

2022 at a glance - Financials



Financials

Management fees increased by 12%, supported by continued AuM growth; EBIT margin at 60.5%, in line with long-term target.

We saw continued solid growth in average assets under management ("AuM") in CHF of 14% as we delivered USD 22 billion fundraising, within our guidance of USD 22 to 26 billion. This resulted in management fee growth of 12% to CHF 1'603 million. Following from 2021's exceptional performance fees of 46% of total revenues, lower levels of portfolio realizations translated into performance fees of CHF 269 million or 14% of total revenues. In total, revenues decreased by 29% to CHF 1'872 million.

Total operating costs decreased by 24% to CHF 740 million, mainly driven by lower variable performance fee-related personnel expenses. Total personnel expenses decreased by 31% year-on-year to CHF 596 million. In turn, a resumption in travel, continued investments in technology and cost inflation resulted in an increase of other operating expenses of 33% to CHF 104 million. Altogether, EBIT decreased by 31% year-on-year to CHF 1'132 million driven by lower performance fees. The EBIT margin decreased to 60.5% due to rising labor costs and foreign exchange effects.

For the financial year 2022, the Board proposes a dividend increase of 12% to CHF 37.00 per share based on continued AuM growth and a confident growth outlook across all business lines.

Key financials

	2022	2021	Growth
AuM as of the end of the period (in USD bn)	135.4	127.4	+6%
AuM as of the end of the period (in CHF bn)	125.3	116.0	+8%
Average AuM as of 31 December (in CHF bn)¹	124.1	109.3	+14%
Revenue margin ^{1,2}	1.51%	2.41%	
Revenues (in CHF m)²	1'872	2'629	(29)%
Management fees (in CHF m) ³	1'603	1'432	+12%
<i>In proportion of total revenues</i>	86%	54%	
Performance fees (in CHF m)	269	1'197	(78)%
<i>In proportion of total revenues</i>	14%	46%	
EBIT (in CHF m)	1'132	1'650	(31)%
EBIT margin	60.5%	62.8%	
Management Fee EBIT (in CHF m) ⁴	963	895	+8%
Profit (in CHF m)	1'005	1'464	(31)%
Dividend (in CHF per share)	37.00	33.00	+12%

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.

¹ Based on average AuM, calculated on a daily basis.

² Revenues from management services, net, including other operating income.

³ Management fees and other revenues, net, and other operating income.

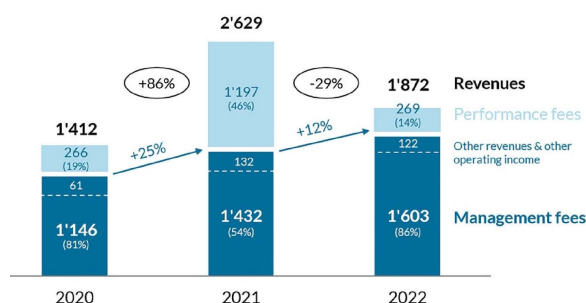
⁴ Management Fee EBIT is defined in the "Key definitions and alternative performance metrics" section of the Annual Report 2022 (p32).

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Solid management fee growth of 12%

Average AuM in CHF grew by 14% in 2022 resulting in a management fee increase of 12% to CHF 1'603 million (2021: CHF 1'432 million). Of this amount, other revenues and other operating income decreased by 7% to CHF 122 million (2021: CHF 132 million). Despite being lower than 2021, we continued to benefit from late management fees in large part due to the closing of our third direct infrastructure flagship program in early 2022. We also saw higher other non-recurring operating income related to higher income from our treasury management services.

Revenues⁵ (in CHF million)



Continued management fee margin stability

Over the last 10 years, our management fee margin has been stable and ranged between 1.22% and 1.33% (average 1.27%). This confirms that clients value our solutions and allows us to benefit from pricing stability. In any given year, total management fees may vary slightly based on late management fees levied and other operating income stemming from our treasury management services. In 2022, the management fee margin was at the upper end of the historical bandwidth at 1.29% due to higher late management fees. The lower performance fees brought the total revenue margin to 1.51% (2021: 2.41%).

Management fees make up most of our revenues

Today, we manage over 300 diverse private markets portfolios in different stages of their lifecycle across all private market asset classes contributing to our highly diversified management fees. These broadly fall under three main categories: first, closed-ended limited partnerships; second, mandates for large institutions, which allow us to steer investment exposure across multiple private markets asset classes in line with clients' longer-term investment horizons; and third, evergreen programs, which allow our investors to gain full access to private markets from day one.

- **Closed-ended programs** (33% of AuM) are long-term closed-ended investment partnerships typically represented by our traditional flagship programs. Their management fees are recurring as they are based on long-term client contracts, often with an initial term of 10-12 years for closed-ended equity offerings and 5-7 years for closed-ended debt offerings.
- **Mandates** (37% of AuM) are long-term partnerships between Partners Group and an institutional investor with a highly specific and tailored investment mandate which Partners Group manages. Management fees are charged on investment exposure via long-term partnerships, which are often not limited to a specific contractual life and will continue for a perpetual term, unless new investments are discontinued.
- **Evergreen programs** (30% of AuM) cater predominantly to high-net-worth individuals and smaller institutional investors and provide access to various private markets asset classes under the form of funds with limited liquidity. Management fees are typically charged on the fund's investment exposure.⁶

⁵ Revenues from management services, net, and other operating income. Management fees and other revenues, net, and other operating income. Due to rounding, numbers might not add up.

⁶ Gating provisions are a standard feature of these evergreen programs in order to protect remaining investors as well as performance; net redemptions in these investment programs are typically limited to 20-25% p.a. of the prevailing net asset value, depending on the investment strategy and content of the program. When deemed in the best interest of the investment program, stricter gating rules can be enforced for select share classes for a period of up to two years.

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Revenue margin⁷

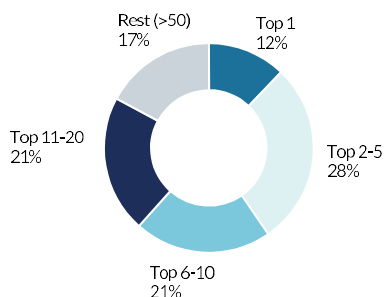


Performance fees lower following exceptional 2021

Following from last year's exceptional performance fees of 46% of revenues, performance fees for 2022 represented 14% of total revenues, or CHF 269 million (2021: CHF 1'197 million). This was primarily driven by two factors. In H1 2022, performance fees were lower as we decided in 2021 to bring forward select realizations originally planned for 2022 into 2021 because the firm had already met its value creation targets and exit conditions were particularly favorable. In H2 2022, we did not realize our full performance fee potential as we postponed the realization of more mature businesses and assets considering the changing market environment.

Our performance fees are well diversified across programs and assets. More than 70 investment programs and mandates with portfolios diversified across many vintage years contributed to performance fees in 2022.

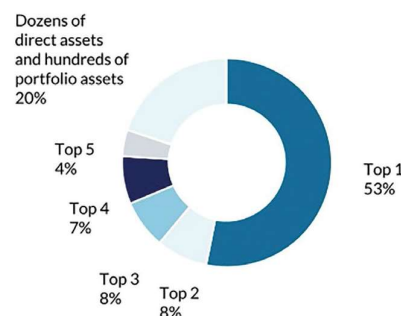
Performance fee contribution by investment programs & mandates



Performance fees were also driven by dozens of underlying direct assets and hundreds of portfolio assets. The investment program that contributed the most – a mature private equity evergreen program – represented 12% of the total performance fees. The asset that contributed the most to total performance fees was the sale of a 50% stake

in USIC (United States Infrastructure Corporation) at an enterprise value of USD 4.1 billion, representing 53% of total performance fees generated. USIC is a leading North American provider of utility location services providing outsourced "utility locate" services, which involve locating, identifying, and marking sub-surface utility infrastructure such as pipes, cables, and fiber. Given the size of the transaction, performance fees were less diversified than in a normalized market environment with stable financing markets. The sale of USIC is a testament of the continued demand for strongly performing businesses, especially those with infrastructure-like characteristics.

Performance fee contribution by single assets



Underlying portfolio performance confirms positive mid-to long-term performance fee outlook

For 2023, we expect performance fees to be within our mid- to long-term guidance of 20% to 30% as a proportion of total revenues, with a tilt to H2. Our expectations are based on the strong underlying performance of our portfolio as well as on financing markets stabilizing sufficiently during H1 to support an increase in divestment activity later in the year.

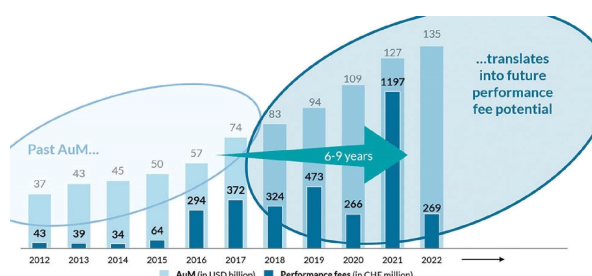
We follow a prudent approach in recognizing performance fees. In closed-ended investment programs and mandates, performance fees are recognized only once investments are realized and a pre-defined return hurdle has been exceeded, after stress-testing unrealized investments. We stress-test unrealized investments by applying significant NAV write-downs, of at least 50% from the initial investment levels to assess whether the hurdle rate will still be reached despite these hypothetical mark-downs. These stress-tests are driven by a number of factors, including macroeconomic as well as bottom-up asset and portfolio-level data. The performance fee recognition methodology for closed-ended programs is explained in detail on pages 30 to 31, as well as in note 19.7 (b) of the notes to the consolidated financial statements.

⁷ Calculated as revenues divided by average assets under management, on a daily basis.

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Over the longer term, we continue to expect our performance fee potential to grow in line with AuM. As the value creation period lasts several years, performance fees often only start to be earned six to nine years after an investment program commences its investment activities, and only if its underlying investments are successful.

Performance fees



FTE growth in line with AuM growth

The average number of FTEs for 2022 was 1'705 as of 31 December 2022 (31 December 2021: 1'516 FTEs), an increase of 13% year-on-year. In order to build out major business, corporate, and organizational initiatives to support continued sustainable growth, we have historically grown the number of professionals in line with our AuM.

Performance fees main driver of lower total costs

In 2022, total operating costs decreased by 24% to CHF 740 million (2021: CHF 978 million). The decrease was mainly driven by lower variable performance fee-related personnel expenses and was partially offset by increased investments in talent, by cost inflation, and by a normalization of travel.

Personnel expenses

Personnel expenses decreased by 31% to CHF 596 million and represented 80% of total operating costs in 2022. Personnel expenses consist of both regular and performance fee-related expenses.

- **Regular personnel expenses** grew by 18% to CHF 496 million (2021: CHF 420 million). They grew ahead of average FTE growth of 13% as we decided to make adjustments to compensation. This was to account for a more competitive environment for talent as well as for the effects of inflation. The total growth in regular personnel expenses was mitigated by a release of social

security provisions from the firm's equity incentive plans, which resulted from the decrease in the firm's share price in 2022.

- **Performance fee-related personnel expenses** decreased by 77% to CHF 100 million (2021: CHF 441 million), in line with performance fees. Performance fees and performance fee-related expenses have a direct relationship to each other as we allocate up to 40% of all performance fees to our staff and as a result, foresee these two elements to move in tandem.

Other operating expenses and depreciation & amortization

Other operating expenses increased by 33% during the period to CHF 104 million (2021: CHF 78 million). This was driven by a normalization of travel post-pandemic to continue driving fundraising and investment activity as well as by increased technology investments to support the sustained growth of our platform in the years to come. We expect those expenses to move in line with management fees going forward. Depreciation & amortization remained stable at CHF 40 million (2021: CHF 40 million).

EBIT in line with revenues⁸ (in CHF m)

	2022		2021
Revenues	1'872	(29)%	2'629
Total operating costs, of which	-740	(24)%	-978
Personnel expenses	-596	(31)%	-861
<i>Personnel expenses (regular)</i>	-496	+18%	-420
<i>Personnel expenses (performance-fee-related)</i>	-100	(77)%	-441
Other operating expenses	-104	+33%	-78
Depreciation & amortization	-40	+2%	-40
EBIT	1'132	(31)%	1'650
EBIT margin	60.5%		62.8%
Average FTEs	1'705	+13%	1'516
Year-end FTEs	1'836	+17%	1'573

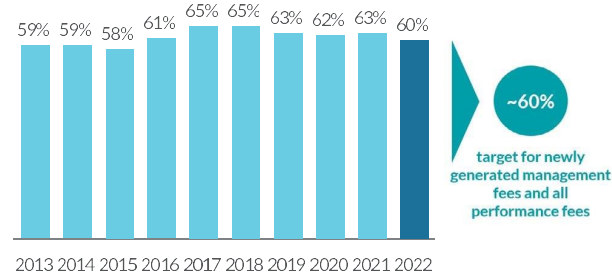
⁸ Revenues include management fees and other revenues, net, performance fees, net, and other operating income. Regular personnel expenses exclude performance fee related personnel expenses. Performance-fee related personnel expenses are defined in the "Key definitions and alternative performance metrics" section of the Annual Report 2022 (p. 32).

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EBIT margin at 60.5%, aligned with long-term target of ~60% on new business

EBIT amounted to CHF 1'132 million (2021: CHF 1'650 million), mainly driven by lower performance fees. At the same time, the EBIT margin decreased to 60.5% (2021: 62.8%). This was driven by two factors in about equal proportions: first, rising labor costs due to a more competitive environment for talent and the effects of inflation, and second, foreign exchange effects such as the strengthening of the CHF against the EUR. We provide further details on our currency exposure in the following section.

EBIT margin⁹

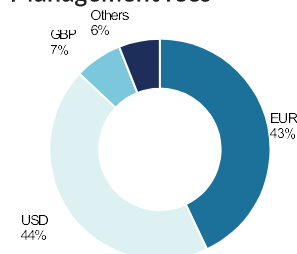


FX exposure

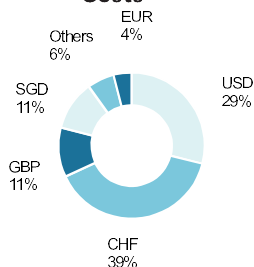
In 2022, foreign exchange fluctuations negatively impacted the firm's operating margin by approximately 1.5%-points. In general, fluctuations in EUR or USD against CHF affect our revenues and costs and, therefore, also our total EBIT margin. This is a result of the difference between the currency mix of our revenues and costs. Most prominently affected by such movements are our management fees and operating costs (excluding performance-fee related expenses). Performance fee revenues and performance fee-related expenses are largely EBIT margin-neutral as both, revenues, and costs, are equally affected by such currency movements.

Currency exposure in 2022

Management fees¹⁰



Costs¹¹



Average FX rates

Average FX rates	2022	2021	Delta
1 EUR CHF	1.005	1.081	(7)%
1 USD CHF	0.955	0.914	4%
1 GBP CHF	1.179	1.257	(6)%
1 SGD CHF	0.692	0.680	2%

Underlying operational performance offset by adverse foreign exchange movements

The financial result amounted to CHF -2 million (2021: CHF 76 million):

- Portfolio performance:** we saw an average net investment result of 2%, or CHF +14 million (2021: CHF +120 million), stemming from our own investment programs in which we invest alongside our clients (see detailed description of balance sheet investments below). Our transformational investing approach continued to result in strong underlying asset and portfolio performance, which mitigated the effect of valuation changes brought upon by public market devaluations, resulting in a slight uplift across our investments alongside our clients for the twelve-month period ending on 31 December 2022. For further information see note 5.5 to the consolidated financial statements.
- Foreign exchange hedging and others:** the negative contribution of CHF -16 million (2021: CHF -44 million) was driven by negative foreign exchange effects, hedging and other costs. These negative effects are mainly a result of the accounting treatment of financial positions in currencies different than CHF. We hedge our exposure in currencies other than CHF for our treasury management and short-term financing services.

The actual tax rate stood at 11.0% (2021: 15.2%) resulting in corporate taxes of CHF 124 million (2021: CHF 263 million). This reduction was mainly driven by a one-time recognition of goodwill in the tax accounts in 2022. Adjusting for the effects from the recognition of goodwill, the tax rate for 2022 would have been 15.4%. Assuming the OECD domestic tax base erosion and profit shifting ("BEPS") Pillar II initiative will be implemented in 2024, we expect the tax rate to increase to 18% to 19% for 2024 and onwards.

⁹ For 2013 - 2014, non-cash items related to the capital-protected product Pearl Holding Limited were excluded from depreciation & amortization.

¹⁰ Includes management fees and other revenues, net, and other operating income. Currency of the firm's AuM used as proxy for currency exposure of management fees.

¹¹ Includes regular personnel expenses (excluding performance fee-related expenses), other operating expenses as well as depreciation and amortization.

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In summary, the firm's profit decreased to CHF 1'005 million (2021: CHF 1'464 million), developing broadly in-line with revenue.

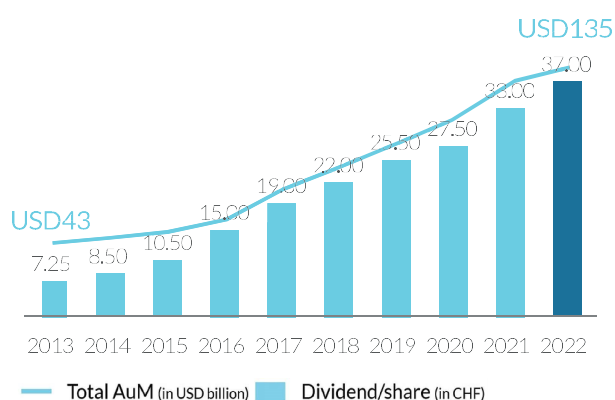
Profit (in CHF m)

	2022		2021
EBIT	1'132	(31)%	1'650
Total financial result, of which	-2		76
Portfolio performance	+14		+120
Foreign exchange, hedging & others	-16		-44
Taxes	-124		-263
Tax rate	11.0%		15.2%
Profit	1'005	(31)%	1'464

Proposed dividend of CHF 37.00 per share (+12%)

Based on the strong development of the business in all asset classes and regions, the operating result, and their confidence in the sustainability of this growth, Partners Group's Board of Directors will propose an increased dividend of CHF 37.00 per share (2021: CHF 33.00 per share) to its shareholders at the Annual General Meeting on 24 May 2023. This proposal represents a dividend increase of 12% and a payout ratio of 95% (2021: 60%), on a diluted earnings per share basis.

Dividend



Strong balance sheet

Our balance sheet remains strong with total available liquidity of CHF 3'071 million, represented by the sum of our cash & cash equivalents positions, of our undrawn credit facilities, and of our short-term loans. As such, we have sufficient liquidity to meet expected operational expenses and to service short-term financial obligations. We furthermore ensure that we meet our targeted available liquidity level that would also enable us to well sustain the firm's operations in a financial crisis scenario and/or a depressed economic environment.

In CHF m	2022
Cash & cash equivalents	779
Undrawn credit facilities	967
Cash liquidity	1'746
Short-term loans	1'325
Total available liquidity	3'071

As of 31 December 2022, the firm held a total of CHF 779 million in cash & cash equivalents. The short-term loans related to our treasury management services further complement our total cash & cash equivalents, strengthening our short-term liquidity. In fact, as at year-end 2022, 477 short-term loans (31 December 2021: 441) were outstanding with an average loan amount of CHF 2.8 million (31 December 2021: CHF 3.4 million), representing a total of CHF 1'325 million (31 December 2021: CHF 1'489 million). The durations of these loans typically amount to 1-3 months. The loans are secured against unfunded commitments and are, in addition, subject to strict loan-to-value (LTV) rules. In addition, each loan is assigned with a risk specific capacity, which is measured against an overall risk capacity budget.

The firm maintains three unsecured credit facilities with Swiss and international banks amounting to a total of CHF 1'237 million as of 31 December 2022 (31 December 2021: CHF 865 million). These credit facilities can be used for general corporate purposes and/or to provide fixed advances, with a primary focus on working capital financing. The facilities are subject to maximum debt covenants which were met throughout the current and prior year. As of 31 December 2022, CHF 270 million was drawn from the credit facilities (31 December 2021: no credit facility drawn).

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Partners Group has two fixed-rate senior unsecured CHF-denominated corporate bonds outstanding:

- CHF 300 million, coupon 0.15%, maturity on 7 June 2024 (ISIN CH0361532895), issued in June 2017
- CHF 500 million, coupon 0.40%, maturity on 21 June 2027 (ISIN CH0419041287), issued in June 2019

As of 31 December 2022, our long-term outstanding debt amounted to CHF 799 million (31 December 2021: CHF 799 million).

The proceeds of the bonds that we issued in the past further strengthen the sustainability of our operations in a financial crisis scenario and enable us to optimize the management of our liquidity, in particular for short-term financing needs arising from our treasury management services offered to our clients. These services allow for efficient use of capital within our investment programs by bridging capital drawdowns and distributions where beneficial for clients (e.g. netting cash-flows to reduce the number of drawdowns and distributions).

Continued balance-sheet light approach

As of 31 December 2022, the investments we hold on our own balance sheet alongside clients amount to a total of CHF 811 million (31 December 2021: CHF 770 million).

The firm's balance sheet investments consist of its financial investments/GP commitments, seed investments, and investments in associates. Financial investments/ GP commitments (i.e. our obligation to fund investments alongside clients) typically represent about 1% of assets invested in a closed-ended limited partnership structure and have an aggregate net asset value of CHF 767 million as of 31 December 2022 (31 December 2021: CHF 715 million).

Investments in associates amounted to CHF 13 million as of 31 December 2022 (31 December 2021: CHF 18 million), which mainly represent a stake in Pearl Holding Limited, a mature investment program which continues to wind down via ongoing distributions.

Partners Group also provides seed financing to certain early stage investment programs managed by the firm. The scope of these investments is limited due to the firm's strict balance sheet risk management framework. The underlying assets of these investment programs are typically private market

assets valued at the net asset value and amounted to (net) CHF 31 million as of 31 December 2022 (31 December 2021: CHF 37 million).

Investments alongside clients from balance sheet¹² (in CHF m)

Financial investments / GP commitment ¹³	767
Investments in associates ¹⁴	13
Seed investments ¹⁵	31
Total investments alongside clients	811

In addition to investing into investment programs alongside clients from our balance sheet, we further align the interests of clients with those of the firm's employees by offering all employees preferential terms to invest alongside our private markets programs via a global employee commitment plan. In line with standard industry practice, such investments charge zero management fees and zero performance fees.

In total, commitments by the firm's Board of Directors and employees amounted to approximately CHF 2.2 billion as of 31 December 2022 (31 December 2021: CHF 2.1 billion), of which CHF 1.7 billion (2021: CHF 1.6 billion) is committed to closed-ended programs and CHF 0.5 billion (2021: CHF 0.5 billion) to evergreen programs.

¹² As of 31 December 2022.

¹³ NAV excluding CHF 323 million (2021: CHF 455 million) of commitments that were not yet called but may be called over time, typically between one to five years following the subscription of the commitment.

¹⁴ Investments in associates described in detail in note 6 of the consolidated financial statements.

¹⁵ Seed investments presented in the annual report as assets and liabilities held for sale.

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Financial outlook

- **Management fees:** we expect gross client demand of USD 17 to 22 billion in 2023, together with around USD 10.5 to 12.5 billion in tail-down effects from the more mature closed-ended investment programs and redemptions from evergreen programs. We base our guidance on a normalization in the pace of client conversions and on financing markets stabilizing sufficiently during H1 to support an increase in investment activity later in the year. Our fundraising in H2 should be further supported by a number of next-generation flagship strategies coming to market at that time. We expect this demand to translate into additional management fees and therefore guide that the management fees in CHF develop broadly in line with the average AuM in CHF.
- **Performance fees:** assuming that financing markets stabilize sufficiently during H1, we expect the exit environment to become gradually more benign and anticipate exits to normalize around our mid- to long-term guidance of 20% to 30% of total revenues with a tilt to H2 2023. We continue to expect our performance fee potential to grow roughly in line with AuM.
- **Target EBIT margin:** we continue to apply a disciplined approach to cost management. We will continue to target a ~60% EBIT margin on new business as we continue to develop our talented professionals and invest in key areas of strategic focus, such as clients and technology.
- **Tax rate:** our overall corporate tax rate derives from various tax rates across many jurisdictions worldwide where we have active business operations. For 2023, we anticipate the tax rate to be in the range of 15% to 17%. And for 2024 onwards, we expect the tax rate to increase to around 18% to 19% assuming the OECD BEPS Pillar II initiative will be implemented in 2024.

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Performance fee recognition

In private markets, performance fees are designed to remunerate investment managers for the long-term value creation for their clients. They are a profit-sharing incentive for investment managers when their investment programs outperform a pre-agreed return hurdle, typically defined over the lifetime of such programs. In closed-ended investment programs, performance fees are typically only charged once investments are realized and a pre-defined return hurdle has been exceeded. As the value creation period lasts several years, performance fees often only start to be earned six to nine years after an investment program commences its investment activities, and only if these are successful. The illustrative example below shows the performance fee model of a typical limited partnership program. It shows how distributions in private markets portfolios bring forward the maturity profile of an investment program and increase the likelihood that the required return hurdle will be reached.

Illustrative example of a closed-ended private markets program over its lifetime

This illustrative example assumes an initial client commitment of 100 into a closed-ended investment program. It is agreed that the investment manager shall receive 20% of profits over time and that the return hurdle shall translate to distributions to the client of 140.

After a few years, the investment manager generates realizations in the portfolio and starts making distributions to the client. After 6-9 years, the cumulative distributions (blue triangle) received by the client exceed 140, i.e. the hurdle rate. In a first step, the investment manager is entitled to receive subsequent distributions above the return hurdle as performance fees, until the investment manager “catches-up” on past performance in excess of the client investment (“catch-up” on $140 - 100 = 40$, and $40 \times 20\%$ performance fees = 8).

In a second step, the investment manager and the client will share any additional distributions that stem from the sale of the remaining portfolio over time, according to the predefined performance-sharing mechanism. In our example the client receives 80% of distributions and the investment manager receives 20%. The example assumes that the remaining NAV equals 60 and this entitles the investment manager to an additional performance fee of 12 ($60 \times 20\%$) should the portfolio be sold at the indicated value of 60.

Total performance fees received by the manager are 20 (20% of $40 + 20\%$ of $60 = 8 + 12$) and clients receive 80% of profits ($80\% \times (200 - 100)$).

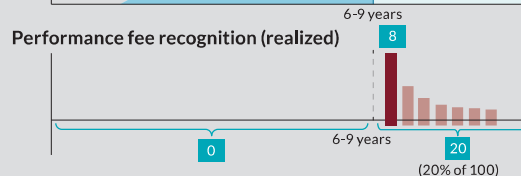
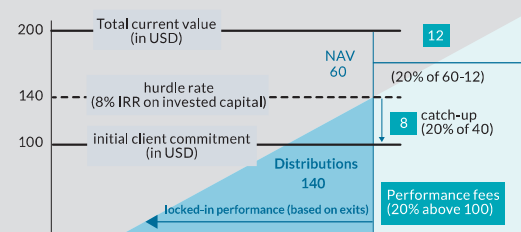
The timing and amount of performance fee payments depends on several factors, including the pace of deployment, performance of investments and pace of realizations (cash distributions). Partners Group recognizes performance fees of investment programs with a claw-back mechanism based on a three-step approach:

- Step 1: the total proceeds from realized underlying investments are determined and the corresponding costs of such realized as well as of fully written-off investments are deducted (“Net Proceeds”).
- Step 2: the NAV of unrealized underlying investments is determined. The respective NAV will be written down to the extent that the probability of a future claw-back risk becomes minimal¹. Then the corresponding costs of such unrealized investments are deducted, resulting in a “Write-Down NAV”. This Write-Down NAV is added to the Net Proceeds.
- Step 3: performance fees are calculated for (1) and (2) by multiplying (1) and (2) by the applicable performance fee rate subject to exceedance of the hurdle rate. Where the hurdle rate is not exceeded, there will be no performance fees. The lower of such calculated performance fees is recognized.

The illustrative example below explains the approach for performance fee recognition as described above.

Performance fee model in a closed-ended investment program

Capital returns to clients



Note: performance fees of performance fee generating investment programs and mandates typically range between 5-20% over a hurdle of 4-8% IRR on invested capital, depending on the program and instruments. Past performance is not indicative of future results. For illustrative purposes only.

¹ As of 31 December 2022, the applied discount was 50% (31 December 2021: 50%), except for selected programs where the discount is determined on the basis of a systematic approach and may be up to 100%.

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Illustrative example of performance fee recognition in a closed-ended program

This simplified example assumes that, with initial client commitments of 450, a fund made only two acquisitions: investment Y for 100 and investment Z for 350.

Furthermore, it is assumed that the value of investment Y increases to 200 and the value of investment Z increases to 800 for Scenarios 1 and 2, and to 500 for Scenario 3.

The performance fee recognition under these three scenarios would be as follows:

Scenario 1: No realizations (hurdle rate met)

Investment Y increases to 200

Investment Z increases to 800

Remaining NAV 1'000

- Step 1: as there were no realized investments, we would not be entitled to a performance fee. Performance fees = 0.
- Step 2: NAV stress-test: $1'000 \times 50\% = 500$; 500 (stress-tested NAV) $- 450$ (cost of investments Y and Z) = 50 (value gain); 50 (value gain) $\times 20\% = 10$ in performance fees.
- Step 3: as performance fees can only be recognized on the lower of realized investments (step 1: performance fee = 0) vis-à-vis the combination of realized and stress-tested unrealized investments (step 2: performance fee = 10), we would not recognize any performance fees.

Scenario 2: Investment Y realized (hurdle rate met)

Investment Y realized for 200

Investment Z increases to 800

Remaining NAV 800

- Step 1: as investment Y was realized for 200, we would be entitled to a performance fee as hurdle rate at asset level was met. $200 - 100 = 100$ (value gain); 100 (value gain) $\times 20\% = 20$ performance fees.
- Step 2: stress-test on remaining NAV: 800 (unrealized investment Y) $\times 50\% = 400$; 400 (stress-tested NAV) $+ 200$ (realized investment Y) $- 450$ (cost of investment Y and Z) = 150 (value gain); 150 (value gain) $\times 20\% = 30$ performance fees (assuming the hurdle rate is met).
- Step 3: as performance fees can only be recognized on the lower of realized investments (step 1: performance fee = 20) vis-à-vis the combination of realized and stress-tested unrealized investments (step 2: performance fee = 30), we would recognize 20 performance fees.

Scenario 3: Investment Y realized (hurdle rate not met)

Investment Y realized for 200

Investment Z increases to 500

Remaining NAV 500

- Step 1: as investment Y was realized for 200, we would be entitled to a performance fee as hurdle rate at asset level was met. $200 - 100 = 100$ (value gain); 100 (value gain) $\times 20\% = 20$ performance fees.
- Step 2: stress-test on remaining NAV: 500 (unrealized investment Y) $\times 50\% = 250$; 250 (stress-tested NAV) $+ 200$ (realized investment Y) $- 450$ (cost of investment Y and Z) = 0 (value gain); as the stress-test brings the overall return hurdle of the program below the pre-agreed threshold in this example, no performance fees can be recognized.
- Step 3: as the hurdle rate has not been met, we will not recognize any performance fees, despite there being realized investments.