SASB Standards and Private Markets:

Partners Group's Adaptive Approach

Introduction

Partners Group is a leading global private markets investment manager, with USD 55 billion in assets under management across private equity, private real estate, private infrastructure, and private debt. The firm has a long-standing commitment to Responsible Investment, having been one of the first private markets asset managers to become a signatory of the UNPRI in 2008. Responsible Investment is also embedded within Partners Group's core values, as written in the firm's charter: "We manage assets with a long-term perspective to the benefit of individuals and societies worldwide. We aspire to be a role model in corporate responsibility and we continuously raise environmental, social and governance standards."

The first of the UNPRI's six principles is to "incorporate ESG issues into investment analysis and decision-making processes." While this may seem a simple and straightforward concept, investment managers have long wrestled with how exactly to go about this task in a way that is targeted, efficient, and of course, material. The ESG universe is vast and a long-standing challenge for investment managers has been both how to choose the "right" ESG factors for a given investment, and how to effectively integrate an assessment of those factors into the overall investment analysis.

Over the years, Partners Group has developed its own ESG Integration Methodology, which is applied to each investment opportunity and ensures material ESG factors are integrated throughout the investment cycle, from sourcing to diligence through to ownership, across all private markets asset classes. As SASB released its provisional standards beginning in 2013, Partners Group immediately recognized the value they could add to its existing methodology, particularly with initial company portfolio due diligence.

ESG analysis from due diligence through to ownership

In 2015, Partners Group performed a first screening on 3,851 direct investments, 567 of which made it to an initial due diligence stage and 156 to a more in-depth due diligence stage, ultimately resulting in 74 investments. Every investment that reaches the due diligence stage is subject to an ESG assessment, with the twin goals of a) vetting any investment for reputational risks related to ESG factors and b) identifying opportunities to enhance the value of an asset during ownership through improvements to ESG factors. Throughout the assessment process, establishing materiality is critical, as ESG analysis loses its impact if it cannot be tied to a core aspect of a business.

To facilitate and further institutionalize the process of establishing materiality across sectors and industries, Partners Group's Responsible Investment team recently developed a proprietary ESG due diligence tool, which draws on SASB standards. To develop the tool, the team consolidated sector-specific sustainability topics and accounting metrics across all industries and sectors into a database before adding a simple user interface for all the firm's investment professionals. Once the industry and region of the asset under due diligence has been selected from a drop-down menu, the tool auto-populates the ESG assessment with the relevant topics and metrics for that sector, including those defined in the SASB standards.

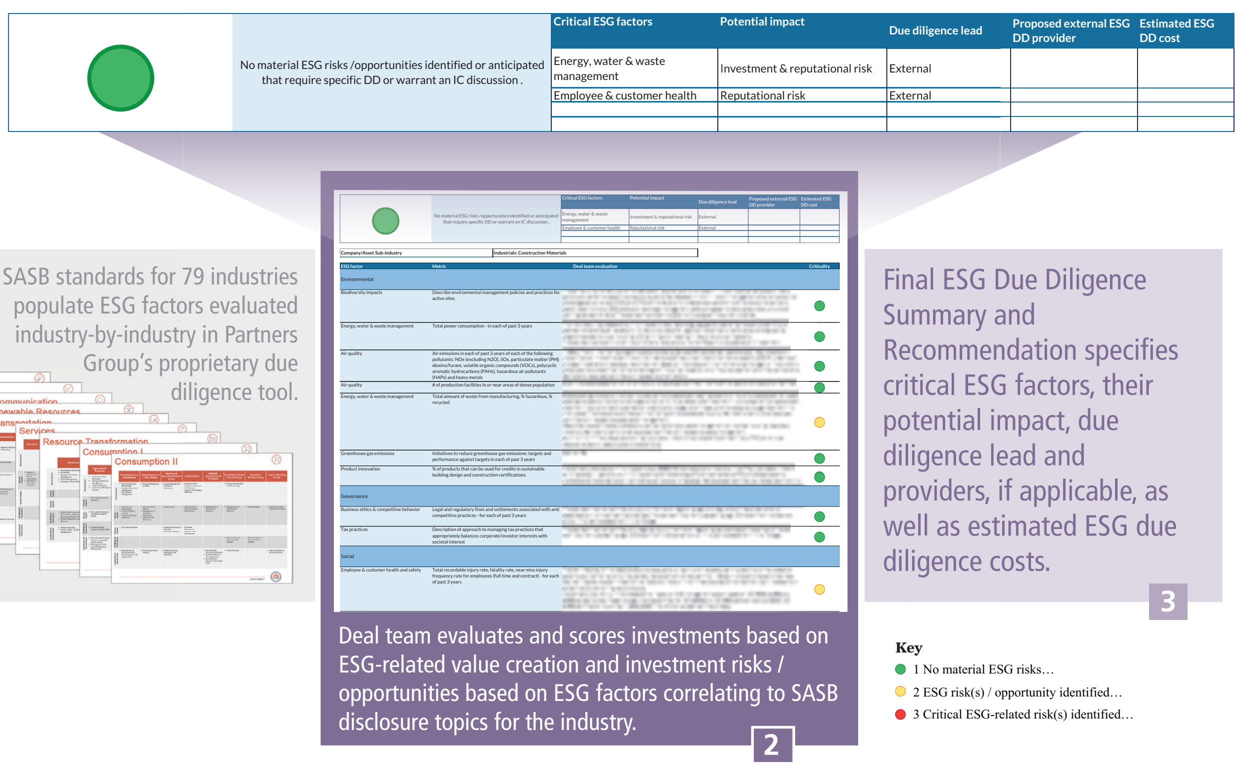
The adoption of the tool by investment professionals has freed up the Responsible Investment team to have more value-added conversations about ESG analysis deeper into the due diligence stage, rather than focusing simply on identifying the most material ESG topics early in the due diligence process.

The integration of the SASB standards into the tool has added significant value to the initial ESG assessment. SASB standards encompass all sectors of the economy and provide comprehensive coverage of the diversity of investment targets in Partners Group's multi-asset class pipeline. Furthermore, SASB industry briefs help pre-empt conversations about the materiality of the selected topics, clearly demonstrating the impact of each topic on the financial performance of a company. Importantly, using the SASB standards supports the long-term goal of truly incorporating ESG analysis and intuition into the investment process by removing intermediaries from the process of determining what ESG factors are relevant.

While the SASB standards deliver a great deal of value to the process of establishing materiality, the steps required to perform the subsequent ESG analysis are equally important. With the pre-populated list of ESG factors likely to be material in a given industry, investment teams set about collecting the relevant data on the target company for their first due diligence submission. They then continue to refine and build out their analysis in subsequent rounds of due diligence leading up to the investment recommendation and decision. In general, private markets investors enjoy a number of advantages relative to public markets investors in terms of access to management, information, and ultimately, influence.

The SASB standards help investors tame the vast universe of ESG topics into the 15-20 most relevant and material metrics for a given industry. In the initial round of ESG analysis, Partners Group's investment teams narrow this list further by assigning a "stoplight" value to each metric: green signals

Partners Group's Proprietary ESG Due Diligence Tool, Informed by SASB Standards



to the investment committee reviewing the analysis that no material ESG risks or opportunities were identified or anticipated that require specific due diligence or warrant a discussion; yellow means that an ESG risk or opportunity was identified or anticipated that warrants deep due diligence and notification to the investment committee, but that a material impact on the decision to invest is not expected; red indicates that critical ESG-related risk(s) were identified that could affect valuation and/or Partners Group's decision to invest, requiring deep follow-up due diligence and a dedicated investment committee discussion. One critical output of this process is a data-rich feedback cycle in which Partners Group continuously refines and sharpens its list of potentially material ESG topics with each successive assessment.

Once an investment has been made on behalf of Partners Group's clients, Partners Group conducts an ESG on-boarding with each company or asset's management in the first 100 days of ownership to align on priority areas for ESG engagement during the holding period. Integrating the SASB standards in the ESG analysis once again adds value to the process by clearly demonstrating the link between the target areas of engagement and the potential for material impact on the business.

Lessons learned and the path forward

Integrating the SASB standards into the due diligence process has improved the efficiency of Partners Group's ESG analysis. Through the process of developing its proprietary ESG due diligence tool, the firm's Responsible Investment team has learned a number of lessons.

First, while the SASB standards provide the best industry-specific coverage of sustainability topics, they do not necessarily incorporate ESG factors arising from non-industry characteristics like geography. For example, SASB may highlight corruption and bribery as a material sustainability topic only for the infrastructure sector while it would be relevant for a much wider range of industries operating in countries where such issues are endemic. This dynamic presents itself with other non-industry-specific ESG factors like the responsible handling of tax practices. In these cases, Partners Group has amended its database of ESG factors to reflect such topics that reach across industry boundaries.

Second, the diversity of businesses in the economy means that many do not fit neatly into the industry and sector categories laid out in the SASB framework. Indeed, SASB acknowledges this dynamic in its own guidance, urging analysts to choose material topics and metrics based on the share of revenue from different business lines within a company. In the context of Partners Group's process, this means that investment teams sometimes have to customize the set of sustainability factors analyzed for a given target, based on the unique profile of the business.

Finally, Partners Group has modified its ESG due diligence tool to reflect its varying levels of influence across different investment types and asset classes. For example, when performing ESG analysis on debt investments, where Partners Group has less influence on company management than it would with an equity investment, the firm prioritizes ESG factors that pose investment or reputational risk over those that require hands-on work with management to capture up-side value creation potential.

Going forward

Partners Group looks forward to SASB's contributions to sustainability analysis and ESG integration in the investment management industry. As SASB continues to refine and update its list of material sustainability topics to reflect the fast-changing economy, Partners Group will continue to integrate these developments into its tool to make more robust, well-rounded, and ultimately more responsible investment recommendations and decisions.