TPG Inc.
Third Quarter 2022 Earnings Call
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Corporate Speakers

- Gary Stein; TPG Inc.; Head of Investor Relations
- Jon Winkelried; TPG Inc.; Chief Executive Officer
- Jack Weingart; TPG Inc.; Chief Financial Officer
- Todd Sisitsky; TPG Inc.; President
- James Coulter; TPG Inc.; Executive Chairman and Co-Founder

Participants

- Craig Siegenthaler; BofA Securities; Analyst
- Alexander Blostein; Goldman Sachs Group, Inc.; Analyst
- Kenneth Worthington; JPMorgan Chase & Co; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Brian McKenna; JMP Securities LLC; Analyst
- Glenn Schorr; Evercore ISI Institutional Equities; Analyst
- Brian Bedell; Deutsche Bank AG; Analyst
- Adam Beatty; UBS Investment Bank; Analyst
- Gerald O'Hara; Jefferies LLC; Analyst
- Luke Mason; BNP Paribas Exane; Analyst
- Rufus Hone; BMO Capital Markets Equity Research; Analyst

PRESENTATION

Operator: Good morning, and welcome to the TPG's Third Quarter 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. Please go to TPG's IR website to obtain the earnings materials.

I will now turn the call over to Gary Stein, Head of Investor Relations at TPG. Thank you. You may begin.

Gary Stein: Great. Thanks, operator. Welcome to our third quarter 2022 earnings call. Joining me this morning are Jon Winkelried, Chief Executive Officer; and Jack Weingart, Chief Financial Officer. In addition, our Executive Chairman and Co-Founder, Jim Coulter; and our President, Todd Sisitsky, are also here with us and will be available for the Q&A portion of this morning's call.

Before we begin, I'd like to remind you this call may include forward-looking statements that do not guarantee future events or performance. Please refer to TPG's earnings release and SEC filings for factors that could cause actual results to differ materially from these statements. TPG undertakes no obligation to revise or update any forward-looking statements, except as required by law.

Within our discussion and earnings release, we are presenting GAAP measures, non-GAAP measures and pro forma GAAP and non-GAAP measures, reflecting the reorganization that was completed during 2021 and immediately prior to TPG's IPO. We believe it is helpful for investors and analysts to understand the historic results through the lens of our go-forward structure, and please refer to TPG's earnings release for details on the pro forma financial information.

We will also be discussing certain non-GAAP measures on this call that management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to the nearest GAAP figures in TPG's earnings release, which is available on the company's website. Please note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any TPG fund.

Looking briefly at our results for the third quarter, we reported GAAP net income of $37 million and after-tax distributable earnings of $113 million or $0.30 per common share. We also declared a dividend of $0.26 per common share of Class A common stock, which will be paid on December 2 to holders of record as of November 21.

I'd now like to turn the call over to Jon Winkelried, Chief Executive Officer.

Jon Winkelried: Thanks, Gary, and good morning, everyone. We're excited to share our strong third quarter results today. For the quarter, we generated strong sequential growth in fee-earning AUM, fee-related earnings and value creation across our portfolio.

Jack and I will take you into further detail for the quarter. But before we do that, I'd like to share some thoughts this morning on the market we're operating in and our position as a firm.

Investors have heard a lot during this earnings season about the macroeconomic and geopolitical environment. It's a complex time in the markets generally. However, periods of market dislocation like this create opportunities, so I'd like to focus on what this means for TPG.

We've been preparing our business for this type of environment for some time. Investors can see this in our results, including the substantial realization cycle we began several years ago, our record dry powder and the innovative investment strategies we have developed.

Despite a challenging market backdrop, our current portfolio, which has been built around our core thematic areas, continues to perform well. Our prudent use of leverage to support the growth orientation of these companies has made our portfolio less sensitive to the effects of rapid interest rate increases.

And while we are not immune to inflationary pressures in labor costs, we manage a portfolio which has been constructed by targeting businesses with high intellectual property and strong secular growth in sectors such as health care, technology and climate. We are disciplined, patient investors and careful stewards of the long-dated capital we manage.

We focus on investing in leading businesses at attractive valuations and finding creative solutions for companies in need of capital. We have a long and successful history of stepping forward in complicated moments like this to drive returns, and we believe we are set up to do so in this environment.

There is a significant opportunity in our pipeline, and we believe TPG is well positioned to continue to execute. There are a few points I'd like to highlight in our results. Our financial performance in the third quarter reflects the durability and strength of our FRE-centric business model.

TPG generated significant quarter-over-quarter growth in management fees, operating margins and FRE. This is a direct result of the stable growth of our fee earning assets under management as we continue to scale our business.

Our third quarter fee-related revenues of $282 million grew 10% sequentially. Fee-related revenues for the last 12 months exceeded $1 billion for the first time in TPG's history. And approximately 90% of these revenues were from stable and growing management fees.

FRE in the third quarter of $121 million grew 19% compared to the second quarter. Our total AUM was $135 billion at quarter end, which increased 24% year-over-year. This step-up was driven by strong fundraising activity across our business, including our first closing in the quarter for TPG's flagship Capital Asia Fund and the completion of the first closes for several other flagship funds, including TPG Capital Partners, Healthcare Partners and Rise.

In aggregate, we raised more than $8 billion during the third quarter and $29 billion over the last 12 months. We're very pleased with the success of our ongoing campaigns, particularly amid the well-discussed headwinds GPs are facing in the fundraising market.

Given the success of our ongoing fundraising campaigns, we had a record $46 billion of capital available for investment at the end of the third quarter. This is up 18% sequentially and represents 57% of our fee-generating AUM.

We believe our fundraising progress and record dry powder leaves us well positioned to play offense and drive returns. Over the last few years, we capitalized on the attractive valuation environment and aggressively sold assets.

We have deliberately moderated our pace of realizations, given the market dislocation. And we've been positioning our portfolio companies for continued growth, generating value creation of 2% for the quarter and 13% for the last 12 months.

This strong relative performance reflects the high-quality, resilient portfolio we have constructed around our long-term sector-based themes. We've been anticipating a downturn for some time and have been consistently building multiple compression into our financial models.

Our focus has been on investing in industries with durable secular trends that can continue to drive growth through the cycles. Although our investment pace slowed in the third quarter, consistent with the broader market activity, we're seeing increasingly interesting opportunities to invest in high-quality companies.

We're currently in an adjustment period where sellers' valuation expectations are resetting lower, and transaction levels may remain softer for a while longer. We will continue to be patient and highly selective. We are starting to see valuation expectations begin to align, and we believe we're in a strong position to deploy capital, given our significant pool of dry powder.

With that in mind, I'll highlight some recent investments we've made across our business, starting with the health care sector, where we are one of the world's largest and most active private equity investors. Shortly after the third quarter, we completed several health care investments with a combined enterprise value of more than $9 billion with TPG investing approximately $3.5 billion of equity.

Notably, our in-house capital markets team had a lead arranger role in raising all $5 billion of the debt for these transactions at attractive terms in a difficult financing environment. We believe our capital markets capabilities continue to provide us with a significant competitive advantage and enable us to access financing even during periods of extreme volatility when banks are largely sitting on the sidelines.

Leveraging our carve-out expertise, our capital funds acquired ClaimsXten, which is a leading claims editing software platform that was divested from the merger of United and Change Healthcare. We also completed the take private of Covetrus, a leading animal health distribution and technology platform and the acquisition of DOC Generici, an Italian specialty pharmaceuticals company.

Our Capital Asia Fund just completed the acquisition of iNova Pharmaceuticals, a leading independent consumer health care company in the Asia Pacific region. iNova is the inaugural investment from TPG Capital Asia VIII and highlights the strength of our Pan-Asian platform, with the transaction representing a cross-border underwrite across our Australia and Southeast Asia teams. We're seeing significant momentum and opportunities across other parts of our business, including our impact and growth platforms where we have built and scaled several innovative funds.

In climate, the combination of the recent Inflation Reduction Act, energy prices and growing concerns around energy security have substantially increased investment into the sector. Since its inception just over a year ago, our Rise Climate Fund has already deployed $2.2 billion and currently has a robust pipeline.

During the quarter, Rise Climate invested in Monolith Materials, which is a global leader in clean hydrogen and carbon black. And just after the quarter end, Rise announced a follow-on investment in Form Energy, which is developing and commercializing next-generation battery technology.

Second, I want to highlight our tech adjacencies fund, which we created to provide bespoke solutions for the tech marketplace. With IPO expectations delayed and prices resetting meaningfully, we are seeing significant opportunities to deploy the $2.6 billion of new capital we have already closed on for this fund. We have a couple of significant transactions that we hope to be closing shortly.

I'd like to also touch on real estate. Rising financing costs as a result of government interest rate policy are leading to valuation adjustments and market dislocation. And as a result, deployment has moderated considerably.

However, our fourth opportunistic fund just closed on $6.8 billion of new capital, over 80% larger than our prior fund. So we believe we are well positioned to take advantage of opportunities as markets adjust.

Furthermore, our teams focus on select themes primarily driven by long-term secular demand drivers has resulted in less than 5% of the total remaining invested equity across all of our vehicles to be invested in the office and retail sectors, both of which are also experiencing considerable headwinds. Despite the challenging backdrop over the last 6 weeks, we've been able to monetize several real estate investments in the U.S. and Europe at attractive prices.

Before I hand the call over to Jack, there are two additional items I'd like to highlight regarding the broader TPG ecosystem. First, we were pleased to announce that TPG Rise was recently named to Fortune's 2022 Change the World list. This annual list acknowledges companies that have had a positive social impact through activities that are part of their core business strategy.

We're proud to be included alongside a number of inspiring companies such as PayPal, Walmart, NVIDIA, GoFundMe and DeepMind. Importantly, we are the first global private equity firm ever to be recognized for this prestigious honor.

Second, we recently hosted our annual meeting for our capital funds. This was our first in-person conference with our capital limited partners since 2019, many of whom are invested in multiple strategies across the firm. We shared our most compelling investment teams, reviewed the status of our portfolio and highlighted the deep venture talent across our capital platform.

We also had senior team members in attendance from all of our other product areas and had an opportunity to engage with our LPs on those strategies as well. We're proud of the trust they placed in us and look forward to our continued partnership.

I'd now like to hand the call over to Jack, so he can take you through our financial results.

Jack Weingart: Thanks, Jon. Good morning, everyone, and thanks for joining us for the call this morning. The firm's third quarter financial results demonstrate the strength and resilience of our business. We continue to make good progress through our significant fundraising cycle driving a sequential increase in fee-earning AUM, management fees and fee-related earnings. And our investment performance continues to demonstrate strength in the face of these volatile markets, driving an increase in net accrued performance allocations.

Now I'll walk through each of these metrics in a bit more detail. Our total AUM increased from $127 billion to $135 billion during the quarter, an increase of 7% for the quarter and 24% compared to $109 billion at the end of the third quarter of 2021. The key drivers of this year-over-year increase were $29 billion of capital raised combined with $15 billion of value creation from our underlying fund investments, partially offset by $18 billion of realizations.

Fee-earning AUM increased from $67 billion to $81 billion during the quarter, an increase of 21% for the quarter and 37% compared to $59 billion at the end of the third quarter of 2021. This 37% increase year-over-year was driven primarily by the raising of nearly $24 billion in fee-earning capital across our platforms, including the activation of new flagship funds for capital, health care partners, Asia, real estate partners and Rise.

At September 30, 89% of our AUM and 90% of our fee-earning AUM was in either perpetual or long-dated funds with a duration at inception of 10 years or longer. In addition, 84% of our fee-earning AUM had a remaining duration of 5 or more years at the end of the quarter. And we had nearly $11 billion of AUM subject to fee earning growth, 60% of which was not yet earning fees at the end of the quarter.

Our strong organic growth in fee-earning AUM has driven an increase in management fees, which were up 23% year-over-year to $255 million in the third quarter. Total fee-related revenue increased at a slower pace of 7% year-over-year to $282 million due to a reduction in transaction fee revenue from last year's third quarter.

However, as Jon mentioned, we closed several new investments last month in which our debt capital markets team played a major role. So we expect transaction fees to increase in the fourth quarter.

Our FRE grew 19% compared to the second quarter led by management fee revenue growth of 14% along with continued expansion of our FRE margin, which increased 300 basis points sequentially to 43% for the third quarter. As we have indicated previously,

we expect our FRE margins to continue to expand as we benefit from ongoing scale on operating leverage with an FRE margin target of 45% by the end of next year. And we're tracking ahead of plan relative to that target.

Our after-tax distributable earnings for the third quarter were $113 million, which reflects the slowdown in year-over-year realization activity that we discussed on last quarter's call. As Jon mentioned, we have moderated our pace of monetizations as we focus on driving growth and value creation in our relatively young portfolio. Importantly, the combination of our lower monetization pace and our strong value creation drove a 7% increase in net accrued performance allocations during the quarter.

In connection with our third quarter results, we announced a quarterly cash dividend of $0.26 per share of Class A common stock, representing 85% of TPG's after-tax distributable earnings, substantially all of which is driven by FRE. We will have distributed $1.09 in cash per share of Class A common stock with respect to the first 3 quarters of the year.

Despite the challenging macroeconomic environment, the fundamental performance of our portfolio companies remain strong generally with above-market revenue and EBITDA growth. We believe this growth is a result of our hands-on approach and thematic sector-based investing in areas with compelling secular growth trends. This strong performance drove a 2% increase in value creation in the quarter and a 13% increase over the last 12 months.

Turning to the non-GAAP balance sheet for the TPG Operating Group as of September 30. We are well capitalized with $572 million of cash and $450 million of long-term debt.

During the third quarter, we upsized our undrawn credit facility from $300 million to $700 million to provide us with additional financial flexibility. We also had a net accrued performance allocation balance, as I alluded to, which represents 20% -- the 20% allocation to TPG Operating Group of $725 million. The increase from $677 million at the end of the second quarter is primarily driven by $53 million of unrealized value creation.

A notable component of our net accrued performance allocation balance at September 30 is related to the sale of Wind River, which we have discussed on previous calls. This transaction remains under regulatory review, and we are still targeting to close by the end of the year.

I'd also like to note that as of September 30, $122 billion or 90% of our AUM was eligible for performance allocations.

Now moving on to fundraising. We raised more than $8 billion of capital during the third quarter and $29 billion over the last 12 months. And I'd like to provide you with some more detail on our various campaigns.

- On our capital platform, we were targeting a first close for our flagship Asia fund in the third quarter. And we completed this as planned, raising $3.4 billion, which takes us more than halfway toward our $6 billion target.

- We also raised an incremental $2.6 billion for our flagship TPG Capital and Healthcare Partners funds. This brings the combined total to $10.6 billion out of an $18.5 billion combined target.

- On our Impact platform, we closed on an incremental $600 million for our Rise Fund during Q3, bringing the total raise to $1.9 billion against a target of $3 billion. On our real estate platform, we reached the hard cap for our fourth opportunistic fund as expected, completing the fundraising with total capital commitments of $6.8 billion, which is 83% larger than the predecessor fund.

- Lastly, we raised approximately $1 billion for our Market Solutions platform, including important first closes for our 2 funds focused on GP-led secondaries: NewQuest in Asia and TGS in North America and Europe. Going forward, we're focused on 3 areas of fundraising: number one, completing the active campaigns I just mentioned; number two, launching our next growth fund, which is likely to take place by mid next year; and number three, exploring several additional organic growth opportunities.

For the industry, we do expect fourth quarter fundraising to be limited as many LPs have fully allocated their budgets for the year. We have a strong backlog of LP interest in our funds and expect to complete our active campaigns successfully next year as our client access their 2023 budgets.

Before we open the call to take your questions, there's one additional item I'd like to cover. As we were planning and executing our successful IPO earlier this year, one of our primary actives was to bring TPG public at a time when we were experiencing significant growth that we could share with public investors. Another fundamental objective was to create a publicly traded security with sufficient liquidity that could be owned by a broad base of shareholders.

To that end, I'm pleased to announce that our Board took steps last week to modify our Class A common stock voting power. We believe this will become effective before the end of the year and will enable TPG to qualify for inclusion in the large Russell family of indices when they rebalance next spring.

We're proud of our strong third quarter results and the momentum we're generating across our business. We believe our investment portfolios are performing well amid the evolving market backdrop, and we're working closely with our portfolio companies to build long-term value. In addition, we continue to expect strong growth in fee-generating assets under management and fee-related earnings as a result of our ongoing broad-based fundraising campaigns.

With that, I'd now like to turn the call back over to the operator, so we can take your questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) We will take our first question from Craig Siegenthaler with Bank of America.

Craig Siegenthaler: So I think the biggest conversation point with investors today is portfolio valuations, especially given your sector positioning with heavy overweight to software and business services. And for example, I think some of us like to look at the public markets and the software indices.

The iShare software ETF is down about 40% year-to-date versus TPG's positive 10% mark in the Capital business. So my question is, how are the underlying EBITDA and revenue growth trends through September 30 across both the capital and growth portfolios? And also, has TPG been adjusting valuation multiples, given the higher discount rate backdrop combined with lower valuation exhibit in the public markets?

Jon Winkelried: Yes, Craig, we're going to have -- Todd, I think, is going to drill down for you in that area. So why don't you go ahead?

Jack Weingart: And before Todd goes to the operating performance, Craig, I'll address the second part of your question. We absolutely look at multiples every quarter along with lots of other data. And we have been bringing multiples down. Todd will give you a sense for the operating performance of the portfolio.

Todd Sisitsky: Craig, thanks for the question. Overall, the portfolio really continues to perform quite well, and we're experiencing strong underlying growth. Just looking at the third quarter, for example, in the TPG Capital U.S. and Europe businesses and the TPG Capital Asia business, which just tends to be our more mature, larger check businesses, in the U.S. business, third quarter year over prior third quarter year results, revenue was up in the high 30s.

Now that was impacted by the fact that there was a rebound effect from the third quarter 2021 COVID effect, but still very strong growth. The Asia business over that same time frame in active funds was up 22%, or 24%, depending on which fund, so good, steady result.

And I think that this is, as Jon was sharing, this is the result of having invested in teams and sectors that are tied to secular growth, particularly over the last lengthy period of time that we were anticipating a downturn. And it makes a big difference being in the right neighborhoods.

Looking forward, because we spend a lot of time on these portfolio companies, not just looking at historical results, but some of the forward indicators, what we're seeing in

health care for the most part is a continued rebound in volumes post COVID. Software enterprise technology decision cycles are taking a bit longer there. So it's a little harder to get large deals over the finish line. Growth continues, but it takes a little longer, actually provides an advantage for incumbents, but a little more challenging, a little slower for the attackers.

Climate has strong growth trends driven by the IRA energy prices, growing concerns about energy security, Internet digital media, persistent demand for content, a little softness in ad sales beginning into this year. Consumer has been a little bit divided with strong resilience at the higher end, a little more pressure on the lower-end consumer. So we're watching all this real time, but for the most part, we're very well positioned relative to spaces we're in and the neighborhoods we've invested behind.

Operator: We will take our next question from Alex Blostein with Goldman Sachs.

Alexander Blostein: So I wanted to start with, I guess, just the conversation around the fundraising backdrop. Obviously, we've spoken, I feel like since January of this year about the difficulties that the private equity industry (inaudible) when it comes to fundraising.

You guys seem to be on track with your larger flagships, but curious if you could help us sort of level set on how you think 2023 is likely to evolve. Again, the cumulative dollars sound the same, but maybe just give us a sense of the timing of kind of how you think that's going to sprinkle across the year. And also, you alluded to several new organic growth opportunities as you look out into 2023. I was wondering if you could expand on what those are.

Jack Weingart: Sure. Thanks, Alex. Look, I think we started talking about this in the first quarter. And since then, it's become a pretty topical issue for the industry. And things were playing out about as we would have expected.

I mean, LPs remain in certain regions of the world overallocated for all the reasons we've talked about. A lot of GPs are extending fundraising campaigns into next year. We've been planning to do that the whole time as we've been talking about.

And so I think next year will remain challenging throughout most of the year for all the same reasons. There was an element of GPs kind of pre-launching fundraising campaigns coming into this year who didn't necessarily need the capital yet, and that kind of opportunistic fundraising launch will not happen next year.

So I think you'll see a bit of an abatement in the number of GPs in the market as next year unfolds. But I think next year will remain crowded. As you point out, we remain really on track. We're very pleased with the $26 billion we've raised year-to-date. It's tracking ahead of what we would have told you at the IPO was our expectation for the year as about a 50% increase relative to the same 3-month period the prior year in a market where aggregate fundraising by the industry is down about 20%.

So what you often see in times of dislocation like this, is, yes, lower overall fundraising volumes and market share shifts to stronger players. Transaction volumes slow down for a period of time as we're seeing, but the new investment opportunities get much more interesting. So we feel good about our positioning with that backdrop.

As it relates to our flagship funds, as we've been saying, we are going to keep them open through the middle of next year. I think the fourth quarter of this year, as I mentioned in my comments, will be particularly light for the whole industry because most LPs are done allocating capital for the year. So I think you'll see a slowdown in the fourth quarter and then kind of a consistent raising of capital by the stronger players during the course of the year next year.

Jon Winkelried: Yes. Alex, just to add to Jack's comment, I think in terms of the fundraising environment, I think it's just important to highlight again that the larger managers that have been performing well, are getting positively selected in the market.

And remember also that we were very disciplined about returning a lot of capital over the course of the last couple of years. And that's putting us in a good place in terms of many LPs being able to recycle capital back to us. So I think we feel good about our relative position in the market from that perspective.

On the organic growth side, I think you'll remember from when we were going around and doing the IPO, we talked a lot about how we've grown the firm over time and our success in innovating and developing new strategies. And that we had raised quite a bit of capital over the last few years related to step-out strategies or new or identifying new sectors or themes in the market that allowed us to build strategies around those.

And that's something we talked about continuing to be focused on as a firm, and we are. And I would point out 4 areas where -- and these are not the only things that we're focused on, but there's four areas that I think we feel where we're going to be focused on trying to continue to grow.

One is -- and Jim can talk about this a little bit later in the call. But on the climate side, as you heard in my comments, we've seen a substantial flow of really interesting opportunities there. There's a lot of investment that continues to get focused on the space. And I think we're going to try to expand our platform on the climate side with some other opportunities that we'll have more to say about later, but that's an area where we feel like there's more room for growth.

A little while ago, we had announced that we had hired a new partner, Pamela Pavkov, to lead our TPG NEXT initiative, which is our effort to seed and grow minority managers. And our expectation is that we're going to announce a meaningful lead capital commitment with an LP partner shortly on that. And so I think we're going to be off and running on that strategy very shortly.

In GP solutions, Jack talked about important closes with anchor LPs in both TGS as well as NewQuest. I would say that given the environment that we're in and what's happening in the secondary market, particularly as it relates to GP capital, we're laser-focused on continuing to grow that. We think it's a very large opportunity. And GP solutions capital is the one area in our market where we see it being undercapitalized.

And then lastly, leveraging off the strength of our real estate franchise, we are in the process of beginning to raise some capital around the real estate credit opportunity that we see in the market. As you know, we have a publicly traded REIT. We recently hired Doug Bouquard as a partner to lead our real estate credit opportunities. He came from Goldman Sachs.

And what was probably a year ago an underwhelming opportunity is now, I think, a pretty compelling opportunity as a result of what's happened with the term structure and rates and what's happening in the real estate market broadly. So we're in the market right now talking to some LP partners about forming capital around that.

Operator: We will take our next question from Ken Worthington with JPMorgan.

Kenneth Worthington: We're just ticking off the boxes here. Carry outlook. So clearly, you mentioned that we can see the challenging markets. You mentioned and we knew this before, the front-end loading of realization in a number of your portfolios.

Can you help us better frame the outlook for realization in carry generation for 2023? So obviously, this is very market dependent, but you have insight into your portfolios in terms of what is seasoning and what is not. I was hoping to just get a better view on the magnitude of a slowdown that we should expect for next year, given all the factors that you had sort of discussed during the call.

Jack Weingart: Ken, it's Jack. Thanks for joining. Thanks for the question. Look, I've said on prior calls that we are not going to forecast PRE, and there's a reason for that. We are investors, and just like we focus carefully on when and which companies to acquire, we focus very carefully on maximizing value for the LPs in our funds and generating the best returns we can.

So we're going to be selective and careful in deciding which companies to sell over time. And as you might imagine, this market is not the best market to sell high-quality companies as we kind of alluded to in our comments.

In the meantime, we're building a bigger backlog of future promote through the accrued balance. That increased 7% to $725 million during the quarter. One way to think about it is, on average, historically, we have tended to monetize during any 12-month period, call it, 30% -- 35% of our balance, which gives you an order of magnitude of the annual promote we have in backlog.

I would tell you that going into next year, unless markets improve, we would tend to be underweight in selling relative to that average. The other thing I'd note, I mentioned in my comments, Wind River continues to account for over $100 million of our remaining accrued but unrealized carry. And we continue to target a closing by year-end there.

Hopefully, that helps. We're not going to get too specific in targeting a specific number or amount of PRE during any forward-looking period because we're going to do the right thing and sell assets at the right time.

Jon Winkelried: I think in this environment, it's particularly hard to predict the timing of some of the monetizations, I think, it's going to be obviously shifting around a bit. Remember that since 2020, we returned just under $50 billion of capital to our LPs and have generated really strong DPI across our funds.

So far this year, we delivered nearly $190 million of PRE to our shareholders. And I think I understand the averaging or how you'd like to think about sort of what the pace of monetizations will be. But in this environment, with what's happening in the markets with spiking inflation for the first time in 40 years, and with the macro picture, I think it's going to be harder to predict with some level of averaging or precision. But when we do have opportunities to monetize, what we're focused on is generating the returns that we need to generate to our investors, and that's our priority.

Operator: We will take our next question from Michael Cyprys with Morgan Stanley.

Michael Cyprys: Wanted to come back to the topic around interest rates. Maybe you could just talk a little bit about how the higher interest rate environment is impacting your portfolio companies. What portion of their cap structure is floating rate versus more fixed and hedged?

And then on the new investment side, can you talk about how you're adapting the higher financing costs on new deals? Is the purchase price flexing enough to fully offset? Or what are some of the other pieces that may sort of offset partially? Do you anticipate refinancing at BO model is flexing in this environment.

Todd Sisitsky: Sure. Thanks for the question. It's definitely the case that markets today are challenging and uncertain. But for us, I think we prefer environments where capital is scarce. And it does, as you said, flow through transaction prices.

As Jon said, sometimes it takes a little bit of time for the expectations of sellers to sort of recalibrate. But we like it when leverage is less of a commodity. It's definitely also harder to access very large quantums of debt, but mega deals have not been our sweet spot historically in any event.

If you look across our portfolio, and this affects both our new underwriting and the question you had about our portfolio of companies, we typically -- almost consistently

actually -- take the full amount of leverage that's offered to us. So across all of our portfolios, our net debt-to-EBITDA ratios are about 3x.

And in our Capital business, which is certainly on the highest end, it's about 5x, which is a few turns inside of where the industry is. And that's because traditionally, we're focused, as we talked about on growth -- secular growth situations where we can not only grow the businesses, but we can inflect the growth curve upwards. And the flexibility inherent in less levered capital structures is really important to us to be able to accomplish that.

And so for us, financial engineering and maximizing leverage is really not part of what drives returns for us. It's really about driving that growth, which typically entails a more conservative capital structure.

I'd also say, it's an interesting time to continue to develop some of the teams that we have, which include partnering with strategics in an interesting area and often less levered environments. In the last couple of years, we've done that in a lot of places.

And then the final point I'd make here is we have an in-house capability that is very important in environments like this. We have, as Jon mentioned, we were the lead arranger of $5 billion of debt for these recently closed Capital transactions, and that's a real competitive advantage to have that capability.

On fixed versus floating, the majority of our debt is fixed. It occurs a little bit, of course, by capital structure. And we'll, of course, place fixed debt and then hedge out a portion of the floating once we get into a deal. So we feel pretty confident between the lower levels of leverage and the fixed rate in terms of where we sit from a liquidity standpoint.

Jack Weingart: And Mike, the other question you asked is about whether we build in assumed low refinancing costs in the future, we absolutely do not do that. So the higher cost of financing has to be accounted for in the model.

That being said, we love environments where the distribution of outcomes is more skewed to the positive. So when rates were as low as they were, we did think about the refinancing risk inherent there. It's almost always the case that when debt financing costs are higher like this and more difficult to access, that's a better time to finance deals. And you do have a positive skew to what happens when you can opportunistically refinance that debt.

Operator: Yes. We will take our next question from Brian McKenna with JMP Securities.

Brian McKenna: Great. So it's good to see the $3.4 billion first close for the Asia fund. So can you talk about the level of demand for this product, specifically in the current market backdrop? And then related, what is the broader deployment opportunity like in the region today?

Jon Winkelried: Jim, do you want to comment?

Jim Coulter: Sure. There is, as I think the close shows, there remains to be strong interest in Asia. The only place I would say we would see weakness in Asia interest is in the U.S. So internationally, there is a very strong interest, particularly in Europe and in the Middle East.

In the U.S., we're running into some questions as to global politics. Good thing about our Asia business is we have always been underweighted China and overweighted what we call the arc around China. And we're seeing a relative increase of interest in that strategy.

Around the world, you're seeing pretty strong bounce-backs in many of the economies outside of China post COVID, but particularly in Asia. So as investors are looking for growth, they're looking for growth in Asia like China, and that's what our product offers.

Operator: We will take our next question from Glenn Schorr with Evercore.

Glenn Schorr: Do you hear me this time?

Jon Winkelried: Yes, Glenn. We got you.

Glenn Schorr: Cool. I was curious on your comments about the opportunity in real estate credit. One is if you could talk us through anything that could help us on sizing the opportunity and what you're expecting? And if it's coming from current LP interest, and that's just the transition of the real estate opportunity on the debt side, so you talked about that a little bit.

And then two, while we're on the topic of credit, is -- am I reading too much into it of, oh, maybe this is -- we can piece together the platform one strategy at a time, bring a team together for this piece for a direct lending piece. Just curious if it has any implications to the bigger theme of credit.

Jon Winkelried: Yes. Well, Glenn, I think maybe going in reverse on your question, don't read anything into this -- our approach to the real estate credit opportunity I think is, in a lot of respects, separate and distinct from the broader corporate credit opportunity. And so I'll come back to that after.

But it doesn't imply that we're either not focused on the corporate credit opportunity or that we're -- or that our ambitions around it have changed any. I think what's -- going to real estate for a second.

The real estate credit opportunity, I mean, we've evaluated and kicked it around for actually some time now. And we were relatively early into the REIT market with TRTX and the commercial mortgage REIT there.

And for a while, we were -- over the last number of years, we had kind of evaluated whether or not we wanted to build around that in terms of other private pools of capital that would allow us to attack the opportunity. And while we were doing that, our real estate team is also very focused on getting to much more substantial scale and focusing on the opportunities that we thought were most interesting in terms of developing our track record and establishing our presence in the industry, which we did on the equity side.

And obviously, you know where we are there today in terms of having scaled on the equity side. In the process of doing that, our performance has been very strong. Our expertise and understanding of the market in different parts -- different sectors within the space is very strong. And we have a pretty strong following among LPs in terms of our understanding of the space.

We went out, and we hired Doug because we felt like at some point, this opportunity was going to come around. It's come around actually in a lot of respects faster than we thought it was. And so we're starting where I think many credit businesses start, which is we see a total return opportunity and opportunistic investing opportunity. We see that real time in front of us in terms of what's happened to the financing environment in real estate, dislocation and particularly in a number of spaces as a result of what's going on with a series of term structure changes in the market, banks stepping back from the market in terms of their willingness to lend due to dislocation in certain sectors like office as an example, retail as an example.

And so we're pretty bullish that there's a really interesting opportunity here. And Doug has a background in terms of having managed and worked through a number of different spaces and sectors within the real estate credit space at Goldman, where he was essentially running a large part of that business.

So we're very bullish on it. We're in the process right now of beginning to meet with LPs on it. We feel it's a very large, scalable opportunity over time. This is where we've chosen to start with respect to leveraging off of our position in the real estate market broadly. And so a number of LPs have been very open-minded in terms of listening to how we're approaching the opportunity. So that's where we are in the real estate credit side.

On the corporate credit side, whether it's direct lending or capital solutions on credit, we continue to be very interested in it. And we continue to be in the market focused on it and working on it. It's important and a priority of ours to try to continue to add a credit strategy, a broader credit strategy to our platform over time. We feel it has a lot of value to us. We feel like the way we invest generally as a firm that adding the credit piece will continue to strengthen our platform, continue to diversify our platform. So don't read anything into the fact that doing this over here, and we're not focused on it because we are.

Operator: We will take our next question from Brian Bedell with Deutsche Bank.

Brian Bedell: Maybe just to focus on Rise Climate, if you can update us on the deployment potential there given the Inflation Reduction Act, you talked about this on the last call as well. It looks like it's at least 1/3 deployed if we're looking at maybe a sort of a playbook of deployment, like, for example, for the Growth V Fund where you're 2/3 deployed and expect to be back in the market in the middle of next year.

Can you just characterize the deployment opportunities in Rise Climate in that context and whether you're sort of potentially cycling through that even at an even faster pace and can be back in the market sometime in 2023 for the next vintage?

Jim Coulter: I was hoping for a question in this area amidst the complicated market backdrop that we discussed here, and you're all experiencing one of the real bright spots across our dashboard is what's happening in the climate-related space. Whatever opportunities one thought was available going into this year have been substantially increased by three things.

First of all, the IRA. If you look at that bill, it's announced as a $369 billion set of incentives. If you look more carefully at the research, those incentives are uncapped, and people think it might be as high as $800 billion or $1 trillion.

Within our own portfolio, that dramatically changes the positives, the expected cash flows from things we've already invested in. So it's really good news for what we have in the ground. And it also dramatically opens up the amount of projects and companies that will pass our very strict underwriting standards.

So the U.S. has really opened up. Second, Europe quietly has something called REPowerEU, which is also a $300 billion set of incentives. And the European energy prices have dramatically shifted the green premium to a green discount, meaning that green is now much cheaper in that marketplace.

And the third thing, frankly, is the weather was just lousy during the year. And so this remains on everyone's mind in a deep way.

That being said, an activity has picked up. I don't think there have been many times in my career that I've seen as much of an imbalance between the amount of specialized capital needed and the amount of specialized capital that has been formed.

You think about the specialized capital in technology or the specialized capital in oil and gas, and then think of all the firms that you can name that have funds in that area -- that doesn't yet exist in the climate area. And given this acceleration, that's a huge opportunity for us.

More capital will flow in. It always does. The head start and the deep knowledge that you have to have to address these markets are something that we've been focused on for a

period of time. So you're right, investment pace is a bit ahead of where we might have expected. We're pleased with that.

And I think you can see us targeting additional capital raise in '23 and '24. '23 may be, as Jon alluded to, adjacent products to the Rise Climate Fund. But our pacing -- and we want to be careful to always be moderate in our pacing, but our pacing would suggest that 2024 return to market with the Climate fund, but there's lots of opportunities between now and then.

Operator: We will take our next question from Adam Beatty with UBS.

Adam Beatty: I wanted to ask about LP Co-Invest. And we've talked a lot about co-mingled fund raising and what have you. Just wondering about the level of activity that you're seeing there.

One of the aspects of the business that you mentioned in the roadshow was that occasionally on larger deals, TPG would either bring in co-invest or otherwise go outside the firm for capital. So just looking for an update there, kind of the level of interest and activity that you're seeing from LPs these days.

Jack Weingart: Adam, it's Jack. Thanks for the question. Look, I would say a couple of things there. Number one, generally speaking, co-investment opportunities and pursuing co-investments alongside funds in which they invest remains a long-term strategy that's very important to our clients.

And we have been a very good partner to many of our LPs in generating co-investments for those who want to see those co-investments alongside our funds. You won't be surprised to hear that in a choppy market like this, where many investors are a little bit kind of moving toward more of a risk-off mentality combined with the budgetary constraints that we've talked about, LPs are facing and committing to funds. Budgets for total investment opportunities in the near term are much lower than they were a year ago. But it remains an important topic, and we will continue to generate attractive co-investment opportunities for our LP investors.

Todd Sisitsky: And I think it's also -- sorry, it's Todd, just adding one comment. I think it's also a really valuable thing for us that we have strong relationships with LPs that in the right situation, particularly when we want to make an initial platform investment and have the opportunity to invest more in our platform companies in the spaces we spent so many years studying, it's a real benefit to us to have those LP relationships and the flexibility to provide in scaling up our capital when it's appropriate. So it's a really important part of our ecosystem and one that I think is a permanent part of the private equity business model.

Operator: We will take our next question from Gerry O'Hara with Jefferies.

Gerald O'Hara: Great. I guess my questions are on FRE or I suppose more specifically on FRE margin. Jack, I appreciate the comments on how you're tracking ahead of target. But curious to get your sense of how we should think about balancing the fee-paying AUM potential that you outlined earlier in the call against a possible investment in the business or probable, I suppose, investment in the business. So put it other way, what would you perhaps see that could slow the trajectory? Or should we really think about it kind of building from here?

Jack Weingart: Yes. Thanks, Gerry. Good question. I would say we had more acceleration in our FRE margin this year than we expected really driven by both factors: faster growth -- a faster success on the fundraising side driving higher fee-related revenue growth than we had anticipated coming into the year; and our expenses, particularly comp and benefits, tracking below what we expected. That's in part because it's taken us a bit longer to hire people for key roles than we had put into our budget.

Those hires haven't changed at all. So we do have some continued investment in building our teams built into our expectations for next year. So I do think that you should expect that line item to grow during the course of next year and probably slow the pace of growth.

I'm not changing our target FRE margin by the end of next year. I do think we'll likely exceed it, but there are some additional costs that you should expect us to build the business as we continue to build the infrastructure to support long-term growth.

Operator: We will take our next question from Luke Mason with BNP Paribas.

Luke Mason: I think most have been asked. I just wanted to follow up on the organic growth opportunities. Just in this market, how do you think about organic growth versus doing something inorganic. Like on the corporate credit side, is there opportunities for kind of team lift-outs just in this market where potentially activity is a bit slower? Could you maybe do lift-outs from elsewhere? And just how you think about that?

Jon Winkelried: Well, from a growth perspective, organic growth and inorganic growth is not mutually exclusive for us. Organic growth has been a hallmark for us in terms of how we've grown our firm over time.

And you'll probably remember how we showed the evolution of the firm in terms of growing both size of our funds as well as identifying new strategies, step-out strategies or adjacent strategies and also identifying new important sectors in the market and being innovators like in climate as an example or in impact more broadly.

So I talked about some of the organic growth that we're focused on. Jim just mentioned it as it relates to climate. We talked about some of the other strategies that we're continuing to focus on. That's not going to slow down for us. We're highly focused on creating really interesting investment opportunities and also they're related to the overall ecosystem. And that's really important.

These pools of capital that allow us to be nimble, allow us to see opportunities, they feed off of one another. And you can see that consistently in our business. And so that's a core part of how we invest and how we've grown our firm and how we engage with our capital partners, with our LP partners. And so that's going to be a core part of what we continue to do at TPG.

On the inorganic side, I think one of the things that we've talked about before is that as the markets continue to consolidate a bit in our industry, particularly in a harder fundraising environment, where capital is more scarce and you see the larger firms or the more experienced firms disproportionately doing better in that context, I think that's creating opportunities with respect to whether it's lift outs of teams or acquisitions of other businesses.

But these deals, in our world, in our business, which is a human capital business, getting inorganic growth completed is a function also of making sure that you're bringing the right team and the right people on board, that you share common objectives in terms of building and growing the business and that you know what you're buying.

And so I would just say that -- and if you look at the history of inorganic growth in this industry, it's obviously accelerated more recently in the last few years, but that's a relatively new phenomenon for our industry. Corporate credit, as an example, as I said before, is an area which we are definitely focused on as a firm.

But we're not in a hurry. We're trying to find the right partner. And we're thinking about the growth of our firm longer term. So that's how I'd characterize it for you.

Operator: We will take our final question from Rufus Hone with BMO Capital Markets.

Rufus Hone: I appreciate the detail you provided on the fundraising pipeline. But could you update us on how you're thinking about addressing the retail opportunity and the potential for growth of permanent capital vehicles? Any detail there would be great.

Jon Winkelried: First of all, just to level set, we're engaged with the channel, particularly in the high net worth retail space on virtually every campaign that we're in the market on. And so, as we've said before, we feel like our business, our brand and our product flow is something that the channel is very interested in.

We have great partnerships with the channel partners, and we are in market trying to access capital in every one of our current campaigns. So that's a fixture within our fundraising strategy.

I will say that the channel demand has been, not surprisingly, weaker across the board. And I think it's a function of generally the markets -- participants in that part of the market feeling generally risk off or more conservative or more careful as the markets

have been extremely volatile. It's really not surprising at all to see the orientation of investors to be focused on being a little more careful, a little more liquid.

And so what we're seeing across the board, and I think other firms have experienced something similar, maybe with the exception of a few select products that demand in that channel is off and down. Over time, as our product set continues to grow, we've said this before, we expect that the broader retail source of capital will be something that we'll have an opportunity to access.

And there are certain pools of capital and certain types of investors that are more appropriate for certain types of products. And we'll explore those opportunities when we have the product that fits in that part of the channel. But overall, I think we continue to be pretty active in that higher net worth part of the market. And we'll continue to do so.

Operator: This concludes the Q&A portion of today's call. I would now like to turn the call back over to Gary Stein for any additional or closing remarks.

Gary Stein: Thank you, operator. Thanks, everyone, for joining us this morning. If you have any follow-up questions, please circle back to me or Evanny. Otherwise, we'll look forward to talking to you again next quarter. Thank you.

Jack Weingart: Thanks, everyone.

Jon Winkelried: Thank you.

Operator: This concludes today's TPG Third Quarter 2022 Earnings Call and Webcast. You may now disconnect your line at this time, and have a wonderful day.