



**Partners Group**

REALIZING POTENTIAL IN PRIVATE MARKETS

## Disclosure Statement Operating Principles for Impact Management

### I. Statement by authorized executive:

To our stakeholders:

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

PG LIFE impact investment strategy

As of 28 February 2023, the assets managed and/or advised by Partners Group in accordance with the Impact Principles have equity commitments of approximately USD 9,515.94 million.

Carmela Mondino, Head of ESG & Sustainability, 30.04.2023

### 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 positive and negative outputs, outcomes, and ultimately SDG impacts. Partners Group only considers businesses whose products or services clearly benefit society and the environment. 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, Partners Group has established the LIFE Committee. The LIFE 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 LIFE 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 achievements 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 LIFE 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, Partners Group identifies 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, Partners Group collects data on the agreed metrics as well as information on the sources and method of data collection. Where possible, Partners Group will identify common metrics that can be aggregated across assets at a portfolio level.
- The LIFE Committee's IM Framework draws on the IMP's 5 dimensions, offering a consistent and comparative assessment of impact for each transaction. IM practices throughout the investment lifecycle are detailed in the Impact Methodology and portfolio-level impact is presented in the Impact Report.
- Partners Group may consider aligning incentives with impact as best practices emerge.

### **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 LIFE Committee aims to contribute to each investee as an active investor and the Impact Methodology includes a transaction level ex-ante assessment of three elements of potential contribution: impact expertise, impact influence and impact opportunity. Each criterion is allocated a score between 1-3 in transaction level impact due diligence. In the pre-acquisition phase, impact is considered during investment sourcing, due diligence, and as part of the Impact Committee's decision-making through score between 1-4 at the Preliminary Investment Recommendation ("PIR") stage.
- Building on its expertise in ESG management, Partners Group has also expanded its considerations of investor contribution in impact management to include different aspects of its transformational ownership, going beyond a binary assessment based on governance rights. During the impact assessments, Partners Group evaluates whether it has impact expertise in a given industry, whether it believes it can effectively engage with a business, and the degree to which the impact of the business could be enhanced. If the answer to these aspects is positive, Partners Group is more confident in its ability to effectively manage impact during ownership. Additionally, upon exit from an investment, Partners Group will prepare an impact exit report including an evaluation of its contribution as an investor.

#### **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.



# Partners Group

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- 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.
- PG LIFE has a rigorous process for assessing the potential impact of a prospective investment, underpinned by an IM framework that draws on the IMP's 5 Dimensions. Four minimum impact criteria must be met for a transaction to be considered by the LIFE Committee for inclusion in the fund. The ex-ante process for assessing potential impact is well documented and consistently applied, with clear evidence that the LIFE Committee factors the results of the impact scorecard into their voting and decision-making about each transaction. The assessment of the impact and likelihood of multiple dimensions of risk, accounting for mitigation measures, is a leading practice.
- 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 LIFE 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.
- PG LIFE utilizes Partners Group's broader approach for assessing ESG factors in the sourcing, due diligence, and ownership stages of the investment process. This framework, which is outlined within the ESG Sustainability Directive ([20210309 ESG Sustainability Directive vFV.pdf](#) ([partnersgroup.com](#))) adheres closely to the UN's Principles for Responsible Investment. The ex-ante assessment of ESG factors applies an ESG DD Assessment Tool, integrating industry standards such as SASB and OECD. ESG factors are monitored annually for each investment via an ESG Survey sent directly to investees and underperformance is considered within the transaction review process.
- 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 our current 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 one year of an investment closing, as part of the impact investment strategy, Partners Group conducts 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 discussions on the core metrics include data monitoring, the method for data collection, data sources, responsibilities for data collection, and PG LIFE's reporting requirements.
- Following the decision to include a transaction within PG LIFE, the investment team works with the company's management team to agree on impact-related KPIs as part of the onboarding process. There is a standardised process by which portfolio companies are expected to provide impact performance data on an annual basis. PG LIFE recently implemented a common template to ensure consistency in data collection about progress against agreed KPIs. Data is self-reported by portfolio companies and collected by the relevant investment team. The annual Impact Report documents the logic model and SDG targets for each transaction, as well as captures summary impact performance data against agreed KPIs.
- 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 and asset management teams seek to develop a process to pursue appropriate action in the case of impact underperformance.
- Impact data collected for a given investment is reported not only to Partners Group's ESG & Sustainability and investment teams, but also to investors in the respective fund through an Annual Impact Report. In this report, impact performance is communicated through pre-established impact KPIs, as well as qualitative and quantitative context on any deviations from the set target for each individual asset.
- Unlike equity investments, for debt investments PG LIFE will not have the ability to request reporting against specific metrics. Therefore, the performance of debt investments in PG LIFE annual impact reports will be on a case-by-case basis.

#### **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.

- To prepare for future exits from the impact strategy, Partners Group has developed an impact exit framework. All impact investments have an impact report, comprising a comparison between the impact case achieved and the original expectation, Partners Group's investor contribution and the original impact management plan, as well as lessons learned to potentially help the next owner better manage impact. Additionally, governance mechanisms, such as impact practices that have been "locked in" at the company through organizational structure or business model, are examined. To prepare these impact reports upon exit, Partners Group works with internal and / or external partners.



## 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 LIFE 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. In addition, and at least once annually, the LIFE 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 LIFE 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.
- Partners Group monitors the expected and actual impact through company-specific KPIs and documents deviations and explanations for these in its Annual Impact Report. In its role as an active investor, Partners Group uses insights gained in this process in its engagement with the assets to identify areas for improvement for their impact performance. Additionally, through lessons learned from impact management and the impact exit framework, Partners Group aims to continuously improve its operational, decision-making, and management processes.



**Principle 9: Publicly disclose alignment with the Impact 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 Impact 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 with the Impact Principles and will be updated annually.
- Information on the current independent verifier is as follows:

<u>Name and Address:</u>	BlueMark 915 Battery St, San Francisco, CA 94111, USA
<u>Most recent review:</u>	20 March 2022
<u>Next planned review:</u>	March 2024
<u>Funds/portfolios/strategies covered:</u>	PG LIFE impact investment strategy

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