TPG Inc. – Q1'22 Earnings Call
May 10, 2022

Corporate Speakers

- Gary Stein; Head of Investor Relations
- Jon Winkelried; CEO
- Jack Weingart; CFO
- Todd Sisitsky; President
- Jim Coulter; Executive Chairman & Co-Founder

Participants

- Craig Siegenthaler; BofA Securities
- Kenneth Worthington; JPMorgan Chase & Co
- Alexander Blostein; Goldman Sachs Group, Inc.
- Robert Lee; KBW
- Michael Cyprys; Morgan Stanley
- Finian O'Shea; Wells Fargo Securities, LLC
- Brian Bedell; Deutsche Bank AG
- Adam Beatty; UBS Investment Bank
- Rufus Hone; BMO Capital Markets

PRESENTATION

Operator: Good morning, and welcome to the TPG's First Quarter 2022 Earnings Conference Call. (Operator Instructions) And following management's prepared remarks, the call will be open for all your questions. (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 first 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 that 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's 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.

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

Jon Winkelried: Thanks, Gary, and good morning, everyone.

Following our IPO in January, we hosted our first public earnings call at the end of March. Since we spoke with you just about six weeks ago, we're going to keep today's prepared remarks relatively brief. I'll touch on our recent performance and discuss a few highlights across our business. I'll then turn the call over to Jack to provide more detail on our financial results, and then we'll take your questions.

As of March 31, we had more than $120 billion of total assets under management, which increased 6% versus the prior quarter and 26% year-over-year. This growth was driven by a combination of strong investment performance and fundraising across our five platforms, partially offset by a continued pace of significant realization activity.

We raised $5 billion during the quarter, driven primarily by strong demand for our fourth opportunistic real estate fund, and we raised $24 billion over the last 12 months. We invested $4 billion in the first quarter and $22 billion during the last 12 months. We also had nearly $5 billion of realizations in the quarter and $29 billion over the last 12 months.

In aggregate, our investments generated value creation of 33% for the last 12 months and 7% in the first quarter. Approximately 2/3 of the Q1 value creation is attributable to exit agreements signed during the quarter at significant valuations. Adjusting for these realization events, our value creation for the quarter would have been approximately 2%.

In connection with our earnings release this morning, we announced our first quarterly cash dividend of $0.44 per share of Class A common stock, representing 85% of TPG's after-tax distributable earnings. Jack will provide some more detail on the dividend.

As we discussed when we spoke with you 6 weeks ago, the global geopolitical and economic landscape remains highly uncertain due to a number of significant macro factors, including the ongoing tragic conflict in Ukraine, a U.S. inflation rate that has

reached a four-year high and a rising interest rate environment that has driven U.S. mortgage rates up 5% for the first time in more than a decade.

As an investment-led organization operating in this volatile environment, we are continuing to adhere to our strategy and rigorous approach across all our platforms. We have been anticipating the onset of choppier markets, and this expectation has shaped how we've been investing our funds and managing our portfolios. We've been proactively monetizing investments and have returned significant amounts of capital to our limited partners. Over the last 12 months, during a period of very active capital deployment, we have, in fact, returned materially more capital than we invested.

The current market reset is presenting us with a range of investment opportunities at more interesting valuations, and our pipeline of actionable opportunities is growing at a time when there are fewer competitive sources of capital such as IPOs and SPACs. We are fortunate to have a substantial amount of committed but uncalled capital available to invest, $30 billion as of March 31.

With this backdrop in mind, I'd like to spend a few minutes walking you through some highlights across our business, starting with our largest platform, Capital, which had $57 billion of total AUM at the end of the first quarter. Our Capital funds had value accretion of 11% during the quarter. As I mentioned a minute ago, this value creation reflects several significant signed exits. Adjusting for those exits, the first quarter value creation for our Capital portfolio was approximately 2%, outperforming broader market indices. The ongoing value creation in our portfolio underscores our distinct investing style and our focus on companies and sectors that continue to grow revenue and earnings despite the volatile macro environment.

During the first quarter, our capital funds invested nearly $2 billion in companies such as Confluent Medical Technologies, a leading contract development and manufacturing partner to medical device companies. This investment leverages our capabilities as one of the most active and experienced health care private equity investors and builds on our multi-decade thematic focus on value-added outsourced medical products dating back to our original investment in Quintiles.

Also during the quarter, TPG Capital Asia announced an investment in Fractal Analytics, India's largest outsourced provider of artificial intelligence solutions to Fortune 500 companies. This investment stems from our position as a leading technology investor and our thematic coverage of digital services on a global scale. For the quarter, our capital funds generated total realizations of approximately $4 billion, including the $14 billion take-private of McAfee and the recapitalizations of both Novatek Health Holdings, Asia's largest biotech-focused contract research organization; and Greencross, Australia's largest pet care company.

Let me turn to our Growth platform which had $22 billion of total AUM at the end of the first quarter. This platform provides flexible capital at scale for growing businesses through our growth, tech adjacencies and digital media funds. Despite the broader

market weakness we have been discussing this morning; our Growth funds continue to perform well, with aggregate value creation of 1.5% in the first quarter and 23% for the last 12 months.

We have built our Growth portfolio with a late cycle mindset and a focus on sectors and themes like cybersecurity, ad tech and health care where secular rather than cyclical growth is the driver of performance. In addition, given the scale of capital we're deploying, we are generally investing in later-stage companies that have strong financial profiles and where we can help bend their growth curves with the substantial resources TPG brings to bear.

Looking at capital invested in the Growth platform during the quarter. In addition to the investments in Project44 and Expressbees that we mentioned on our last call, I'd also like to highlight TTAD and Rise's investment in Acorns, a leading mobile savings and investment platform with more than 4.7 million subscribers. This investment is a great example of how the recent market reset is accelerating the pace of investment opportunities for us as competitive sources of capital have been sidelined. Acorns had been planning to raise capital through a SPAC transaction, but with that market experiencing significant volatility, we were able to invest capital on attractive terms and position the company for continued growth.

During the first quarter, we also returned capital to our Growth fund investors through several transactions, including the full monetization of our stake in Toast, a leading SaaS provider for the restaurant industry, and a partial monetization of our investment in Asia Healthcare Holdings.

Moving on, I'd like to briefly discuss our Impact platform, which had total AUM of $14 billion as of March 31. This includes our inaugural Rise Climate Fund, which recently announced its final close at its hard cap of $7.3 billion. TPG Rise Climate has already committed more than $2 billion of capital to catalyze climate action and scale companies across the sector. Our Impact funds had aggregate value creation of 1% in the first quarter and 31% for the last 12 months.

During the quarter, our Impact funds invested $1.5 billion, including the first tranche of Rise Climate's investment in a newly created electrical vehicle subsidiary of India's Tata Motors. In addition, our Rise and Rise Climate Funds announced a $500 million investment in Nextracker, the number one global provider of solar tracker and software solutions for utility scale solar projects around the world.

Turning to Real Estate, this platform ended the first quarter with $18 billion of total AUM, which increased more than 40% from the prior quarter, primarily due to raising an additional $4.3 billion of capital for our current opportunistic fund, which now stands at $6.4 billion raised. TPG's Real Estate platform delivered value creation of 6% for the first quarter and 26% for the last 12 months across our Opportunistic and Core Plus funds.

In the first quarter, our Opportunistic fund made a follow-on investment in Dogwood Industrial Properties, a platform we established in 2019 to build a portfolio of multi-tenant logistics facilities throughout the United States. In addition, our Core Plus funds completed an investment through Dunewood Residential Properties, which is a new platform that is building a portfolio of differentiated multifamily assets in markets with attractive secular growth dynamics and supply constraints.

Finally, I'd like to touch on our Market Solutions platform, which had $10 billion of total AUM at the end of the first quarter across several strategies, including our long, short and long-only public investing funds and Private Market Solutions, which is our secondaries business focused on GP solutions. In addition, during the first quarter, our Debt Capital Markets Group led seven fee-generating transactions, including the recapitalization of Greencross, which we believe was the first covenant-light direct lender deal completed in Australia and one of the largest unitranche deals ever done in Asia.

Taking a step back, I'd like to highlight our talent strategy, a key element of our firm's culture and a topic we discussed in detail with many of you leading up to our IPO in January. Retaining and recruiting the best talent continues to be an important strategic area of focus for us, particularly in this increasingly competitive job market. The strength of our culture, which is enabled by an exceptional group of talented and diverse people, is the result of deep investment over the years, and we work hard to constantly reinforce it.

This manifests itself in several ways. For instance, in March, several firm leaders and I hosted a Global Promotions Program where 140 members of the TPG team were promoted at the end of 2021. Among this promote class, 48% identify as diverse across gender, race or ethnicity. Our focus on creating career paths with enhanced opportunity and upward mobility has never been more important and it will continue to be an area of focus for our entire team.

Our effort to continuously develop and engage talent goes beyond the four walls of TPG. Last month, along with a number of our peers, we engaged as a founding partner of Ownership Works, a nonprofit that seeks to accelerate the development of broad employee ownership programs. Two senior members of our management team have joined the Board of Ownership Works: our President, Todd Sisitsky and Maryanne Hancock, CEO of Y Analytics. We believe it is important to express our commitment to our people both at TPG and across our portfolio, and Ownership Works is one important example of how we can drive meaningful engagement beyond our firm.

Overall, we're very pleased with our financial and operational results for the first quarter of 2022, which highlights the momentum we are continuing to generate across our five platforms despite a more challenging operating environment. We also remain intently focused on capital formation as we continue to make strong progress with our broad-based fundraising campaigns.

I'd now like to turn the call over to Jack.

Jack Weingart: Thanks, Jon, and good morning, everyone. I'm going to briefly walk through our financial results and highlight some of the more significant points regarding our first quarter performance. Our total assets under management grew, as Jon mentioned, from $95 billion at the end of the first quarter of 2021 to more than $120 billion as of March 31. The drivers of this 26% increase during the last 12 months include $29 billion of value creation from our underlying fund investments and $24 billion from capital raising, partially offset by $29 billion of realizations that were returned to our fund investors during the same period.

Fee-earning AUM increased from $51 billion in March 2021 to approximately $64 billion as of March 31, 2022, and this 26% percent increase was driven primarily by the raising of nearly $15 billion in fee-earning capital across all of our platforms. At the end of the first quarter of 2202, approximately 84% of our AUM and 79% of our fee-earning AUM was either perpetual or long-dated funds with a duration at inception of 10 years or longer. In addition, 78% of our fee-earning AUM had a remaining duration of five or more years as of the end of the first quarter. As of March 31, we had approximately $9 billion of AUM subject to fee-earning growth, including nearly $7 billion not yet earning fees, and our funds had more than $30 billion of available capital for future investment.

Turning to our income statement, we recorded GAAP net income for the first quarter of $163 million. On our previous call, I provided guidance regarding our expectations for Q1 non-GAAP results and our reported results for the first quarter came in at or above that guidance on all key metrics. We reported fee-related revenues for the first quarter of $241 million, and we reported fee-related earnings, or FRE, of $92 million.

Our FRE grew 38% versus the pro forma year ago quarter driven by a combination of topline growth in management fees and the ongoing expansion of our FRE margins as we continue to scale our business and generate operating leverage. Our FRE margin was 38% for the first quarter compared to 34% in the first quarter of 2021 on a pro forma basis. Our after-tax distributable earnings $199 million, which more than tripled versus the pro forma year-ago quarter, driven by growth in FRE and by realized performance allocations of $122 million.

Turning to the non-GAAP balance sheet for TPG Operating Group as of March 31, which is reflective of our balance sheet light business model, we are well capitalized with $583 million of cash and $450 million of long-term debt. We also had net accrued performance allocation balance, which represents the 20% allocation to the TPG Operating Group, of $796 million, an increase from the $769 million at the end of '21. I'd like to note that as of March 31, $107 billion, or 89% of our total AUM, was eligible for performance allocations; and $85 billion or 71% was generating performance allocations.

On the fundraising side, my comments on the last call regarding the overall market conditions remain true. The market is crowded with managers raising capital, some sooner than their clients expected and certain segments of the market are temporarily over-allocated. Fundraising campaigns industry-wide will likely take longer than usual to complete.

Against that backdrop, our fundraising momentum remains strong. As Jon said, we raised over $5 billion during the first quarter, more than three times the amount that we raised during the first quarter of 2021.

On the Impact platform, we had a final close last month of our Rise Climate Fund at the hard cap of $7.3 billion, and we expect to first close on our next broad-based Impact fund around midyear. Our next opportunistic Real Estate fund is oversubscribed, and we will soon hold our final close at the hard cap of $6.5 billion.

On the Capital platform, as you know, we continue to see strong demand for our three core products: TPG Capital, Healthcare Partners and TPG Asia. We expect to complete accelerated first closings for TPG Capital and Healthcare Partners around midyear, followed by TPG Asia's first close shortly thereafter. We will have more to report on these campaigns during the second quarter call.

Before I wrap up my prepared remarks, I'd like to provide some additional detail regarding our first quarterly cash dividend as a public company. As a reminder, our current intention is to pay out to shareholders at least 85% of the after-tax distributable earnings attributable to TPG Inc. on a quarterly basis, subject to necessary approvals.

Consistent with this approach, we announced this morning a cash dividend of $0.44 per share of Class A common stock, which will be payable on June 3 to record holders as of the close of business on May 20.

I would note that the non-GAAP effective tax rate in Q1 was slightly higher than what we have previously indicated due to certain IPO-related costs recognized during the quarter that were deferred for tax purposes. Finally, our fully diluted share count at the end of the first quarter, including unvested RSUs, was approximately 320 million shares.

Taking a step back, we feel very good about our first quarter results and the progress we continue to make driving growth across our business. Our investment portfolio delivered strong value creation, despite the turbulent market backdrop. We have maintained a solid pace of capital deployment, while also returning significant amounts of capital and profits back to our investors. In addition, we continue to expect strong growth in AUM and FRE as a result of our 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'll take our first question from Craig Siegenthaler from Bank of America.

Craig Siegenthaler: It’s Craig Siegenthaler. So just starting with fundraising, and I heard the comments on certain verticals were over-allocated, but you do have a busy calendar this year. It looks like maybe private equity may be the most crowded, plus you're also

dealing with the denominator effect of lower public markets. How does this impact the timing of your raises? And then also, coming back to what you said, which verticals do you view as the most over-allocated?

Jack Weingart: Yes. Thanks, Craig. When you say verticals, I would think about it more in terms of segments of the LP marketplace. And consistent with other discussions that have been had in the industry, the most impacted part of the market we see is in the traditional U.S. pension fund market as the most over-allocated based on the metrics that you talked about. The outperformance, the alternatives in their portfolio, combined with the sell-off in the public markets, causing the denominator effect. And the third piece is a lot of GPs coming back to market faster than they had planned.

So it's a crowded fundraising market. And that segment of the market in particular is having to make choices for the first time in a while. And what we see happening is those choices are benefiting the largest, most established GPs with the strongest relationships. And we are fortunate to be a part of that group. And I think anyone who's returned a lot of capital to LPs as opposed to really just drawing down capital and coming back to ask for more is also seeing the benefit, and we are clearly in that camp.

The other segments of the market, there are lots of pockets of continued growth despite the crowded market, mostly in some of the international segments of the market, Asia, the Middle East, even in Europe. So we see -- I think I would expect the result of these fund-raising campaigns -- we'll see a shift of the composition of our LP base, reflecting the different dynamics in those different segments. So that's how I described the fund-raising market overall.

As it relates to our timing, when we went public we articulated an expected close for the Capital funds, which are the largest pools of capital. I didn't -- we haven't yet closed. And Real Estate, just to reiterate what I just said, we had -- we'll soon have our final close on the next Opportunistic fund.

On the Impact side, we raised a large climate fund. That finished closing in the first quarter. And so we have the large Capital funds, and we have the next broad-based Impact Fund Rise 3.

When we -- at the IPO, we talked about the capital funds having a close and activating closer to the end of the year, and we continue to see good momentum in those campaigns and we continue to expect a first close in the Capital and Healthcare fund around midyear, as I mentioned. So we'll have more to talk about the size of those closings in the Q2 call.

Operator: Our next question comes from Ken Worthington from JPMorgan.

Kenneth Worthington: Great. TPG had an interest in rounding out its product offering, possibly credit or infrastructure via M&A. Maybe talk about how the further challenging market environment, what that really means for the interest and actually getting

something done there. And maybe what you're seeing in the private market valuations versus what we're seeing in the public side at this point?

Jon Winkelried: Yes. This is Jon. We talked about that on our last call. We talked about that obviously when we were on the road. I think that we do have an interest in continuing to grow our platform and diversifying the product base. We've been in a reasonable level of dialogue just in terms of continuing to understand the market. I think we're going to be -- and this is consistent with what we've said before, we're going to be very thoughtful about what we do, both from the perspective of fit in terms of how it fits with our firm as well as valuation.

And clearly, we've been through, over the course of the first quarter, as an example, right, we've been through a -- I don't have to tell you, we've been through a substantial revaluation in our own space. And probably -- I mean, I would expect, like anything else, just like we're seeing on the deal front, they take some time for value expectations in terms of where sellers are and where buyers are to adjust. But we're -- we continue to be interested in doing it. There's nothing specific that we have to report to you now on that, but we remain focused.

Operator: Our next question comes from Alex Blostein from Goldman Sachs.

Alexander Blostein: Well, I was hoping you could spend a couple of minutes on the valuation framework in super volatile markets that we've seen, obviously, over the last several months. And here, you pointed out positioning the portfolio to be kind of late cycle proof, and it sounds like the fundamentals of the portfolio companies are doing quite well. But I'm more curious about impacts of higher interest rates and just lower growth multiples that we're seeing in the market today and how that flows through the valuation methodology you guys have in the portfolio and whether or not that's a headwind we need to be thinking about over the next couple of quarters to extend there any sort of delays in the valuation framework.

Jon Winkelried: Yes. Thanks, Alex. I think Todd Sisitsky, who's actually in our London office, is going to respond to that.

Todd Sisitsky: Sure. Yes, I hope you can hear me well. Thank you for the question. I think there's a few sort of questions built into that. I would tell you that we actually find -- we feel very good about our strategy and our brand of growth and transformational investing in the current market. And feel like the companies, as you point out -- suggested, we feel quite positive about how the portfolio i\has held in there. It sounds like your question's a little bit more about the go-forward approach.

I would tell you that in general, there are a lot of positives in this market for us. So this is a pretty exciting time. We have seen historically, over the 30 years we've been doing this, that really some of our best investments and vintages following this strategy have followed a public market reset. And it happens in the context of a challenging macro environment. And the first big investment that was done after the global financial crisis

in 2009 was IMS, which we'd followed for seven years before that, but it was really only in this environment that we were able to come up with the transaction for management and the Board that worked. That company is now IQVIA, a $40-plus billion market cap company.

So the question of whether we are able to find interesting growth opportunities following our strategy in this environment, I understand the macro concerns of growth. But I would tell you the way we think about it, and just maybe to use a broader construct that we think about when we invest, is that we distinguish between what we think of as interesting to us as investors, the themes and the segments that we want to follow and study every year; and what's actionable, what happens to be for sale.

And we actually very intentionally and deliberately focus on what we think is interesting, even if it's not actionable. So what's exciting about this moment in the cycle is we often find the areas that we've studied and are excited about. The management teams we want to back, that we've learned to develop relationships over the years. They become actionable at this moment. And when they do, we really capitalize on all the work that we've done on the teams and we work aggressively and with conviction and as a firm. So we find it actually be a very interesting market moment for us given the strategy that we have.

Jim Coulter: Yes. Alex, it's Jim Coulter. Let me take you into the front lines of the market for a second and an area that I'm spending a lot of time, which is in climate. The experience last year was often that a company would come in saying that they would like to be financed at a price of X. We would say, "No, we're much below that." And it would be financed in the SPAC or through a momentum investor at X plus 25%. We sort of scratched our head.

This year has been a complete about-face to where that company, which needs to finance given its capital plan in this environment, essentially is coming in and saying they'd like to be financed at X. We say half X. They go away and come back to us pretty quickly.

So the market is resetting as you're taking out a series of competitors that were either market-based in their valuation techniques or momentum-based than what was happening in the growth marketplace. So what we're seeing here is a fundamental reset. And as net sellers last year, there's an opportunity to be very disciplined net buyers this year.

Operator: Our next question comes from Robert Lee from KBW.

Robert Lee: Jack, maybe a question for you with -- indicating that a chunk of the value creation coming from, I guess, some signed contracts on, I guess, potential exits. Can you update us on what we should be thinking about for utilization at the Q2, Q3, just given what you already signed and kind of in the bucket, so to speak?

Jack Weingart: Sure. Rob, thanks for the question. So I talked on the last call about the fact that we had over $200 million of performance allocations to TPG Inc. that were

already locked based on signed contracts. What you saw come through in the first quarter was $122 million of performance allocations. Approximately -- think about half of that $200 million, call it, the $100 million of that came from the transactions that I mentioned on the last call, and the rest came from additional monetizations that occurred during the quarter.

So as we look forward -- and we don't forecast PRE from potential sales that may or may not happen later in the year. But again, using the framework from the last call, if I just think about the companies that we've already agreed contractually to sell, what's already in the ground. That, as we look forward, we have at least $125 million of additional PRE coming in, in future quarters this year. The biggest piece of that would be the other deal I mentioned on the first quarter call, which is Wind River. And we continue to expect that to close either late Q2 or in Q3.

And I think there's no question we have additional monetization activity ongoing across our platforms that we expect to add to that number during the remainder of the year, but we'll talk about those as they happen.

Operator: Our next question comes from Michael Cyprys from Morgan Stanley.

Michael Cyprys: I was hoping we could spend a moment on the Impact platform with Rise and Rise Climate. Just curious how you think about building that out further from here, it would seem that there could be some opportunities for other dedicated fund strategies. So just curious where that stands. In terms of the build-out, how are you thinking about that opportunity set? And to what extent is the more challenging market backdrop that you guys alluded to Impact the sort of timing and ability to raise these newer strategies?

Jim Coulter: Michael, as we've talked about, we think there is substantial opportunity to expand the Rise platform in a number of directions. And obviously, we've been doing that over the last year while also building up for future expansion. So over time, we find interest within our client base for Impact-related investing in infrastructure, Impact-related investing in public markets, Impact-related investing in the credit markets. All of those involve a build and a -- are in the future, but I continue to think that this is a trend that, if anything, will accelerate.

One of the points that -- to the second question you gave, it's interesting. Coming out of some of the activity we've recently seen. I'd say the investment activity within the sectors that we're focused on in Rise is, in some ways, positioned to continue. If you think about the climate transition, higher oil prices and concerns about energy security suggests a forward build and acceleration -- accelerating build into a green climate framework.

In areas like online ed, we're almost 1:1 on devices. You've seen the recent announcements on free Internet to underprivileged families. This is an area where I think there's substantial investment opportunity to come. Health care access with the rise of telehealth, so we're actually seeing across climate, across health care, financial services,

access, an acceleration in the opportunities. So we have, as you know, a large and growing percent of our assets in the Impact platform, and we would continue to see the opportunity for that to expand in future years.

Operator: Our next question comes from Fin O'Shea from Wells Fargo.

Finian O'Shea: Last quarter, you guys touched on the opportunity in preferred equity in the growth market. Just seeing if you could provide an update on that pipeline if it's expanding as expected. And also, is Private Credit increasingly a competitor in that arena?

Jon Winkelried: Well, maybe I can just comment. I think that the pipeline, I think, continues to be reasonably healthy in the growth equity market. I think that -- just reinforcing what I said in my comments, the stage of company, the type of company the type of opportunity that we're focused on, tends to be later-stage companies that are generating earnings, companies that are generating cash flow. But despite that, I think when you look at the revaluation and the reset that's gone on in the public markets -- and I think it's not unusual. You see a progression go on, right, where you see the public markets begin to reset.

And I think people -- market participants are not sure how deep the reset is going to go. And so you see this moment where things slow down a little bit. Things are -- companies that are looking for funding or looking to do transactions or sponsors, for that matter, take a breather to try to figure out what their next move is. And then the reset continues, which it has. And when you look at some of these very high -- some of the -- when you look at the population of companies that have been very fast growers, that have not been profitable, the reset is very broad and very deep.

And I think that we're -- as Jim was relating before, when he was talking about some of the opportunities that we see and valuation expectations and pricing, we're seeing that settle in across the entire market. So the opportunity set, I think, continues to get more interesting in a lot of respects, particularly for our form of capital.

And Acorns, that I mentioned as an example in my comments, is right down the middle of the plate as it relates to that type of opportunity. Because in prior markets, I think you probably would have seen that the outcome might have been different there in terms of where they would have sourced capital. And our ability to provide growth capital for that company and also, frankly, bring to bear other resources that we have, I think is still highly attractive to the types of companies that we like to back.

As far as private -- as far as Private Credit -- I think you said you asked Private Credit, in terms of whether or not that's providing some form of competition. I think there are strategies in Private Credit that are trying to cross over into kind of growth equity types of opportunities and maybe sort of hybrid forms of capital.

And just a couple of things I would note there. One is that -- the reason why we grew our growth platform the way we did, which is that we have a growth equity pool of capital, we have our tech adjacencies pool of capital, as we have flexible capital across the spectrum where we can be a solutions provider to companies depending upon what kind of capital they're looking for. We felt like given the range of capital solutions in the market and investment opportunities, it was important that we had flexible capital and can do that.

But I will say that the credit platforms that are evolving into that space also are set up differently. They don't necessarily have the same kind of business building resources and operational capabilities that are essentially institutionalized and built into our platforms. And I think that's very important to a lot of the companies that we're capital partners to. So you're seeing some blending at the edges, I would say. But I think we feel like we're positioned pretty well for this opportunity.

Two points I'd add, first of all, any incursion by the credit business into this area is more than offset by the retreat out of the crossover funds that have been very active in that type of investing. And secondly, as you know, the largest growth areas within Private Credit have been yield-based products, and clearly, the ability to get yield -- current yield out of the tech adjacency opportunities, is limited.

Operator: Next question comes from Brian Bedell from Deutsche Bank.

Brian Bedell: Great. Two-parter, if I may. Maybe first one for either Jon or Jack, just back to the distribution -- or I should say fundraising side of it with pension plans slowing down. I think almost if -- correct me if I'm wrong, but almost half of your capital is from pension funds. So just I think you mentioned on the other side of that, the international side might be picking up some of that near-term slack? Maybe if you can just talk about retail as well in terms of your expectations of growing that channel. And then second question would be for Jim.

Just following up on that -- on the Rise Climate fund. I think you've already got $2 billion committed in terms of -- I know you have had conversations before of the strong demand for carbon investing or carbon -- decarbonization, I should say. Do you see that picking up to the extent where -- I know it's early, but you might be back in the market for a Rise Climate due sooner rather than later?

Jack Weingart: Brian, it's Jack. Thanks for the question -- for the two-part question. On the fund-raising point, I did forget to mention high net worth. You're right about that. You reiterated the dynamics pretty well that I referred to. So I won't reiterate the point about the shifting of capital that we expect towards more international pools of capital.

We do -- on the high net worth side, I would say the same thing I said last quarter, which is it is an important growth area for us. We do expect to place more of our funds with the high-net worth channel for this wave of fundraising, than we did in the last wave of fundraising, and we are building out a team to address that opportunity.

Now it also remains true that the vast majority of our products are only applicable to the highest end of that market. And as we continue to move toward new areas like credit and other yield-oriented products, I think we'll see an even more significant expansion of our penetration of that client base.

Jim Coulter: On the Rise Climate question, we launched a little over a year ago, I think there were questions on both sides of what I'll describe as the two-sided marketplace. Will there be enough focused capital demand out of our investors for this type of product? And secondly, at a $7 billion scale where we ended up, would there be investment demand?

A year into it, as our General Counsel would say, asked and answered. In other words, there has been very substantial demand on the product side, and we see that growing. And I have been pleasantly surprised by the scale and persistency of opportunity we're seeing in the marketplace. So as you noted, we're seeing good deployment pace here. And that, I think, calls out an opportunity for both the opportunity to scale the strategy and brings forward some of our thinking in terms of when market opportunity return might be.

Operator: And our next question comes from Adam Beatty from UBS.

Adam Beatty: I wanted to ask about the business in Asia. There are some idiosyncratic challenges there recently in addition to some of the global challenges that we've talked about. So I just want to get your thoughts on portfolio company operations there, how that's going, also in terms of deployment opportunity.

And then lastly, you mentioned that international markets, and I would expect Asia is included, might be a source of more resilient fundraising opportunity. So if you could talk about that as well, that would be great.

Jon Winkelried: Sure. I think first of all, just again for everyone's background, we've been in the Asian markets for a very long time. We started our business there in '94. So it goes way back. And importantly, our focus in our Asia franchise is Asia. We're in a number of markets there.

And I think if you look at -- and we’ve talked about this, we talked about this on the road, and we may have even touched on it on the last call. If you look at the distribution of our investing activity for the last -- better part of the last probably three to four years, we have been much lighter in terms of our exposure to China, recognizing that China was becoming a more challenging place to invest for a number of different reasons. Things were happening in China and the market there that I think many investors didn't expect to happen. An example is sort of the education sector as one example, where government intervention was particularly severe in terms of its impact and a number of other things that we've all read about and have watched and witnessed. So we have been focused on where there are opportunities in the market.

We've seen some really good opportunities. And if you look at our performance in Asia, it's been very strong. We've seen some really interesting opportunities. I would probably highlight for you more recently, some excellent opportunities across a number of different industries in India. I'd highlight our Australia and New Zealand business. We're now seeing some really interesting opportunities in our Korea franchise, in South Korea. And then, obviously, I think you know we're focused on Southeast Asia as well.

So I think we feel pretty good about Asia as a place where we expect there to be -- in certain markets and in certain sectors, a high degree of growth. Maybe growth will -- it's possible that the growth there will exceed other parts of the world. So we're very focused on it, and we're continuing to allocate capital into certain markets there.

I would say we -- our Asia approach is not different than what we do elsewhere in the world, which is we're thematic-oriented investors. So we're allocating most of that capital to certain themes and certain industries where I think we feel like there's going to be secular growth over the long term.

It's hard to say exactly sort of in terms of the impact that China is going to continue to have a very big impact in the region. I think it's half the GDP of the region or thereabouts. And so as China changes, probably so will the region change. But having said that, I think we're still feeling pretty good about opportunities that we're seeing and the kind of results that we're generating there. So more to come on that, but we're -- that's our outlook.

Todd Sisitsky: Hey, Jon? Sorry.

Jon Winkelried: Yes. Go ahead, Todd.

Todd Sisitsky: I'd like to add, on the portfolio, just -- because that was the last piece of the question. We, of course, at times like this, spend a lot of time making sure we understand what's happening. And the portfolio in Asia, which I think is a true statement of Asia. And our broader portfolio, has held in, I think, quite well overall. Certainly seeing the effects of wage pressure and the war for talent and inflation.

I think one of the outputs of Jon's explanation of really focused on secular growth and on themes on secular growth. We understand -- and those themes, by the way, apply across Asia and the U.S. and Europe. We try to pursue them globally, is that we end up typically investing in higher value-added companies with competitive differentiation and have just less commodity exposure.

So stronger gross margins, healthy relationships with customers, generally the ability to pass on costs. So I think one of the most important things for us is making sure when you're thinking about our themes, that we're in the right neighborhood and ahead of the big impact in terms of exposure to inflation. So we've been targeting secular rather than cyclical growth, and so far, the portfolio seems to be bearing that out.

Jack Weingart: It's worth noting that one of the investments out of our growth fund in India was a company called -- is a company called Campus Activewear. And you probably don't follow the Indian IPO market closely, but in the past 24, 48 hours, Campus Activewear went public very successfully in India at a very attractive multiple relative to our investment.

Operator: Our last question comes from Rufus Hone from BMO.

Rufus Hone: I was hoping you could spend a moment on real estate and real assets more generally. Clearly, an area that's seeing outsized demand from LPs in the current environment. And I know you just raised a big opportunistic Real Estate fund, but beyond that, how are you looking to build out that platform? And can you talk through the growth of your permanent capital vehicles?

Jon Winkelried: Yes, thanks for the question. We're feeling pretty good about our Real Estate franchise and the potential for growth there. I think as we mentioned, we've raised the largest opportunistic fund that we've raised to date there. And so that's giving us a -- that's given us plenty of dry powder to take advantage of opportunities that we're seeing in the market.

Just taking a step back looking at the real estate market right now, what's interesting given this reset that we've seen in corporate valuations and corporate markets, we've seen less of that at this point in real estate. Arguably, real estate is a place where people can go to get some protection from inflation because of the ability to reset rents.

And the other dynamic that you have going on in real estate is that you've got -- because of inflationary pressures and supply constraints, you've got very, very high replacement cost dynamics going on. So when you look at cap rates in the real estate market more broadly, that market is holding up very well.

Financing is always a question as it relates to real estate. And I think the financing markets are still actually holding up pretty well, all things considered. Although, clearly, there are -- there has been movement in underlying costs associated with financing deals on the real estate side. So we're feeling pretty good about that.

As you know, also, we just finished completing the raise of our first Core Plus Strategy, our first Core Plus fund. So we've added from a product set perspective and the tools that we have to take advantage of opportunities in the market, we feel pretty good about having launched that at a very interesting time, and we're already deploying that capital. So that builds out that.

On the capital side and permanent capital side, I think you're aware, we have a commercial mortgage REIT that trades publicly, which is TRTX. We just recently hired a new CEO for the platform, Doug Bouqard, who joined us after 20 years at Goldman Sachs, where he ran commercial real estate finance there. We're excited to have Doug on

board. And what we expect as a result of that is we'll be continuing to build out our real estate debt business -- our real estate credit business, and we'll look to potentially, over time, see opportunities to build up new pools of capital within that business.

But that, I think, positions us well for an environment where with the reset in rates, just the structural changes that are going on in the market, I think we feel like the overall environment in which to look for opportunities on the real estate credit space, is actually improving, even in an upward rate moving market based upon what we see. So we're excited about what we can potentially build there.

Over time, I think, obviously, as we expand our product set, and using Core Plus, by the way, which we call TAC Plus, as an example, we also think that gives us the ability to think about penetrating other pools of capital to raise money. The real estate market, in particular, has been pretty successful in sourcing capital through retail channels in various forms.

And so as we continue to invest our Core Plus pool of capital, when we structured our TAC Plus fund, one of the things that we did is we set it up so that over a period of time, we can actually flip that structure into an open-ended fund structure. With -- after we get a certain percentage of that invested in that pool of capital and after the investments season a bit, we'll be evaluating opportunities to do that with that vehicle.

So I feel great about our momentum in real estate. I feel like there are a lot of opportunities for us.

Operator: This does conclude 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: Great. Thanks, operator. Thanks, everyone, for joining us today. Please feel free to follow up directly with me or Evanny, if you have any additional questions. We look forward to speaking with you again next quarter.

Jon Winkelried: Thanks, everyone.

Jack Weingart: Thank you.

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