

Managing impact at scale in a blended private markets portfolio

The Investor's Perspective



Contents

| | |
|---|----|
| Context: Applying the IMP norms for PG LIFE | 03 |
| <i>Building an impact methodology from scratch</i> | 04 |
| The challenges and opportunities of impact at scale | 09 |
| What more needs to be done | 11 |
| Appendix: Standards of evidence | 12 |
| Appendix: Partners Group PG LIFE risk factors & suitability considerations | 14 |

About the Impact Management Project

The Impact Management Project (IMP) is a forum for building global consensus on how to measure, manage and report impact. Since 2016, the IMP has brought together a Practitioner Community of over 2,000 organisations to establish norms and share best practices.

The IMP also facilitates the IMP Structured Network, an unprecedented collaboration of standard-setting organisations who are coordinating efforts to provide complete guidelines for impact measurement and management.

About Partners Group

Partners Group is a global private markets investment management firm with USD 83 billion in investment programs under management in private equity, private real estate, private infrastructure and private debt. The firm manages a broad range of customised portfolios for an international clientele of institutional investors. Partners Group is headquartered in Zug, Switzerland and has offices in Denver, Houston, New York, São Paulo, London, Guernsey, Paris, Luxembourg, Milan, Munich, Dubai, Mumbai, Singapore, Manila, Shanghai, Seoul, Tokyo and Sydney. The firm employs over 1,200 people and is listed on the SIX Swiss Exchange (symbol: PGHN) with a major ownership by its partners and employees.



Context: Applying the IMP norms for PG LIFE

In the last 18 months, Partners Group has applied the IMP norms to develop an impact management strategy for PG LIFE, its new impact-at-scale strategy

Through PG LIFE, Partners Group aims to bring scale to impact

In March 2018, Partners Group launched PG LIFE, an impact-at-scale blended private markets strategy focused on investing in companies with the potential to contribute positively to achieving the UN Sustainable Development Goals (SDGs), including minimising or mitigating any negative contributions. This dedicated strategy resulted from a) client demand, b) personal commitment from senior leadership, and c) conviction that private capital is critically important to achieving the 2030 SDG agenda.

PG LIFE builds on an investment process that thoroughly integrates environmental, social, and governance (ESG) considerations. Partners Group principally acquires control positions in companies and assets on behalf of its clients; it also aims to drive value creation through active ownership, working directly with management teams to conceive and execute defined value creation plans over a multi-year ownership period. As part of this value creation process, Partners Group establishes ESG engagements with its portfolio companies to improve the measurement and management of material ESG topics, such as energy efficiency, health and safety, and diversity. These topics are important for building businesses whose respect for society and the environment goes hand-in-hand with enhanced financial performance.

In building the PG LIFE strategy, Partners Group needed a simple yet robust framework for systematically evaluating investments for their positive impact potential and managing against investments' total impact potential during ownership. In scanning the industry for different approaches, Partners Group decided to adopt the norms as set out by the Impact Management Project (IMP). The case study below follows the process and outcome for how and why Partners Group integrated the norms into the PG LIFE strategy.

Building an impact methodology from scratch

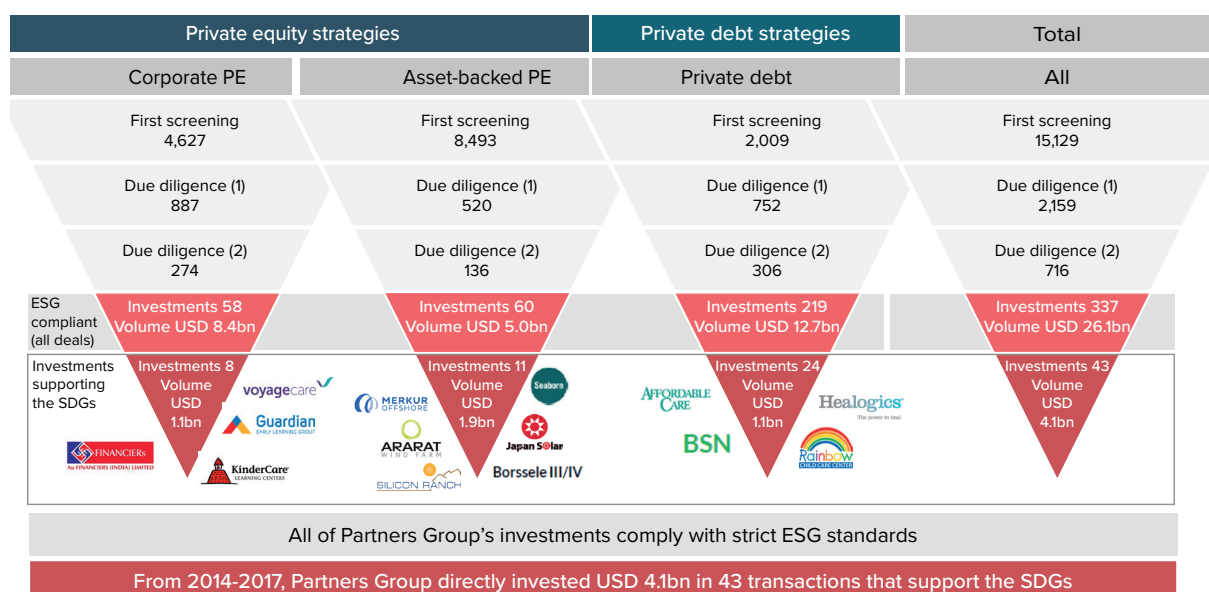
Existing investments: Retrospective mapping against basic impact criteria

The first step in building PG LIFE was to map retrospectively all direct investments made since 2001 against a set of impact criteria, to evaluate whether the platform had sufficient deal flow for an SDG-focused strategy. The focus was on companies whose core products and services contributed to solutions needed to achieve the SDGs, in addition to adhering to ESG practices that respect all stakeholders.

As a result of this exercise, Partners Group identified 91 transactions whose business models supported specific SDG targets, in particular Goals 1, 3, 4 and 7. In the 2014-2017 period, which corresponds to an average four-year investment period, this amounted to 43 transactions worth \$4.1bn.

In performing this positive screening exercise, Partners Group began to apply the IMP informally, asking key questions like, ‘Who benefitted from this company’s services and how under-served were they?’.

Figure 1 | An overview of Partners Group’s SDG-contributing deal flow for the 2014-2017 period



This track record confirmed that there was potential to create an investment strategy exclusively designed to support the SDGs, which could direct even more capital towards their achievement and through which Partners Group could refine its approach to managing a portfolio for positive impact.





Prospective impact evaluation and management for new investments

While the retrospective mapping exercise was helpful in establishing that there was sufficient deal flow for PG LIFE, Partners Group still needed a framework to clearly articulate its impact goals, systematically evaluate prospective deals for their impact potential, and manage for impact during ownership.

Partners Group adopted the IMP norms because they were intuitive, simple yet comprehensive, and seemed to represent the emerging consensus for how to talk about and evaluate impact. It provided the flexibility to be adapted to the PG LIFE strategy and impact goals.



Table 1 | The IMP reached global consensus that impact can be deconstructed into five dimensions: What, Who, How Much, Contribution and Risk. Partners Group used these dimensions to frame its impact goals.

| Dimension | Questions each impact dimension seeks to answer | PG LIFE Impact Goals |
|---|---|--|
|  What | What outcome(s) do business activities drive? How important are these to the people (or planet) experiencing them? | PG LIFE targets the SDGs that are a high priority in the countries where a particular investment operates. |
|  Who | Who experiences the outcome? How underserved are the stakeholders in relation to the outcome? | PG LIFE targets the underserved in relation to those SDGs, whether it is people or the environment. |
|  How Much | How much of the outcome occurs across scale, depth, and duration? | PG LIFE aims to improve the lives of stakeholders in a lasting (enduring) and meaningful (deep) way - at scale. |
|  Enterprise Contribution | What is the enterprise's contribution to what would likely happen anyway? | PG LIFE analyses the country- and sub-region-level market context to check that the depth and/or duration of investees' performance is likely better than what the market would achieve anyway. |
| Investor Contribution | What strategies will PG LIFE use to contribute to its portfolio's impact? | PG LIFE will signal that measurable impact matters and engage actively through business-building, active ownership and governance. |
|  Risk | What is the risk to people and planet that impact does not occur as expected? | PG LIFE aims to invest in companies where the risk that positive impacts will not materialise is relatively low . |

These high-level goals then needed to be translated into implementable and repeatable steps in the context of the investment process.

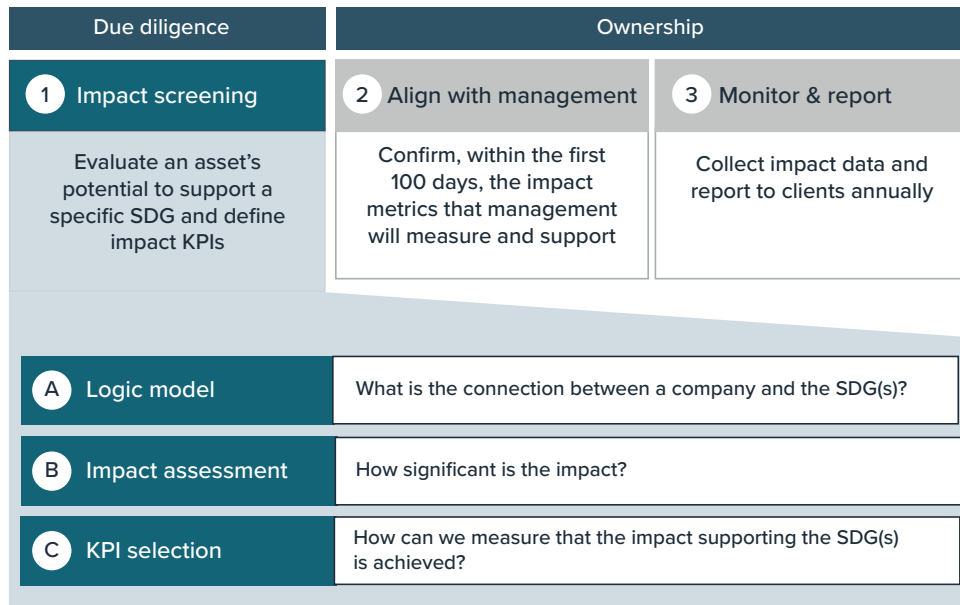
First, during **due diligence**, Partners Group undertakes an **impact screening** by addressing three key points:

- A **logic model** linking a company's outputs to SDG-related outcomes ('What' dimension) establishes a basic impact thesis focused on a particular beneficiary group, whether people or the environment.
- Then, using the other four dimensions agreed through the Impact Management Project, Partners Group compiles an **impact assessment**, giving a sense of the significance of that impact and what effects need to be managed.
- Finally, a **selection of impact KPIs** ensures that impacts on all stakeholders are trackable, measurable and reportable.

Then, during the ownership period, Partners Group shares the impact screening with the company's management team to confirm the underlying impact thesis, the related impact metrics, and the company's ability to track and report these credibly. Annually thereafter Partners Group collects and validates the impact data, as agreed with management.



Figure 2 | PG LIFE Impact Evaluation and Management Process



Partners Group adopted the IMP because it was intuitive, simple yet comprehensive

To assess the potential contribution of prospective investments to the SDGs during diligence, Partners Group developed rating criteria across each IMP dimension, ranging from 1 (low) to 5 (high). Partners Group evaluates a range of data – drawn from the businesses themselves, from the local context and from academic research – to score investments against these rating scales.

The benefit of rigorously analysing data across all dimensions to forecast impact is that Partner's Group can then track data across these same dimensions to measure actual impact. The result is a consistent methodology for impact due diligence, active management and accounting.

For example, Figure 3 shows highlights from Partners Group's evaluation of one of the impacts of a prospective energy and water management company in Europe last year:

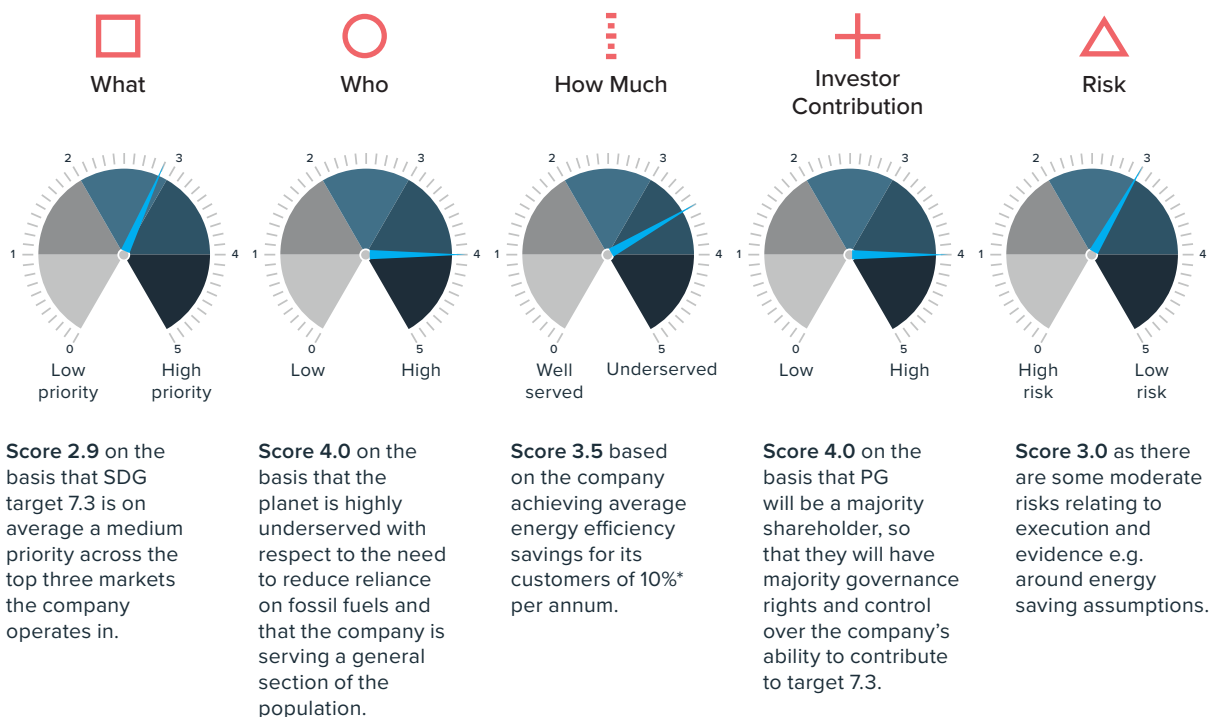
- Under the 'What' dimension, Partners Group assesses the extent to which the investment contributes to an SDG that is high priority in that country; it considered the energy efficiency performance of the countries where the company generates most of its revenue. For example, Germany, a major market, consumes 4.64 megajoules of energy per every dollar of GDP (2011 PPP), behind Italy (3.5) and Austria (3.87), according to the International Energy Agency, and the German government wants to see the figure drop to 20% below 2008 levels by 2020, in line with EU targets.
- For 'Who', Partners Group identifies who experiences the outcome – it considers the beneficiary of improved energy efficiency to be both the planet, which benefits from reduced consumption of CO2, and the customers, who benefit from lower prices. The planet is highly underserved with respect to SDG target 7.3, and the company's products and services benefit the general population in the countries it operates in, taking into account the company's footprint in over 20 countries and its leadership position in most of these markets.



- In evaluating ‘How Much’, Partners Group projected that Germany would need to improve its energy intensity by approximately 3.75% per annum to 2020, and for Austria, the number is approximately 2.48%. It calculated, for example, that the energy savings the company helps its German customers achieve contribute 5.1% annually to the required reduction in primary energy consumption in Germany.
- Partners Group agreed that since some assumptions were introduced into the calculations of the potential impact of the company, there is a medium level of ‘Evidence Risk’. It also considered external risks and concluded that regulatory changes are likely to drive towards more efficiency, rather than against it. Overall, Partners Group felt that the risk of impact not materialising was relatively low, given the strong stakeholder commitment and mission focus.
- Partners Group works with the company to conduct surveys and data analysis to understand the depth and duration of its products and services (‘Enterprise Contribution’), so as to mitigate the evidence risk mentioned above, and it was confident that PG LIFE’s active ownership model would be an ‘Investor Contribution’ that supports this performance over the life of the deal.

The PG LIFE Impact Committee, which convenes weekly, evaluated the potential investment holistically across the five dimensions and decided to invest. In the end, much like evaluating an investment thesis, the five dimensions must be considered holistically before an Impact Committee member votes with a low (1) or high (4) conviction on whether a deal should be included in PG LIFE.

Figure 3 | PG LIFE evaluation of a prospective energy and water management company in Europe



* In the absence of actual per annum data from the company, this is based on a statement on the company’s website that it creates energy efficiency of 20% for its customers, and an assumption that this is achieved on average over two years for each customer.



The rigorously applied impact framework and methodology mean Partners Group had to exclude promising deals from PG LIFE. The Committee looked at potential investment into an enabling energy infrastructure, which would theoretically balance out the peaks and troughs of energy generation between two countries, and thus provide a more stable, predictable market for renewable energy deployment. While this deal was logically appealing, after consultation with internal and external experts, Partners Group accepted it was unable to back up the connection between the investment and the SDGs. To lower the evidence risk, Partners Group would have needed to know, for example, the projected energy flows in each direction, and the traditional and renewable makeup of that energy.

When considering healthcare opportunities, Partners Group examines whether the company's products and services are affordable, essential and of high quality, and therefore likely to deliver important outcomes (**'What'**) at sufficient depth (**'How Much'**), for many people previously priced out of the market (**'Who'**). In one example, while it established that the company met a clear and critical medical need (**'What'**), and the healthcare provided was of high quality (**'How Much'**), a significant part of the company's revenue came from private hospitals in a relatively well-off European market, and it was thus not clear that the population benefitting was particularly underserved (**'Who'**).



The challenges and opportunities of impact at scale

While the term ‘impact at scale’ has gained momentum in the last few years, Partners Group sees the PG LIFE strategy as a way to bring scale to impact. Through PG LIFE, Partners Group aims to use its governance rights to ‘own for impact’, while also achieving targeted financial results. This means mitigating negative impacts on the one hand, and achieving positive impacts that might not have taken place under different ownership, on the other.

Developing and implementing an impact-at-scale strategy presents a number of challenges and opportunities for Partners Group

In the language of the IMP’s different levels of investor contribution, PG LIFE will use:

- its capital to make larger investments in larger enterprises for larger impacts, **signalling that measurable impact matters;**
- its governance rights to **actively engage** and imbue ‘mainstream’ management teams with impact sensibilities; and
- its resources to improve the quality of impact due diligence, measurement, and reporting.

In the process of developing and then implementing its impact methodology, the PG LIFE team has confronted a number of interesting questions, which double as both challenges and opportunities.

Bring scale to impact - what is the potential?

As the name suggests, impact-at-scale has the opportunity to deliver larger-scale impacts. For example, through its first three seed investments, PG LIFE expects to contribute 1.9% towards Australia’s renewable energy goals and to reduce the energy and water consumption of more than 11 million residential customers across Europe.

Systemic change - what role can impact-at-scale play in transforming the financial system?

Demonstrating that an impact manager can achieve market rate returns and generate positive impacts will challenge the notion that these two objectives are at odds. By bringing impact concepts and sensibilities to ‘mainstream’ mid-cap and upper-mid-cap companies, Partners Group can catalyse this systemic change.

Reaching the underserved - how can a manager consider the underserved when operating at scale?

Even when a company does not exclusively target the underserved, it can still improve the lives of significant absolute numbers of underserved people. Partners Group considers both of these factors when evaluating the potential impact of an investment principally through a discussion of the ‘Who’ and ‘How Much’ dimensions.



Resources - what unique contribution can impact-at-scale investors make to the industry?

Larger funds and larger investments mean greater resources available for impact integration. Partners Group can build in-depth impact theses during due diligence, which clarifies and focuses the impact management work that needs to be done during ownership. Further, more resources are available for robust impact measurement and reporting.

Engaging actively.

What unique contributions can an investor make with resources, governance and risk appetite?

Governance - how can an impact-at-scale investor use its governance rights for good?

As a control investor, Partners Group shares its impact assessment with the management teams of PG LIFE portfolio companies within the first 100 days of ownership. This ensures alignment on the impact thesis, the viability of impact KPI collection and reporting, and sets expectations for impact measurement and reporting. Partners Group can also enhance positive impacts and mitigate negative ones through its ESG engagements.

Impact risk appetite - how can an investor approach the potential for divergent business models where financial and impact goals may be at odds?

As part of the impact screening, Partners Group assesses this potential and assigns a low score if there is high potential for these goals to diverge (i.e. if a healthcare company is likely to neglect its underserved and lower-margin customers during an economic downturn). PG LIFE specifically focuses on evidence risk, external risk, execution risk and stakeholder participation risk, a subset of the impact risk factors identified through the IMP. If, despite the impact screening, this situation still arises during ownership, Partners Group will depend on its governance rights to either uphold or re-formulate its impact thesis.

Net impact - how can we effectively promote positive impacts and manage negative ones, both during due diligence and ownership?

In building its logic models for each PG LIFE investment, Partners Group identifies both positive and negative impacts per relevant SDG target. The potential negative impacts become a key focus of the ESG value creation plan during ownership.



What more needs to be done

Adam Heltzer, Head of ESG and Sustainability at Partners Group, outlines key topics for the industry to address at this critical juncture.

Transparency

As the impact investing industry expands, asset owners and managers must promote greater transparency; from articulating impact goals and investor contributions to sharing methodologies for measuring impact.

The IMP offers a common language to discuss these topics, but communicating them transparently is the only way to create a more 'efficient' impact market. While each manager's impact methodologies may have proprietary elements, it is important to share these openly, both by actively engaging in industry best-practice groups and by selectively publishing core elements of the methodology.

If investors are more transparent on their bespoke disclosures, especially those that seem to work across the five dimensions, it will be much easier to reconcile them with sector-specific disclosures - and core disclosures that are being explored in depth through the IMP. In time, we will get to comparable sets of impact data across investments and strategies.

Managing for Impact

Many managers have found ways to use the IMP to map their portfolio or to screen prospective investments for impact. However, what is less common, and therefore more useful for the growth of the industry, are examples of managers applying the IMP to the ownership period. How can an impact investment manager use the IMP to measure and manage an impact thesis developed during due diligence, and communicate this to stakeholders?

Exploring failure

More and more managers are developing impact strategies and the competition for impact capital will increase, therefore impact asset owners and managers must be brave enough to share impact failures and their associated lessons learned. If the industry can only tell good stories, it is surely not thinking critically or holistically enough about a company's impacts, which ultimately will edge the industry towards a mass form of impact washing. By sharing what does not have as much of a positive impact as expected, or has a negative impact, managers can prevent other organisations from making mistakes and wasting precious resources.



Appendix: Standards of evidence

An excerpt from the 2017 IMP publication on standards of evidence, in partnership with NESTA

Collecting existing evidence

When setting our impact goals and selecting or designing delivery models (e.g. a business or programme), we often draw on existing evidence. To do this, we consider what available evidence exists across all the dimensions of impact.

For example, when evaluating an existing enterprise, perhaps as a prospective investor, we might consider how far data exists across all the dimensions and what this assessment tells us about an enterprise's ability to meet a set of goals. This helps us work out where gaps, or weak evidence, exist in the existing evidence base for one or more group of people (or the planet) affected, and where new evidence may be needed.

Using existing evidence

There are a number of considerations which help assess whether existing evidence of impact may be 'good' enough:

Completeness

- Is the data set complete and comprehensive?
- Has data been collected from a range of relevant stakeholders?

Accuracy

- Does the evidence conform to established criteria for quality and rigour?
- Is the evidence the product of external review or an independent assessment?

Relevance

- Does the evidence directly correspond to the same impact goals across all the dimensions of impact? Are there any gaps?

When examining an existing evidence base, the more individual studies (or sets of information) that demonstrate these features and share the same findings, the stronger the evidence base.

However, existing evidence will rarely tell us everything we need to know about the likely impact of a delivery model in a given context. We therefore often need to collect our own evidence to re-affirm what we know, or to fill in evidence gaps. Resources such as [3ie's Evidence Gap Maps](#) help us identify where these evidence gaps are likely to be.

Collecting our own evidence

Collecting our own evidence better enables us to substantiate or refute existing evidence, and further understand what impact is being delivered, in order to improve the experience of people and planet. We may also need to understand



whether this experience changes after engagement with an enterprise has ended.

All the evidence we gather informs the decisions we make about our strategy and the goals we set and re-set.

The type of evidence collected will vary according to what level of evidence is necessary and proportional for an enterprise to understand their effects on people and planet. There are two broad dimensions along which we can think about proportionality.

The first is: what type of data we collect. The amount of confidence we have in our data is often related to the type of data we use.

Direct measurement of change in effects enables a greater level of certainty.

For example, change in nutrition status or reduction in CO2 emissions.

However, sometimes these measures are not possible, very difficult or very expensive to collect for every demographic and outcome type. This could be due to the timescale within which effects are realised, customer confidentiality, a lack of appropriate measurement techniques or simply cost. In these cases, it is common to collect data on proxies for the final effect; for example, home improvements might be a proxy for increased incomes or hospital waiting lists might be a proxy for a well-functioning health service.

Activity or output data is often used as a proxy as it is typically much easier to collect this type of data.

For example, counting a child that has received a vaccination against measles as a proxy for that child not developing measles.

In some cases, the existing evidence of a link between the activity and the outcome is so strong that activity or output data can serve as a proxy for outcomes; for example, the number of children receiving vaccinations against measles. When selecting our own indicators or using proxies, we are at risk of enforcing causality assumptions. Where an enterprise is taking a new approach, or the evidence base linking outputs to outcomes is inconclusive, non-substantive or incomparable, these proxy measures will not constitute good evidence of impact, even though they may provide useful evidence that some parts of a theory of change are valid.

We also recognise that people and planet will likely experience other impact too, both positive and negative, and therefore draw on existing information about the material effects that comparable approaches delivered in comparable contexts to help us judge other effects we might want either to mitigate (if negative) or increase deliberately (if positive).

For example, by consulting existing research on the effects of offshore wind farms, we might learn that some marine animals experience negative impact due to the noise and regular disturbance. This information helps us to dedicate resource to trying to collect new information to uncover and mitigate these negative effects.

Feedback from people experiencing the effects through a questionnaire or surveying methodology is the most direct and sometimes most reliable indicator that any change in effect is occurring.

This method is most reliable where there is existing evidence that people's feedback is strongly correlated with the desired effect. This data may be a proxy (e.g. 'did you take your medicine on time?') or it may be the best metric to indicate what effect is occurring across any of the dimensions (e.g. 'how far has your quality of life improved?', is a good indicator of depth for a wellbeing outcome).



Appendix: Partners Group PG LIFE risk factors & suitability considerations

This information contained herein is for discussion purposes only and highly confidential and is being provided to you at your request and is not an offer to sell or solicit an offer to buy an interest in a fund. It is not intended that it be relied on to make any investment decision. The information is not to be published, reproduced and redistributed in any form by recipients without the prior consent of Partners Group AG or its relevant affiliate (generally, "Partners Group"). Each person accepting this presentation thereby agrees not to distribute it to any other party and to return it promptly upon request. A private offering of interests in a fund will be made only pursuant to a confidential private placement memorandum (a "PPM") and the applicable fund's subscription documents, which will be furnished to a limited number of qualified investors on a confidential basis at their request in connection with such offering. The information contained herein will be superseded by, and is qualified in its entirety by reference to, the PPM, which contains information about the investment objective, terms and conditions of an investment in a fund and also contains tax information and risk disclosures that are important to any investment decision regarding that fund. The information contained herein was prepared without regard to the specific objectives, financial situation or needs of any particular investor who may receive this presentation. An investment is not a deposit and is not insured by the federal deposit insurance corporation or any other government agency or by Partners Group.

Investments in any fund are speculative and will involve significant risks, including loss of the entire investment and lack of transparency. Before deciding to invest in a fund, prospective investors should pay particular attention to the risk factors contained in the PPM. Investors should have the financial ability and willingness to accept the risks inherent in a fund's investment.

Certain significant risks 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.

In the event an investor in a fund defaults on its obligation, a fund might be unable to pay its funding obligations to one or more of the investment funds and thus be deemed to be in default. In such an event, a fund, and therefore all investors in a fund (including those not in default), could become subject to consequences that may result in significant penalties that could materially adversely affect the returns to investors.

An investment in the fund shall not grant any investor rights (including voting rights) with respect to the investments made by the fund. A fund's investments, or institutions related to a fund's investment, may have other business relationships with the general partner of such fund or its affiliates.

Investors will not have an opportunity to evaluate the terms of a potential investment by the fund prior to the fund making such investment. Partners Group, in the course of establishing and managing the fund has obtained and may in the future obtain certain confidential information relating to underlying funds in which the fund invests and their respective portfolio companies that has not been and will not be disclosed. Because of the specialized nature of this fund, an investment in a fund may not be suitable for certain investors and, in any event, an investment in a fund should constitute only a limited part of an investor's total portfolio.

Partners Group and its affiliates do not provide tax advice. Nevertheless, to ensure compliance with requirements imposed by the U.S. Internal Revenue Service, we inform you that, unless specifically indicated otherwise, any US federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Certain information contained herein has been obtained from sources Partners Group believes to be reliable. Partners Group does not undertake to update any information contained in this presentation. Any forecasts provided herein are based upon Partners Group's opinion of the market and are subject to change at any time.

Investors should bear in mind that past performance is not indicative of future results. There can be no assurance that any fund will achieve its targeted results. Certain information contained herein constitutes forward-looking statements. Due to various risks and uncertainties, actual events or results or actual performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. As a result, investors should not rely on such forward-looking statements in making their investment decisions.

Acknowledgements

The Impact Management Project is deeply grateful to Adam Heltzer, Carmela Mondino, and Zongzhong Tang of Partners Group's ESG and Sustainability team for sharing their experience in adapting the shared fundamentals to a blended private markets portfolio.

We welcome feedback and questions about this work.

Please get in touch with us at team@impactmanagementproject.com.

IMPACT
MANAGEMENT
PROJECT



This work is licensed under the Creative Commons Attribution-NoDerivatives 4.0 International License, that allows the copying and distribution of this material as long as no changes are made and credit is given to the authors.

Impact Management Project, January 2019