Partners Group (UK) Ltd

December 2019

Pillar 3 Disclosure

Contents

1. PILLAR 3 DISCLOSURE

This document comprises the Pillar 3 disclosures for Partners Group (UK) Ltd ("PGUK/Firm") as at 31 December 2019. These disclosures are published in accordance with the requirements under BIPRU 11. The regulatory aim of such disclosure is to improve market discipline. The regulatory approach from which this requirement is derived aimed to establish a risk sensitive approach to capital management and is comprised of three pillars:

1. Pillar 1 – establishes rules for the calculation of minimum capital for credit risk, market risk and fixed overhead requirements;
2. Pillar 2 – an internal approach to evaluate the adequacy of regulatory capital under Pillar 1 and other 'Pillar 2 risks'. This pillar requires the Firm to undertake a process known as the 'ICAAP', which is a key input into the supervisory review process of the Financial Conduct Authority ('FCA'); and
3. Pillar 3 – a public disclosure concerning risk management policies, capital resources and capital requirements, enabling interested parties to better understand the risk profile of individual companies, with the aim of promoting market discipline.

PGUK will make Pillar 3 disclosures at least annually, via its website, unless otherwise stated. PGUK may publish information more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about its own funds and capital requirements, as well as information about risk exposure and any other items prone to change.

The information in this document has been prepared solely to satisfy Pillar 3 disclosure requirements, the information has not been audited by PGUK's external auditors (as this is not a requirement) and does not constitute any form of financial statement.

Non-material, proprietary or confidential information

PGUK may omit certain disclosures from the Pillar 3 statement if the information is not regarded as material. Information is 'material' in this context if its omission or misstatement could change of influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Similarly, PGUK may omit one or more disclosures if the information provided is regarded as proprietary or confidential. Information is regarded as such if sharing that information with the public would undermine its competitive position or would breach PGUK's confidentiality obligations to customers or other counterparty relationships. Proprietary information might include, for example, information on products or systems which, if shared with competitors, would render the PGUK's investments therein less valuable. In the event that any such omission is made by PGUK, it will state that specific information has been omitted, as well as the reason for the omission. PGUK has made no such omissions from this Pillar 3 disclosure.

2. EXECUTIVE SUMMARY

PGUK is an FCA regulated private limited company (FRN: 401307) incorporated under English Law and with the company number 05113447. PGUK is part of a global corporate group whose parent company is listed in Switzerland. PGUK is categorised, for prudential purposes, as a collective portfolio management investment firm (CPMI) & classified as a BIPRU (i.e. an investment firm with obligations derived from AIFMD, MiFID and the CRD).

PGUK is part of Partners Group ("PG"), a global alternative investment management group with 19 offices across the globe and over USD 94 billion of assets under management. PGUK is a wholly owned subsidiary of Partners Group Holding ('PGH'/'Group'), which is listed in Switzerland and which is the ultimate parent of an alternative asset management group, offering investment funds focused on private equity, private debt, private infrastructure, private real estate and listed alternatives. PGUK became authorized by the FCA on 07/02/2005 and its activities include: (i) the management of Partners Group AIF investment products and separately managed accounts; (ii) investment sourcing and due diligence; and (iii) marketing of certain Partners Group AIF investment products.

PGUK's act as an AIFM in respect of one alternative investment fund ('AIF'), which invests across private markets asset classes, including private equity, private debt, real estate and infrastructure, as well as liquid private markets. The Firm manage this fund on behalf of a primarily institutional and professional investor base, has no trading book exposures and only holds client money in certain, limited circumstances. Client money is held separately from the money and assets of PGUK and do not form part of PGUK's balance sheet or capital resources. Client money would be duly protected in the event of insolvency of PGUK.

This Pillar 3 disclosure is made by and for PGUK on a solo basis, so far as PGUK is aware, there are no current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings within the Group.

3. GOVERNANCE & RISK MANAGEMENT

PGUK's Board of Directors define the risk appetite as the amount of risk that the Firm is prepared to tolerate whilst achieving its strategic goals. As PGUK is financially integrated into PGH, PGUK's risk appetite must be seen as connected to the risk appetite of the Group. The strategic plans and objective for PGUK is defined and approved by the Firm's Board of Directors which are used to dictate the risk appetite. In line with its business strategy, the Firm defines qualitative and quantitative statements for the risks faced by the Firm which are monitored and reported as required. Should the risk profiles deviate from the Firm's set risk appetite, management action may be required to align these to the appetite.

Risk identification, Management and Mitigation

To the extent possible, all material risks to which the firm is exposed are identified and documented in a risk matrix.

In determining the materiality of the risks, PGUK considered the impact upon the business from a financial, business, regulatory and reputational perspective, bearing in mind the assumed effectiveness of the risk controls and mitigations in place.

The financial results of PGUK are reported to the Board of Directors on a quarterly basis, including regulatory capital requirements/buffers and any required action (for example, a request to PGH for additional funding), if any, will be determined by the Board accordingly.

Considering the relatively simple nature of PGUK's activities, the risks to which PGUK is mainly exposed as a result are Market risk, Credit risk, Operational risk, business risk, group risk (incl reputational risk), concentration risk, interest rate risk, liquidity risk and regulatory change risk.

Various other key risk indicators are utilised by PGUK in its risk assessment process, such as the number and severity of regulatory breaches and other errors, findings from periodic compliance monitoring and findings from PG's global Internal Audit function, amongst others.

Risk Management Framework

PGUK's risk management framework defines the process utilised to identify, assess, mitigate, monitor and report risks faced by the business and to comply with applicable regulatory requirements and internal guidelines associated with risk management. As PGUK is a relatively small firm it is financially integrated into PGH, and therefore its risk framework is connected and derived from the fundamental risk framework established by the Group i.e. The Enterprise Risk Management Framework ("ERM"). Notwithstanding this, further local risk analysis is undertaken at the local PGUK level.

The purpose of the Enterprise Risk Management framework is to set out the overall approach to the governance of risk. It defines the general framework and related processes for risk management and risk control and is intended to supplement the organizational rules (if any) of the relevant Group entities within Partners Group which includes PGUK. Risks are managed applying a risk-based approach. The inventory of risks, mitigants and controls are based on a risk assessment that has been undertaken in respect of the risks faced by the Firm.

The following steps are undertaken: (i) finding, recognising and describing the risks that may have an impact on the Firm's strategic objectives; (ii) prioritising and understanding key risks to the Firm, including the likelihood and potential impact of the risk to the Firm; (iii) understanding controls or activities undertaken by management to respond to, mitigate or manage risk by reducing its impact, its likelihood of occurrence, or both.

Risks are reviewed on a periodic basis in close collaboration with the people responsible for risk management within the wider Group, providing senior management and the Board with an up-to-date perspective on key risks faced by the Firm.

As such, PGUK's Board of Directors receives risk information and capital updates on a frequent basis; at least quarterly during scheduled board meetings (there is also the ability to call ad-hoc Board meetings on an 'as needed' basis, in the event of material developments which require urgent attention). This is typically evidenced by way of board minutes and resultant action items, if any. The Board considers that the risk management arrangements that are in place to be adequate with regards to PGUK's profile and strategy.

4. CAPITAL ASSESSEMENT

Following the above processes, analysis is made of the amount of capital that would be absorbed in the event of one or more of the risks materialising after the normal controls and mitigations are utilised. A view is taken as to whether further provision needs to be made above and beyond that indicated by the prescriptive Pillar 1 calculations.

PGUK maintains capital in excess of its regulatory capital requirement, which is indicative of the fact that it wishes to take little risk that it becomes capitally deficient or is unable to satisfy its obligations as they fall due, although capital within the business is used to satisfy both regulatory requirements and ongoing business objectives. Risks are controlled and mitigated wherever possible.

The risks to which PGUK is required to calculate its exposure under Pillar 1 are market risk and credit risk (each as defined in the FCA Handbook). Those risks, and all other relevant risks, have also been considered.

Market risk – This risk arises from fluctuations in values of, or income from, assets or in interest or exchange rates. The only direct market risk which faces PGUK is its exposure to foreign currencies as a result of its maintenance of bank accounts denominated in foreign currencies. Notwithstanding the 'direct' market risk, PGUK is reliant on good market and economic factors in order for its products to perform well and to generate returns for investors. As a result, with regard to the fund that it manages, PGUK is indirectly exposed to market risk, in the sense that difficult market conditions may inhibit the generation of returns for investors. This risk is somewhat managed as a result of there being diversification in the underlying product(s) managed by PGUK, as well as diversification of underlying assets within the products themselves.

Currency exposures as at 31 December 2019:

Currency £'000	Net FX Exposures
Euro	2,689
U.S Dollar	-12,125
Australian Dollar	552
United Arab Emirates Dirham	-1
Swiss Franc	-24

Credit risk – Is the risk that a counterparty to a transaction could default before the final settlement of the transaction's cash flows. PGUK does not carry out any trading activities on its own balance sheet and therefore does not have exposure to counterparties which might give rise to serious credit risks. PGUK is, however, exposed to credit risk, and views its main exposures as 1) failure to collect payment due; and 2) intra-company amounts owed to PGUK by its parent company PGH.

PGUK is remunerated by its clients – the fund it manages - by way of management and performance fees and by its affiliate, PGH. A reduction in revenue in the Group as a whole is likely to have the same effect on PGUK. This risk is managed by monitoring of the financial position of the fund that is managed, and its ability to pay fees and by monitoring of PGUK's capital adequacy position on a frequent basis.

For the purposes of Pillar 1 capital resource requirements, PGUK is required to sum the total of credit and market risk and compare that against its available capital resources.

	Exposure Amount
Credit risk exposure class	5,922
Market risk	1,231
Pillar 1 requirement	9,088

Counterparty Risk – Due to PGUK having no derivative exposure on balance sheet, it has no exposure to counterparty credit risk.

Operational risk – Operational risk describes the risk of loss to PGUK resulting from inadequate or failed internal processes, people, systems or from external events; including the potential for loss that arises from problems with operational processing, human error or omission breaches in internal controls, fraud and unforeseen catastrophes. A variety of techniques are used to manage operational risk at Group, at local level this includes having in place; stringent policies, procedures and processes; and carrying out ongoing monitoring of obligations, internal events and external events.

Business risk – Business risk describes the risk of PGUK's business plan or revenues being impacted by a change to its business including, poor performance, termination of mandates, expansion, remuneration risk or macroeconomic environment, impacting PGUK's ability to carry out its business plan and strategic objectives. Given the nature of the business, we consider the largest risk to the business is poor performance of the underlying assets held by the fund, as this will impact upon fund performance and, therefore, fees paid to PGUK. However, the assets held by PGUK-managed fund is diversified and it is viewed as unlikely that each asset class will perform badly at precisely the same time. As such, although diversification does not guarantee complete protection against loss, it does offer some protection. In addition, the business risk is mitigated by the fact that PGUK is integrated in PG transfer pricing policy (internally know as Fair Allocation of International Revenues, "FAIR"). FAIR allocates the group's profit to the group entities based on the activities carried out locally. Each activity is priced at arm's length accordingly to recommendations and transfer pricing methods outlined in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration ("OECD Transfer Pricing Guidelines"). This ensures that a decrease in PGUK-managed fund fees paid would only have a marginal impact on PGUK profitability, as it is also compensated for the services rendered to the rest of the group.

Group risk – Group risk describes the risk that the financial position of PGUK may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group. A reduction in revenue in the Group as a whole is likely to have the same effect on PGUK. As PGUK is integrated in FAIR (see business risk), a decrease in the total proceeds received by the Group also affect the total amount to be allocated amongst group entities for value-add activities.

PG, as a group, manages its FX exposure efficiently and, as part of a group, PGUK is likely to be exposed to any liquidity problems that PGH might face. However, PGH provides an annual written assurance of continuous financial support. Outside of the direct financial links with group entities, PGUK considers that the single biggest risk which is applicable to it as a result of being part of a group is reputational contagion. To guard against the Group and PGUK breaching legal or regulatory requirements, it has implemented a Group-wide separate Corporate Legal and Compliance team, which is charged with monitoring the business's compliance with legal and regulatory obligations. In addition, this risk is mitigated by an emphasis on intra-group communication, effective management at Group and local level (including the implementation of an appropriate compliance framework, comprising relevant systems, controls, policies and procedures and ongoing monitoring of obligations and internal events.

Concentration Risk – refers to the risk posed to PGUK by a single/group of exposures which have the potential to produce losses large enough to threaten the ability of PGUK to continue as a going concern. PGUK does not consider this to be a material risk for the business as PGUK is not reliant on any one client or investor (or linked group of clients/investors) for the continuation of its business.

Securitisation Risk – PGUK is not involved in the securitisation of assets and does not manage any securitisation vehicles. Some of the products which PGUK manages may have exposure to securitisation vehicles, though these would be subject to thorough investment due diligence.

Interest Rate Risk – This risk arises from movement in interest rates, including any impact on the capital resources of the firm. In terms of the impact of a plus or minus movement in interest rate, the impact is expected to be negligible. Interest rate movement will not affect the Firm's ability to satisfy its regulatory capital requirement.

Liquidity Risk –This is the risk that the Firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. PGUK's board believes that it has a low tolerance to liquidity risk because the Firm holds excess liquid assets, the Firm's income exceeds its costs, none of the Firm's assets are encumbered and PGUK has robust internal controls and warning indicators, relating to the performance of the fund it manages, levels of revenue, profitability and capital adequacy, to notify senior management and the Board of Directors of a potential drop in liquidity.

Pension Obligation Risk - The risk to a firm caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). This risk is not applicable to PGUK as the Firm does not operate a defined benefit pension scheme.

5. OWN FUNDS

PGUK takes a prudent approach to the management of its capital base and reviews its capital adequacy on a quarterly basis to ensure that it holds capital in excess of its regulatory capital requirement at all times. PGUK's capital resources comprise solely of Tier 1 capital. There are no deductions for illiquid assets. As at 31/12/19 PGUK's Tier 1 capital was £33,231,648 and composed of:

Own Funds	£(000)
Share capital	569
Share premium	2,840
Audited reserves	29,823
Tier 1 Capital	33,232

6. CAPITAL ADEQUACY

As at 31st December 2019, PGUK uses its Pillar 1 requirement as the regulatory capital requirement to monitor capital levels against internal risk appetite measures across a number of criteria. During the financial year ended 31 December 2019, the Firm maintained surplus capital resources at all times to satisfy minimum capital resources.

Please see a summary of the Firm's capital adequacy assessment in the table below:

Pillar 1 Capital Requirement	As at 31 December 2019 (£'000)
Credit and Counterparty risk	5,922
Market risk	1,231
i) Total Credit and Market risk	7,153
ii) Fixed Overhead requirement	9,088
Pillar 1 Requirement (higher of (i) and (ii))	9,144

PGUK reviews its ICAAP at least annually or more frequently if there are material changes to the Firm's business model and/or risk exposures.

PGUK does not have any encumbered assets as at 31 December 2019.

7. REMUNERATION

PGUK has adopted a remuneration policy that complies with the requirements set out in Article 14 of the Alternative Investment Fund Managers Directive ('AIFMD') and chapter 19B (the 'AIFM Remuneration Code') of the FCA's Senior Management Arrangements, Systems and Controls ('SYSC') sourcebook. Under the AIFM Remuneration Code, PGUK must report annually on the remuneration policy for Code Staff, who are defined as employees who perform a significant influence function, senior management and risk takers whose professional activities could have a material impact on the risk profile of the Firm.

PGUK has applied the AIFM Remuneration Code in a proportionate manner, taking into account the Firm's size, internal organisation and the nature, scope and complexity of its activities. PGUK takes advice from the PG Nominations and Compensation Committee (made up of a majority of members independent of PG, henceforth the 'NCC'), which meets every year to set the framework and provide guidelines for the overall compensation strategy for that year, including the overall financial budget for the base and variable compensation components for the year.

Once these overarching parameters have been defined, PG's Executive Committee and business department heads prepare suggestions for individual allocations from the overall budget and define the candidates for promotion; these proposals are then presented to the NCC for further discussion. Once concluded, the NCC makes a final proposal to the PG Board for ratification (note, Partners and Managing Director level promotions and compensation are ratified individually). Further detail can be sought from Partners Group's Compensation Report which is available on Partners Group's website, here.

Overall, PG's remuneration policy is designed to:

- Be consistent with and promote sound and effective risk management;
- Not encourage excessive risk taking which is inconsistent with the risk profile of the Firm and its clients;

- Include measures to avoid conflicts of interest; and
- Be in line with PG's business strategy, objectives, values and long-term interests.

Remuneration at PG is comprised of fixed pay (i.e. salary and benefits) and performance related pay (e.g., cash bonus, employee share participation and management carry programme), which takes into account the individual's overall performance and the results of the Firm, its clients and PG and its clients as a whole. The performance of an individual is assessed over the entire calendar year.

As of 31/12/2019, a total of 21 individuals have been identified as Remuneration Code Staff. On the basis that PGUK has one 'business unit' (albeit in respect of multiple clients and strategies), aggregate remuneration expenditure in respect of these Code staff in the year 2019 was as follows:

	Senior management	Other Code Staff
Number of Code Staff	4	17
Fixed Remuneration[1]	768	2,425
Variable Remuneration[2]	1,977	7,294
Total £(000s)	2,745	9,719

[1] Fixed remuneration includes base salary and other cash payments (excluding variable pay).
[2] Variable remuneration includes annual bonus and long-term incentive awards granted in 2020, in respect of the 2019 financial year.