



Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

BESPOKE SOLUTIONS: THE PENSION FUND

Diversification, regulation, consolidation – a triple challenge for pension funds

Pension funds are increasingly looking to private equity investments to provide diversification and asset security. But can a fund gain diversification, reduce overall fees and benefit from consolidated reporting across all assets? Partners Group helped one corporate pension plan achieve just that.

Overview

Private markets have become a key component in institutional investors' portfolios, helping them achieve long-term return objectives. But the options available to pension funds can be limited. Investment through fund-of-funds creates layers of reporting and fees, depriving pension plans of the control that can help deliver outperformance.

Local retirement and other regulations add additional layers of complexity. Meeting regulatory requirements is a key parameter for any investment strategy and implementing an efficient portfolio through a number of different regulatory frameworks requires thoughtful, solution-oriented customization.

Too often the solutions offered are of the 'cookie-cutter' variety and cannot deliver full transparency, fee efficiency and the complete range of private markets investment options.

That is why one US corporate pension fund asked Partners Group to find a solution.

Multiple targets

The pension fund had a fixed allocation to private equity, but its existing solution – investing through fund-of-funds structures – was not delivering the desired outcome. The multiple investment layers added fees and the oversight of multiple legacy

private equity fund managers was becoming inefficient based on the size of the plan's team and the plan's overall goals.

Over time, the aim was to migrate capital in those legacy assets to the ongoing portfolio. And, naturally, the pension fund wanted to have a consolidated view across both legacy and current investments. It was proving difficult to accomplish these goals while also maintaining the plan's target private equity allocation, achieving its target of outperforming public markets by 3-5%, and having a fund that would eventually become self-funding.

A truly bespoke solution

Partners Group was able to design a solution that delivered on all these requirements and, within 18 months, the plan was delivering a net internal rate of return that was 5% higher than even the high end of the target range of returns. The ability to make investments directly in businesses and assets alongside other Partners Group managed funds was an essential element in the solution, removing fund fees and giving Partners Group greater control to steer the plan's private equity portfolio towards its target returns and strategy.

The solution brought multiple portfolios under a single platform for investment and governance. This product infrastructure allowed regulatory compliance to be tailored to a multi-level,





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➤ fund-of-one set up for the plan, while also providing a single point of entry for all future allocations. The plan no longer had to monitor multiple fund managers and, with a solid and straightforward governance system in place, the fund-of-one could focus on reaching its investment goals.

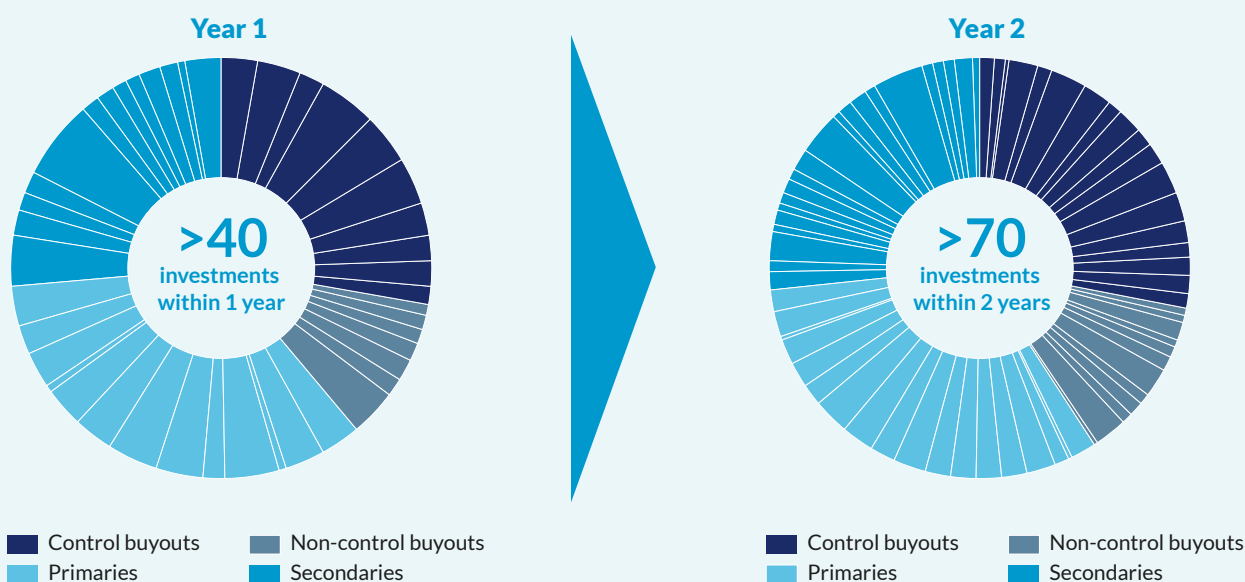
With the ability to control and adjust cash distributions and recycling into new assets, the allocation to private equity can be maintained at its target level. At the same time, the platform is efficient and fully scalable, allowing for both increasing asset allocations and future diversification if desired.

Partners Group also provided additional resources to help the plan oversee and manage its

legacy portfolio. Overlaying the entire structure is a consolidating reporting system. The pension fund now has a fully aggregated and transparent view across all assets, including its prior fund commitments.

This solution met the key requirements of access to the full range of private equity assets, fully consolidated reporting across all private equity investments and straightforward regulatory compliance. But there were further benefits – the scalable evergreen structure allowed the private equity allocation to be stable and potentially self-funding, and the unique governance framework was flexible enough to expand the solution more broadly to additional asset classes such as private infrastructure.

Building a diversified portfolio at speed



Source Partners Group, January 2023. Diversification does not ensure a profit nor does it guarantee protection against a loss. Past performance is not indicative of future results. For illustrative purposes only.

A self-funding private equity allocation

From the outset, the investment focus was on giving the plan access to direct and secondary private equity investments to help deliver higher returns over the first 18 months. Primary investments across the portfolio were tightly controlled in the early years of the structure to reduce the J-curve and improve performance.

Longer term, the consolidated insight into distributions allows the structure to become entirely self-funding through reinvestment. Initially, the bulk of new investments comes from new commitments by the pension fund. In Year 1,

those new commitments amounted to 71% of new investments. But, over time, cash distributions from the maturing portfolio fund an increasing proportion of new investments. After four years, the private equity allocation will be entirely self-funded through distributions and reinvestment.

In an uncertain economic climate, even the most successful pension fund sponsor can face budgetary pressures. The potential to free the plan sponsor from future contributions was an added benefit providing invaluable security and independence for the pension fund.



Customization is the key

Expanding private markets investments is a key objective of most pension funds, but, in many cases, the traditional solutions are no longer sufficient, not least when working to achieve a number of goals that do not neatly fit within a complex regulatory framework. Meeting these challenges requires a private markets specialist with the tools to deliver the consolidated view that pension funds need across their investments. It also requires expertise in designing fund structures that can provide control and financial performance.

Cookie-cutter solutions will always fall short when it comes to meeting these objectives. A bespoke service can not only meet all the requirements, but it can also deliver a solution that is suitable not just for today's strategy, but also for what the future may hold.

Disclaimer

Past performance is not indicative of future results. For illustrative purposes only. There is no assurance that similar results will be achieved in the future. Diversification does not ensure a profit or protect against loss. Investments in funds are speculative and will involve significant risks. Certain significant risks of investing in private funds include, but are not limited to: lack of operating history; economic, political and legal risks; currency risk; leverage risk of borrowing by a fund; auditing and financial reporting; possible lack of diversification; control issues; financial market fluctuations; illiquid investments; mezzanine investments; real estate; hedging risk and adjustment of the relative value weights by the general partner.

About Partners Group

Partners Group is a leading global private markets firm. Since 1996, the firm has invested USD 195 billion in private equity, private real estate, private debt, and private infrastructure on behalf of its clients globally. Partners Group seeks to generate strong returns through capitalizing on thematic growth trends and transforming attractive businesses and assets into market leaders. The firm is a committed, responsible investor and aims to create sustainable returns with lasting, positive impact for all its stakeholders. With USD 135 billion in assets under management as of 31 December 2022, Partners Group provides an innovative range of bespoke client solutions to institutional investors, sovereign wealth funds, family offices and private individuals globally. The firm employs more than 1,800 diverse professionals across 20 offices worldwide and has regional headquarters in Baar-Zug, Switzerland; Denver, USA; and Singapore. It has been listed on the SIX Swiss Exchange since 2006 (symbol: PGHN).

