



Partners Group
Passion for Private Markets

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Press release

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Partners Group publishes market outlook for H2 2015: fundamentals will regain importance in global markets

Partners Group today publishes its H2 2015 Private Markets Navigator: 'Firm navigation needed to avoid stretched valuations and realize growth'. The Private Markets Navigator shares Partners Group's outlook for all private markets asset classes and the global economy over the next six months.

Introducing the report, Christoph Rubeli, Co-CEO, Partners Group, says: "At a time of stretched market valuations and rising market vulnerability, fundamentals will regain importance in driving returns globally."

He notes: "In this environment, Partners Group will continue to overweight defensive assets and look for growth assets that offer value-creation opportunities as a way to generate returns on behalf of our clients, such as our recent private equity investment in US early childhood education business KUE LLC, which includes KinderCare Learning Centers, and our private debt investment in global aluminum tube manufacturer Alltub."

Summary of the views presented in Partners Group's H2 2015 Private Markets Navigator:

Macroeconomic view: assetflation is drawing to an end. Global growth remains tepid, but has become more solid in many parts of the world, partly supported by low oil prices and improving labor markets. Assuming August's market correction proves temporary, we may even witness the turn of the rate cycle in the US. Against the backdrop of continued low top-line growth and stretched valuations in certain segments, markets have become more vulnerable. Fundamentals (earnings, margins) will regain importance in driving returns globally, while multiple expansion has run its course. In this environment, we continue to overweight defensive assets and look for growth assets that offer value-creation opportunities as a way to generate returns.

Private equity: a time to sell and a time to buy selectively. While private equity fundraising fell in Q2 2015 to its lowest amount since Q1 2013, the level of competition on

the investment side continued to increase, driving acquisition multiples up and creating a great environment for exits. Nonetheless, we believe it is still possible to find companies at reasonable prices by focusing on three key themes: the development of platform investments; companies with technology-related advantages; and niche leaders active in resilient business areas, which are ready for international expansion. Additionally, quality assets are now available at lower multiples compared with two years ago in certain emerging markets, especially in Latin America, meaning conditions could be ripe for a new time-to-buy story in these countries.

Private real estate: discipline required in current stage of the real estate cycle.

One of the risks on the horizon for investors is that longer-term market interest rates may rise significantly over the year ahead. Higher risk-free yields suggest the potential for higher cap rates, indicative of lower real estate prices. While a historical review of the strength of the correlation between cap rate and interest rate movements provides mixed evidence, current pricing and historically low cap rates demand prudent underwriting. In this environment, our focus will be on strategies where we can: acquire properties below replacement cost and reposition them; buy, fix and sell properties in areas with supply/demand imbalances; and selectively develop core properties where long-term fundamentals support additional absorption. Additionally, 2015 marks the beginning of a "wave" of maturing programs that will likely create new opportunities outside of traditional secondary portfolio sales.

Private debt: mid-market remains the sweet spot away from the frenzy. High demand from investors and increased competition from CLOs in the US and Europe have created a borrower-friendly environment characterized by covenant-lite issuance and decreasing weighted average new issue institutional spreads, predominantly in large-cap transactions. In the mid-cap space, spreads are still well above their pre-financial crisis levels. Coupled with the retreat of banks from the leveraged loan market, the opportunity set for private debt is compelling. Consistent with this trend, we maintain our mid-cap debt investment strategy around three main themes: attractive niches with favorable risk/return profiles in less-competitive private debt environments; providing the creative structures and innovation required in an ever-evolving and competitive financing environment; and add-on financings.

Private infrastructure: avoiding the crowds is a must. Continued uncertainty in the macroeconomic and geo-political environment has led investors to look for safe havens, further boosting demand for the asset class. While the long-term fundamentals for infrastructure investment remain strong, we have seen further contraction in overall returns. We believe that relative value can still be found in markets with differentiated fundamentals and risk/return dynamics compared to core markets, but that any investment strategy needs to carefully adapt to the buoyant infrastructure capital environment. We look for investment opportunities that fit three key investment strategies: finding assets with value creation potential; building out market-leading infrastructure platforms; and investing in assets in transitional markets, where the tailwinds created by change lend support.

For a full copy of the report or to learn more, please contact Milevka Grceva (milevka.grceva@partnersgroup.com).

About Partners Group

Partners Group is a global private markets investment management firm with over EUR 42 billion (USD 47 billion) in investment programs under management in private equity, private real estate, private infrastructure and private debt. The firm manages a broad range of customized portfolios for an international clientele of institutional investors. Partners Group is headquartered in Zug, Switzerland and has offices in San Francisco, Houston, New York, São Paulo, London, Guernsey, Paris, Luxembourg, Milan, Munich, Dubai, Mumbai, Singapore, Shanghai, Seoul, Tokyo and Sydney. The firm employs over 780 people and is listed on the SIX Swiss Exchange (symbol: PGHN) with a major ownership by its partners and employees.

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