under management covered by the Principles were confidential as the strategy had not yet reached a final close. Key takeaways from the assessment are:

- **Areas of strength:** PG LIFE has created a robust approach to support its goal of contributing to the achievement of the UN SDGs (Principle 1), a comprehensive screening and due diligence process to assess the expected impact of potential investments (Principle 3), and a thorough approach to ESG risk management (Principle 5).
- **Areas for improvement:** Tideline identified opportunities for further alignment, including considering additional steps to ensure the sustainability of impact at exit (Principle 7) and formalizing review processes to compare expected and actual impact and integrate lessons learned (Principle 8).

ABOUT TIDELINE

Tideline Advisors, LLC is a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, focused on the design and verification of IM systems with leading asset owners and managers. In 2020, Tideline established a subsidiary with a separate, dedicated team focused on impact management verification.

Tideline has offices in New York, NY and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA.

¹ Principle 9 states that signatories shall "publicly disclose alignment with the Principles and provide regular independent verification of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns."

² Tideline's full assessment for PG LIFE states each of the Principles, describes the PG LIFE IM processes covered by the Principles, and identifies areas where further alignment is appropriate and feasible. The scope of Tideline's assessment procedures does not include the verification of the resulting impacts achieved. Tideline's assessment is based on its analyses of publicly available information and information in reports and other material provided by PG LIFE. Tideline has relied on the accuracy and completeness of any such information provided by PG LIFE. The assessment results represent Tideline's professional judgment based on the procedures performed and information obtained.