

Common Due Diligence Questions

BMO Partners Group Private Markets Fund

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What is the expected impact of inflation on portfolio performance?

Overall, Partners Group expects performance to remain resilient, despite elevated inflation. Inflation was a key area of focus in its relative value assessment in 2021, alongside wage pressures and supply chain disruption. This allowed Partners Group to take proactive measures across the portfolio, including:

- Leveraging long-standing lender relationships to achieve favourable financing terms for its portfolio companies,
- Hedging material interest rate exposure,
- Prudent underwriting of new investments, such as modeling in multiple contraction, focusing high-quality businesses that exhibit demand resilience,
- Implementing changes to improve supply chain resilience of its portfolio companies.

As a result:

- Earnings before interest, taxes, depreciation, and amortization (EBITDA) margins within its private equity and real estate portfolio have, on average, remained steady through the current inflationary period.
- Further, from a relative value perspective, broad segments of the private debt and infrastructure landscape appear extremely compelling in the current inflationary environment. Rising rates have resulted in low double-digit net distribution yields for Private Credit Strategies (PCS), Partners Group's flagship private debt fund. In addition, the majority of Partners Group's existing infrastructure portfolio are structured as inflation-linked contracts.

How does Partners Group deal with underperforming investments?

Partners Group believes that potential investment risks, in addition to return potential, are an integral part of private markets investment management and, hence, has embedded into risk management into its overall investment approach.

- **Independent risk oversight.** Partners Group has established and maintains a permanent and independent risk function within its organization, which has the necessary means and authority to fulfill its duties independently, from a task, organizational, and operational perspective. The risk team maintains a proprietary internal database and monitors global news headlines to identify potential issues within the portfolio early on.
- **Active management.** Partners Group's operational value creation approach and organization is fully integrated in the entire investment process. Partners Group's value creation team comprises a dedicated, globally deployed group of professionals with industry expertise, which supports, assesses, and controls the progress of the operational value creation initiatives throughout the lifetime of an investment. Partners Group's Operational Value Creation Committee is responsible for reviewing and discussing the value creation initiatives and formulating corrective actions. The committee meets six times a year, discussing alternately the Asian, European, and American (including Latin American) investments. All lead investments are discussed twice annually, whereas joint lead investments and turnaround situations will be discussed on a selective basis.
- **A long-term investment approach.** The long-term nature of Partners Group's investments is such that it is able to continue working with these companies until they are back on track or until it is no longer in the best interest of its clients.

Based on a comprehensive portfolio review, a proposal for sale is usually presented to the global investment committee, which then decides, based on minimum return expectations, whether to pursue a sale. Such underperforming portfolio positions will be sold if it is considered to be in the long-term interest of Partners Group's clients.

How does Partners Group create value within each asset class?

Private Equity and Infrastructure

- **Platform building** – building an operating company within a fragmented industry, in order to achieve scale or improved efficiencies.
- **Operational improvements** - implementing lean management processes to increase efficiency, create value-based pricing models, or reduce internal costs through digitization and/or automation.
- **Expansion into new products/regions** – growing the footprint of a portfolio company/asset through related markets, often through a combination of organic growth and acquisitions.
- **Optimizing capital structure** – Partners Group may make changes to a company's capital structure in order to improve risk-adjusted outcomes (e.g., hedging of variable rate debt exposure in late 2021).
- **ESG initiatives** - execution of a comprehensive value creation plan for direct investments that typically includes ESG-specific levers.

Real Estate

- **Platform building** - achieving economies of scale by growing a portfolio of assets in a particular geography or asset type.
- **Driving rental growth & occupancy** - diversifying or improving the quality of tenants at a property or making noticeable improvements to properties in order to increase occupancy or grow rents.
- **Future-proofing assets through ESG Initiatives** - improving data tracking or executing sustainability initiatives to reduce costs or improve the tenant experience (e.g., energy retrofits that improve building insulation → lower overall energy consumption and costs → improve the tenant experience).

What is the average hold period for each asset class?

Partners Group holds investments in both open- and closed-end funds.¹ Assets will be sold at the end of its holding period. The average holding period for Partners Group's direct investments is typically as follows:

- **Private Equity:** 3-6 years
- **Infrastructure:** 4-10 years
- **Real Estate:** 2-6 years
- **Private Debt:** 2-4 years

Given the long-term nature of private markets investments, Partners Group may decide on a case-by-case basis to invest, improve, and realize investments over a shorter or longer timeframe depending on the asset in question.

¹ Partners Group does not have a passive CORE ('BUY AND HOLD') strategy. Instead, it primarily executes a VALUE-ADD ('BUY-IMPROVE-SELL') strategy across its direct investment platform.

How has Partners Group's investment strategy changed with the higher interest rates environment?

Partners Group's overall strategy has not materially shifted in the higher interest rate environment. Partners Group executes a diversified relative value investment strategy that aims to deliver performance across the business cycle. It typically takes a more conservative underwriting approach and places larger emphasis on operational value creation to drive returns, which ensures the portfolio remains resilient despite macroeconomic challenges. Key components of its strategy include:

- **Acquiring market leading businesses** where it has conviction in the underlying macroeconomic drivers. As a result, Partners Group's portfolio companies are typically able to pass on costs due to rising inflation, relative to competitors.
- **Conservative debt financing** for its private equity, infrastructure, and real estate portfolios. Over 80% of Partners Group's direct control investments are financed with fixed rate debt, with many loans restructured with longer maturities to minimize refinancing risk.
- Negotiation of **inflation indexation** for long-term revenue contracts within its infrastructure portfolio.
- Platform-building and investments within high conviction themes like decarbonization, digitization, and mobility.
- A focus on **sectors likely to experience strong secular growth trends**. These sectors typically offer strong revenue growth, driven by favourable supply/demand dynamics and potentially inflation protection through negotiated lease structures.
- Partners Group's **diversified relative value approach** allows it to capitalize on opportunities across the business cycle. Today, opportunities in private debt remain compelling, given floating rate exposures and widening credit spreads.

How does the private credit strategy stand out from competitors?

Partners Group's global private credit strategy makes loans to well-established, profitable businesses that are typically owned by tier one financial sponsors. Partners Group's lending approach can be broadly characterized as follows:

- **Loans to established, mature businesses.** Average borrower has over USD100MM in EBTIDA.
- **Well-diversified portfolio.** Partners Group is a global platform with established investment and operations teams across the Americas, Europe, and Asia Pacific. No sector represents more than 15% of the overall strategy. Over sixty-five loans in the portfolio.
- **High quality loans.** Partners Group primarily sits in a first lien position (85% of the strategy).

How will investors in this fund sit relative to other investors, such as pension funds or other institutions, across Partners Group's platform?

Partners Group employs a fair allocation process, which treats all investors equally regardless of size. This means investors in the fund will receive access to the **same investments** as institutional investors on a **pro-rata basis**.

What are Partners Group's key areas of conviction?

See the appendix for a further breakdown of sub-asset class convictions.

3 Investment Giga-themes:

- Decarbonization
- New Living
- Digitization & Automation

4 Asset classes:

- Private Equity
- Private Debt
- Private Real Estate
- Private Infrastructure

3 Global regions:

- Americas
- Europe
- Asia Pacific

What is the estimated number of portfolio companies within each vertical?

- **Private Equity (Direct):** 300+
- **Private Equity (Secondaries and Primary):** 1,500+
- **Private Debt:** 900+
- **Private Real Estate:** 500+
- **Private Infrastructure:** 160+

What is the estimated size of companies/investments made within each vertical?

- **Private Equity:** EBITDA US\$75MM+ (company size)
- **Private Debt:** EBITDA US\$25-100MM (company size)
- **Private Real Estate:** US\$50MM+ (investment size)
- **Private Infrastructure:** US\$100-800MM (investment size)

What is the maximum % of the fund that can be invested in a single investment?

The BMO Partners Group Private Markets Fund (the "Fund") intends to employ a diversified investment strategy across industries, geographies, return characteristics, and companies/assets. While the fund's guidelines specify it will not invest or commit more than 20% of its total net assets in any single investment, in practice individual holdings typically fall well below this. For illustration, the largest holdings within each asset class of the Master Fund are as follows: Private Equity = 1.7% of NAV, Private Debt = 0.3%, Real Estate = 0.8%, Infrastructure = 1.3% (as of October 31, 2022).

How does Partners Group manage the liquidity of the fund?

The Fund has many tools to manage liquidity to meet investor redemptions, including but not limited to:

- (i) Income generated by investments in Private Debt or other assets,
- (ii) Capital contributions from subscriptions on a monthly basis,
- (iii) A long-term allocation by the Master Fund to Liquid Securities of 10% to 20% of the NAV of the Master Fund,
- (iv) A 90-day notice period that allows the portfolio management team to take pre-emptive measures in the event of significant redemptions, and
- (v) Redemption limits that distribute funds to investors on a pro rata basis should redemptions exceed the threshold in a given time period.

What is the methodology used to value unrealized investments?

Private Equity investments

- Within the private equity asset class, Partners Group generally applies a **market approach** (mainly EV/EBITDA multiples)
- In cases where this is not deemed as appropriate an alternative method can be applied (e.g., income method)
- Securities traded on an active market are valued based on their respective **market price** at the end of the reporting period adjusted for potential restrictions on the transfer or sale of such securities

Real Estate investments

- Real estate valuations are typically valued considering **third party appraisals**, which are updated (at least) on an annual basis
- Intra-year, valuations from these third-party appraisals are adjusted for **recent developments** (e.g., exit of an underlying property, operational cash generation, etc.)

Private Debt investments

- Debt instruments for which **market quotations** are readily available are typically valued based on such quotations
- Quotes are validated considering different factors such as **depth and nature** of the quotation or implied discount rate versus comparable loans (or bonds)
- Debt instruments for which no market quotations are available are typically valued applying an **instrument discounted cash flow approach** or a recovery method

Infrastructure investments

- Early-stage infrastructure investments are usually valued using the **replacement cost** method
- As construction reaches a certain stage and as cash flows become more visible, the valuation method is normally switched to a **discounted cash flow** analysis
- For stable and operating infrastructure assets, a market approach (i.e., multiple method) might be used

How does Environmental, Social, and Governance (“ESG”) come into play when making investment decision?

Partners Group evaluates all its investments based on an internal ESG framework that applies to a business’ products or services, as well as the overall integrity of its business practices. Further, ESG factors are used as a positive screen for investments that deliver clear benefits to society or the environment and room to engage with assets whose ESG management could be improved under its active ownership model.

Partners Group Responsible Investment Framework applies to all investment decisions

Guidance	Products / services	Practices	
<p>SEEK investments that contribute to social welfare</p>	<p>SEEK <i>Eleven active direct investments in renewable energy infrastructure</i></p>	<p>ENCOURAGE <i>Invested in a company that reduced its paper consumption by 49 tons through a firm-wide digitalization initiative</i></p>	<p>Beneficial: clear, positive impact on economic returns, society or the environment</p>
<p>ENCOURAGE investments in companies with market-leading sustainability practices</p>	<p>WEIGH <i>Considered an investment that had a majority renewable energy but some exposure to coal</i></p>	<p>WEIGH <i>Invested in a company that didn't seem to have appropriate anti-bribery policy but had a perfect track record on these topics</i></p>	<p>Neutral / potentially harmful: possible adverse impact on economic returns, society or environment</p>
<p>WEIGH whether we should invest, based on objective research and external standards</p>	<p>EXCLUDE <i>Excluded an investment into a manufacturer of tobacco products</i></p>	<p>EXCLUDE/ENGAGE <i>Invested in a retailer lacking a supply chain audit program; subsequently established one during ownership</i></p>	<p>Harmful: significant, clear negative impact on economic returns society or the environment</p>
<p>EXCLUDE investments that pose reputational risks unless we can improve their practices through ENGAGEMENT during ownership</p>	<p>EXCLUDE <i>Exclude investments in companies producing cluster bombs or landmines</i></p>	<p>EXCLUDE/ENGAGE <i>Declined an investment in company potentially facilitating bribery/corruption</i></p>	<p>Illegal: banned under international protocols</p>
<p>EXCLUDE investments whose products or services are expected to have a negative economic impact because they are illegal, harm societal welfare or harm the environment</p>			

Source: Partners Group

What are some important investment risks and how are they mitigated?

Multiple Levels of Fees and Expenses

The Fund and the Master Fund each have costs and expenses including but not limited to (i) with respect to the Partners Group Fund, management fees, operating expenses and other expenses and (ii) with respect to the Access Fund, organizational expenses and operating expenses. That said, the Master Fund intends to invest the majority of its assets in Direct Investments, which typically do not have multiple levels of fees, rather than Primary Investments and Secondary Investments. For the minority of assets invested in Primary Investments and Secondary Investments, there will be multiple levels of fees and expenses, in line with conventional Primary and Secondary Investment strategies available in the market.

Time to Maturity of Investments

A significant period of time may elapse from the time when the Fund makes an investment until the time that the Fund is able to realize a return on such investment. As a result, proceeds from the disposition of investments may not be realized by the Fund for a substantial time period to be available to meet the Access Fund's ongoing liquidity needs. In order to mitigate this risk, the Fund has put in place structures and tools to manage liquidity to meet investor redemptions, including but not limited (i) income generated by investments in Private Debt or other assets (ii) capital contributions from subscriptions on a monthly basis (iii) a long-term allocation to Liquid Securities of 10-20% of NAV (iv) a 90-day notice period that allows the portfolio management team to take pre-emptive measures in the event of significant redemptions (iv) redemption limits that distribute funds to investors on a pro rata basis should redemptions exceed the threshold in a given time period.

Lack of Operating History of a Newly Launched Fund

While the Fund itself has no operating or performing history, Partners Group has a 20+ years track record in private markets investing and evergreen fund management, and the underlying components of the Fund have existing track records (The Partners Fund: 2003 launch, Private Credit Strategies: 2021 launch).

Glossary

“Infrastructure” means an investment in physical assets or privately held companies that provide essential services to society, such as transportation, energy, or sewage.

“Master Fund” means Partners Group BMO Master Limited, an exempted company incorporated with limited liability in the Cayman Islands described in the Master Fund OM.

“Manager” means BMO Asset Management Inc., in its capacity as manager of the Fund, or any successor appointed as the manager of the Fund.

“Partners Group” means Partners Group AG and its affiliates.

“Portfolio Manager” means Partners Group (USA) Inc.

“Private Company” means a business that is not listed on a public stock exchange.

“Private Debt” means providing loans directly to companies in privately negotiated transactions or acquiring these loans on the secondary market.

“Private Equity” means an investment in a privately held company to generate value with the end goal of exiting through an IPO, merger, or sale.

“Private Market Investments” has the meaning given to it under “Summary of Principal Terms – The Master Fund”.

“Real Estate” means the acquisition, financing, and ownership of physical properties or privately held companies that own, operate, or develop properties.

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