TPG (Q4 2023 Earnings call)

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Corporate Speakers:

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

Participants:

- Alex Blostein; Goldman Sachs; Analyst
- Ken Worthington; JPMorgan; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Craig Siegenthaler; BofA; Analyst
- Mike Brown; KBW; Analyst
- Brian McKenna; JMP; Analyst
- Luke Mason; BNP Paribas; Analyst
- Bill Katz; TD Cowen; Analyst
- Brian Bedell; Deutsche Bank; Analyst
- Adam Beatty; UBS; Analyst

PRESENTATION

Operator^ Good morning. And welcome to TPG's Fourth Quarter and Full Year 2023 Earnings Conference Call. Following management's prepared remarks, the call will be open for 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. And welcome, everyone.

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, will be available for the Q&A portion of this morning's call.

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're presenting GAAP and non-GAAP measures, reflecting the close of the Angelo Gordon transaction on November 1, 2023. We also present pro forma GAAP and non-GAAP measures that assume the transaction closed on January 1, 2023. Please refer to TPG's earnings release for details on the pro forma financial information.

We believe certain non-GAAP measures that we discuss on this call 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 our 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 fourth quarter. We reported GAAP net income attributable to TPG Inc. of $13 million and after-tax distributable earnings of $206 million or $0.51 per share of Class A common stock. We declared a dividend of $0.44 per share of Class A common stock, which will be paid on March eight to holders of record, as of February 23.

With that, I'll turn the call over to Jon.

Jon Winkelried^ Thanks, Gary. Good morning, everyone.

2023 was a transformative year for TPG, and I'll begin today by sharing several updates on our progress.

On last February's earnings call, we laid out a growth agenda for the year that included three key components:

- First, scaling our existing strategies, and in particular completing several important fundraises;
- Second, continuing our strong track record of driving organic growth and innovation;
- And third, expanding our business through targeted acquisitions.

We are excited about the progress we've made in all three of these areas. Looking at our business today, we manage more than $220 billion across private equity, credit, and real estate, and we've furthered our position as a scaled, differentiated investment firm. I'll review a few highlights from the past year and also discuss our outlook.

First, as it relates to existing strategies, we have completed the fundraises for the next generation of our TPG Capital, Healthcare Partners, and Rise funds. We have grown our fund sizes vintage-over-vintage across each of these campaigns, which is a significant accomplishment given the persistent industry headwinds in private equity fundraising. This is a direct result of TPG's differentiated investment strategies, outstanding performance track record, and strong and growing client relationships.

- Specifically, for TPG Capital 9 and Healthcare Partners 2, we held our final close with $15.6 billion of aggregate commitments, up 10% from the prior vintage, and for Rise III we closed on $2.7 billion, up 24%. In addition to expanding our existing relationships, we also added many new clients to TPG from around the world, with notable progress in the Middle East and Asia. We believe these new client relationships create significant potential for embedded growth in successor funds as well as the opportunity to expand engagement across additional TPG strategies and products.

- For our ongoing Capital Asia campaign, we have raised $4.3 billion of capital as of year-end and will hold a final close in the coming months. Our clients continue to express strong interest and we expect the fund to be larger than its predecessor.

Second, we continue to demonstrate our ability to grow organically by launching and scaling products in parts of the market where we have distinct competitive advantages. I'll highlight a few of these initiatives.

- Our new real estate credit strategy received more than $750 million of commitments and closed on approximately $650 million in the fourth quarter. We are now actively investing and the current market backdrop is one of the most interesting environments we've seen since the early 2000's for real estate credit given the dynamics of higher rates, declining asset values, and a significant pullback in commercial real estate lending. Our strategy is purpose-built for this part of the cycle and we intend to continue to raise capital in 2024.

- Turning to climate, at COP28 this past December we announced a $1.5 billion commitment to the next generation of TPG Rise Climate private equity funds from ALTÉRRA, the UAE's $30 billion climate-focused investment manager. This includes a $1 billion commitment to our second Rise Climate fund and a $500 million commitment to our new Global South Initiative. The UAE's selection of TPG as its first private equity partner is a testament to the strong brand and leadership position we have built in the climate and impact space.

- Within our climate strategy, we are also preparing to launch our inaugural climate transition infrastructure fund, and just last week we announced that Scott Lebovitz will be joining TPG later this year as the Head of Infrastructure for TPG Rise Climate. Scott most recently served as the Global Co-Head and Co-CIO of Infrastructure Investing at Goldman Sachs and we are excited for him to help bring our differentiated strategy to market.

Finally, we closed the acquisition of Angelo Gordon in the fourth quarter, meaningfully expanding our capabilities across credit and real estate, and further enhancing our presence in Europe and Asia. We believe the acquisition of Angelo Gordon will be a significant growth driver for the firm in a number of ways. One key area is furthering our penetration in high-growth distribution channels such as private wealth and insurance, and so far this year we have secured new distribution relationships for our direct lending BDC and Credit Solutions fund with several large wirehouses and private banking partners. We are focused on delivering additional products that provide private wealth investors access to our strategies, and we look forward to sharing more with you in the future.

We also continue to make progress on standing-up new revenue opportunities and businesses that leverage the combined expertise and capabilities of TPG and AG. The most near-term is the ability to generate incremental fee revenue from the integration of our capital markets business into TPG AG Credit, which is already well underway.

Our strategic growth initiatives over the last two years have led to a step-function change in our business. Through both organic innovation and the acquisition of AG, we have substantially expanded the breadth of our franchise across private equity, credit, real estate, and soon-to-be infrastructure. As a result, the cadence and consistency of our capital-raising and overall growth profile have fundamentally changed. We will be in the market on a steadier, more consistent basis across both the institutional and private wealth channels.

Looking ahead, we expect our growth this year to be driven by five primary vectors, including:

- One, credit fundraising across all of our TPG AG strategies;
- Two, the newest vintages of our Growth and Rise Climate private equity funds;
- Three, the launch of our climate transition infrastructure strategy;
- Four, the completion of several first-time fundraises, including real estate credit and GP secondaries;
- And five, new product and channel development.

Turning to our fourth quarter results, we had a strong end to the year, with $8.8 billion of capital raised in the quarter, primarily across the campaigns I discussed earlier. We believe we are well-positioned with $51 billion of dry powder to deploy into what we view as an improving market backdrop. You may remember, during our Q2 2023 earnings call we discussed several factors that were contributing to a ramp-up in our transaction pipelines, including narrowing bid-ask spreads, greater receptivity among corporates to strategically realign their businesses, and GPs increasingly seeking creative solutions for monetizations. These forces have been accelerating, and TPG has continued to deploy capital by leveraging our long-dated themes and core strengths, such as executing corporate carve-outs and structuring proprietary, creative financing solutions.

As we look ahead:

- In areas such as real estate, we expect to see more attractive assets for sale this year that would otherwise typically not come to market as companies find themselves under increasing pressure for liquidity.

- In private equity, given TPG's deep sector focus, commitment to business building, and strong track record of structuring win-win transactions, we continue to be a partner of choice for companies looking to strategically reposition their businesses and help drive growth.

- And in credit, as we mentioned during the TPG AG teach-in, the opportunity set continues to expand and we expect a significant increase in deployment this year, which will grow our base of fee-earning AUM. The origination pipeline is robust across all of our credit platforms as borrowers seek alternatives to public debt financing with greater flexibility to meet their needs. We also expect a more active M&A pipeline as the economy continues to show signs of steadier growth, leading to new origination opportunities.

Our investment teams have been very busy, deploying nearly $12 billion in the fourth quarter. Deployment picked up significantly across our platforms in the second half of the year and we invested over $22 billion of capital in 2023. We expect our robust pace of deployment to continue in 2024.

Looking briefly at activity within our Private Equity strategies:

- For Capital Asia, 2023 was a record year for deployment, with investments closed in almost every region where we operate. In the fourth quarter alone, we closed three transactions, including a very interesting platform-building investment that combines several hospital groups in Southeast Asia. This unique transaction, led by our existing portfolio company Columbia Asia, creates one of the largest hospital ecosystems in Southeast Asia and aligns with our thematic focus on building regional platforms of scale with high strategic value.

- In our Growth platform, we expect to see greater deployment across both our Growth and Tech Adjacencies funds in 2024 as companies address pressing needs for primary capital, as well as pressure for secondary liquidity. We raised $1.1 billion of capital for our sixth Growth fund during the rolling first close in the quarter and activated the fund.

- And our Impact platform has remained extremely active, with a strong investment pace across both our Rise and Rise Climate funds. Our first Rise Climate fund is now approximately 75% invested and reserved across a diverse portfolio of 21 companies that grew revenue nearly 30% in 2023. Additionally, our two IPOs last year, NEXTracker and Tata Technologies, have both traded up more than 100% from their respective IPO offer prices and we recently monetized a portion of our ownership in NEXTracker. We are well-positioned with strong momentum as we prepare to launch our second climate private equity fund and new climate transition infrastructure strategy.

Turning to our Credit strategies:

- Our middle-market direct lending platform, TPG Twin Brook, has maintained its strong performance through its sector-driven strategy and disciplined approach in providing loans at the top of the capital structure with robust covenant protections. Despite the volatile market backdrop, during 2023, Twin Brook had no realized credit losses and deployed nearly $3 billion of capital on a pro forma basis into more than 30 new companies and over 260 add-on investments to existing borrowers.

- Our corporate credit strategy, Credit Solutions, continued to perform well during the quarter, and this contributed to its excellent full-year results. In 2023, both the U.S. high yield and leveraged loan indices were up over 13% and each of our active Credit Solutions funds outperformed these indices by several hundred basis points. In terms of capital activity, Credit Solutions invested more than $1.2 billion in the fourth quarter, notably in a number of bespoke privately-structured financing transactions, and deployed nearly $2.7 billion of capital in 2023, both on a pro forma basis. In addition, our Essential Housing business originated financing projects during the year with more than $4 billion of aggregate land and site development cost.

- Turning to asset-based lending and specialty finance, these strategies have become an increasingly important part of the private credit ecosystem. Clients are looking to diversify underlying cash flows away from corporate EBITDA and shift fixed income allocations to private structured credit opportunities. In addition, public securitized credit continues to trade with an attractive excess spread relative to corporate credit. Finally, last year’s regional banking crisis further enhanced both the investment opportunity set and client interest in the space. As a result of the dislocation in traditional structured credit providers, we have already deployed more than 60% of TPG AG’s inaugural asset-based private credit fund in more than 30 transactions, and we expect to scale this strategy over time.

And in Real Estate, we continue to see compelling opportunities to acquire attractive assets from sellers in need of solutions capital.

- For example, in the fourth quarter our TREP fund acquired a majority interest in two Class-A industrial business parks in the Greater Toronto Area, which we view as one of the best performing industrial markets in North America with a sub-2% vacancy rate and high barriers-to-entry.

- Additionally, TPG AG Real Estate had $7.3 billion of dry powder at year-end. With dedicated funds in the U.S., Europe, and Asia, and a global network of approximately 200 operating partners, TPG AG Real Estate is well-positioned to deploy its flexible and opportunistic capital across a range of attractive opportunities.

Finally, I want to highlight TPG NEXT, which completed its inaugural investment this quarter in The Visualize Group, a new investment manager. TPG will serve as a significant anchor investor in Visualize's private equity strategy and will provide the firm with institutional resources to support business-building and scale. This strategic partnership is a strong example of our commitment to augmenting diverse leadership within our industry, and we look forward to continuing to seed high-potential managers through TPG NEXT.

Although we remain cautious due to an uncertain macro environment characterized by increasing valuations, anticipation of Fed policy decisions, and significant geopolitical tensions, 2024 is off to a very active start for TPG. We have a robust pipeline of interesting investment opportunities, we are engaged in high-quality dialogue with many existing and new clients, and we see a number of levers to drive further growth and innovation across our business. We have a lot of work to do this year, but I'm confident in our ability to continue to deliver for our clients and build long-term value for our shareholders.

Now, I'll turn it over to Jack to review our financial results.

Jack Weingart^ Thanks, Jon.

As Gary mentioned earlier, I'll be discussing our results today on an actual basis, which include two months of TPG Angelo Gordon from the acquisition close date of November 1st through December 31st. In our earnings release, we have also provided pro forma financials for the fourth quarter and full year 2023 which assume the transaction closed on January 1st, 2023.

We ended the year with $222 billion of total assets under management, up 64% year-over-year. This was driven by $75 billion of acquired AUM, $16 billion of capital raised, and value creation of $7 billion, partially offset by $10 billion of realizations and $1 billion of outflows over the last twelve months. As Jon mentioned, we had a strong quarter for fundraising due to the final closes across our Capital and Rise funds, as well as the rolling first close for our next Growth fund. Fee-earning AUM increased 76% year-over-year to $137 billion and we had more than $51 billion of dry powder available to deploy, representing 38% of fee-earning AUM. We also had AUM subject to fee earning growth of $24 billion at the end of year, of which $14 billion was not yet earning fees. This represents a significant embedded driver of potential management fee growth as we deploy this capital, particularly across our credit vehicles.

Fee related revenue was $465 million in the quarter, up 45% sequentially and 51% year-over-year, and $1.3 billion for the year, up 23% from 2022. Management fees totaled $396 million in the quarter and grew 42% sequentially, due in part to the inclusion of TPG AG in our results, as well as substantial catch-up fees related to the final closes for the Capital and Rise funds. Transaction fees increased 79% sequentially and 20% year-over-year to $55 million in Q4, a record level, and totaled $108 million for the full year. Our fourth quarter transaction fees were elevated by the closing of several large transactions where TPG was the sole or lead arranger for the debt financing. As Jon noted, over time we expect to drive growth in transaction fee revenues as we expand our broker-dealer capabilities to TPG AG. However, Q1 is often a seasonally light quarter for deal closings, as we saw last year, and we expect that to be the case again this year.

Fee-related earnings were $226 million for the fourth quarter, up 45% sequentially and 62% year-over year, and $606 million for 2023, up 34% from 2022. Our FRE margin was 49% for the fourth quarter and 45% for the last twelve months, a 350-basis point improvement from 2022. On a pro forma basis, assuming the AG acquisition closed on January 1st, our FRE margin would have been 47% for the fourth quarter and 40% for the full year. It is important to note that these pro-forma margins were elevated by the significant catchup fees and transaction revenues in the fourth quarter. As we have discussed previously, our normalized margin has blended down through the inclusion of TPG AG, and we now have a meaningful opportunity to drive profitable growth through margin expansion. We expect our FRE margin to exceed 40% for the year in 2024 as we realize operating leverage and synergies from the integration and scaling of our businesses, while also investing in the growth initiatives we've described. We will continue to maintain strong expense discipline and over the longer-term, we expect our margin to scale back up to, and exceed, 45%.

After-tax distributable earnings for the fourth quarter were $206 million, or $0.51 per share of Class A common stock, including $19 million from realized performance allocations. Our realization activity last year reflected our bias in a volatile market to focus on building value in our relatively young portfolios, and we remained selective in our exit activity. That being said, as markets have begun to normalize, our pipeline of potential monetizations has increased. Assuming markets remain supportive, we expect realized performance allocations to increase in 2024. In the fourth quarter we also incurred $18 million of non-core expenses related to the closing of the Angelo Gordon acquisition, which is included in our realized investment income and other line item. While we will continue to incur ongoing integration costs, we expect this to normalize now that the transaction is closed.

Turning to our non-GAAP balance sheet, we used a portion of our cash and revolver capacity to fund the closing of the AG transaction in the fourth quarter. We ended the year with $105 million of cash and cash equivalents, approximately $500 million drawn on our revolver, and $450 million of other long-term debt. As I've mentioned previously, we upsized our revolver from $700 million to $1.2 billion last September, and currently have approximately $700 million of undrawn capacity. Our balance sheet post-closing remains conservative, with moderate leverage and ample liquidity.

Our net accrued performance balance at the end of the year was $891 million compared to $692 million in the third quarter. This 29% increase was driven by $141 million of accrued carry attributable to TPG AG at the Acquisition date and a $77 million increase in the value of our investments, partially offset by $19 million in realized gains. While our operating model is FRE-centric, we have significant embedded performance-related earnings potential, and we expect our financial results will benefit from the eventual pickup in realizations. At the end of the year, our performance eligible AUM totaled $192 billion, or 87% of our total AUM, of which $151 billion was performance fee generating.

Our portfolio has continued to demonstrate resilience through a period of high volatility, underpinned by our deep sector expertise and careful investment selection in assets with strong growth and durable margins.

- Our private equity portfolio, which includes our Capital, Growth, and Impact platforms, appreciated approximately 4% in the fourth quarter and 9% over the last twelve months. In aggregate, our portfolio companies grew revenue by more than 20% over the last twelve months. The operating environment is normalizing and our portfolio continues to demonstrate strong cost management and stable margins.

- TPG AG Credit's appreciation of 4% in the quarter and 14% in 2023 on a pro forma basis was driven by strong credit selection and a low annualized loss ratio across our portfolio. Our strategies also benefited from the broad credit market rally heading into the end of the year.

- The performance of our real estate portfolios reflects the broader challenges in the sector resulting from higher rates, although the fundamentals across our underlying core sectors and assets remain strong.

Looking forward, I'll reiterate the guidance that we provided at our teach-in in November.

- We expect our total private equity and infrastructure capital raised in 2024 to grow compared to 2023, driven by the fundraises for Growth and Rise Climate, as well as the launch of our climate transition infrastructure strategy.

- Additionally, in 2024 we expect fundraising for TPG AG Credit to exceed $10 billion, more than doubling the capital raised by the platform in 2023 on a pro forma basis.

- And on credit deployment, as Jon indicated we expect a significant increase in each of our core strategies this year, which will grow our base of fee-earning AUM.

Stepping back, we are excited about the progress we've made over the past two years in executing against our strategic priorities. We have scaled and diversified our business while maintaining a strong focus on delivering excellent returns for our clients. Looking forward, we are equally excited about our path ahead. We have great visibility into the next phase of our growth, with multiple levers to expand our asset base and drive revenue growth and operating leverage. We are confident in our ability to continue delivering differentiated performance for our clients and long-term value to our shareholders.
Now I'll turn the call to the Operator to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We'll take our first question from Alex Blostein with Goldman Sachs.

Alex Blostein^ My first question is around credit, albeit it's got two quick parts to it. So the first is, hear you on the expectations for accelerating fundraising? And I think you reiterated over the $10 billion number that you talked about previously.

Can you just spend a minute on what that comprised of, in terms of the key strategies, but also how much of that growth is sort of like embedded legacy AG relationships or you're also incorporating some of the incremental cross-selling opportunities that we talked about between AG and TPG?

And then on the deployment side, and that's the second question here.I was just curious, within the $132 million of sort of shadow fees, how much of that is related to credit?

Jon Winkelried^ I'll start. And then on the last part of it, we'll see if we can dig that out. But if not, we'll follow up with you.

But first of all, on the capital formation side, I think that we expect a healthy mix between capital formation, from existing relationships that the AG Credit team currently has, and we're actively involved in those dialogues really across the strategies.

We also expect that as we've talked about before, given the lack of overlap in the LP base of both TPG and AG, that there continues to be an exceptional opportunity for us to expand the breadth of capital formation to relationships that TPG has that AG is being introduced to now. And I think you and I have talked about this before, but we're spending a lot of time even since the -- prior to the close, but certainly post close, we're spending a lot of time with our capital formation team focused on expanding the breadth of those relationships on the Credit side. And we feel like we're making good progress.

So I'd expect that when we finish this year that will have a nice broadening and deepening of AG credit relationships that will contribute to that and also form the base for future growth in those strategies. We're also in the market. I think I mentioned in my comments, we're also in the market with -- and in process of a number of vehicles for TPG AG Credit, that will be raising capital in the Wealth channel, and that will be a continued focus of ours in terms of expanding the access and reach in the Wealth channel and creating multiple vehicles for each of these strategies, so that the capital raising also becomes more of an ongoing capability as we expand that reach.

And I think I mentioned, we have a number of channel partners that have already started that process with us. So I'd expect to see deep and further penetration there as well, given the increase in the brand recognition with TPG AG together, as well as, frankly, the track record that they've created as a result of the investing activity. So I expect to see that as well. And I think that, as I said, we're in the market with all of our Credit strategies. And so expect that the growth in fundraising will occur.

It's hard for me to say exactly how it will break down between the three different pillars of our credit strategies, but the growth will occur across all three.

Jack Weingart^ And Alex, this is Jack. On your question about the $132 million of estimated annual fee opportunity from both AUM not yet earning fees and subject to fee step-up, that's weighted toward the AUM not yet earning fees, as you'd expect. Probably $100 million of that is in that bucket and $30 million or so is in the fee step-up category. And within the AUM not yet earning fees, the biggest components would be across AG's Credit and Real Estate business is probably half of that, call it, $50 million of the $100 million and the remainder kind of weighted toward TPG Growth and Real Estate platforms.

And in the FAUM subject to step up, that $30 million, the biggest component of that would be in the Capital platform because you remember, we had the J-curve mitigant structure in some of our capital that steps up as we invest capital. And about $10 million is in the AG Real Estate business.

Operator^ The next question comes from Ken Worthington with JPMorgan.

Ken Worthington^ As we think about net accrued carry, you've called out a number of times that you went through a more aggressive realization phase, prior to the IPO. But if we looked at the accrued carry today by vintage, 80% is older than five years, and it would seem like realizations should be front-end loaded. How do we think about 2024, from a realization perspective, if the market environment remains benign. And can you remind us how the European Waterfall Structure and the Angelo Gordon fund should reasonably play out over the next few years?

Jon Winkelried^ Do you want to -- Todd, do you want to comment on realizations on the private equity side, first?

Todd Sisitsky^ Yes. Let me -- I'll start on that. This is certainly an area we spend a lot of time focusing on as a partner group. It's important to our investors. It's important to our good fund management.

And we spent the last few years really investing in our companies, and we have some very well-performing companies that I think should be in a good position to realize value in the year and years ahead.

It is, I think, worth noting we've had some important successes in recent quarters. I think, we mentioned the sale of CAA in the second half of last year, which was a strong exit that was, again, to your point about duration. That was a 13-year partnership and we waited and really picked our spot. We also had actually an important realization in recent weeks. We sold a sizable block of shares in NEXTracker, which is a company that went public in the first quarter of 2023, is up about 130% from its IPO price.

One more example of just how we really are able to pick our spots, particularly on the Private Equity side, over the last two years, we launched seven IPOs in India and all the positions that we still hold are trading well above their IPO offer price. And of course, IPOs are leading indicators of liquidity. So some opportunities there. So there have been important recent successes. But overall, to your -- the start of your question, we've been selective, and we've really been building value in the portfolio after a very big cycle of realizations in '21 and '22.

But as far as the go forward, we're very focused on driving liquidity to the firm. And as the market recovers, we are actively managing the private equity, as a partner group in each business unit. And with -- with the growing momentum in the overall deal market and the strength of these portfolio companies, we do feel like there's going to be an increasing number of opportunities to drive liquidity this year.

Operator^ The next question comes from Michael Cyprus with Morgan Stanley.

Michael Cyprys^ Just wanted to come back to the Private Wealth opportunity. I was hoping you could maybe elaborate on the positioning now that you guys have within the Private Wealth marketplace. Maybe talk to some of the products that you have. I think you alluded to bringing some new products to the marketplace, as well. How are you thinking about that? What sort of traction are you seeing on the existing products, in the marketplace, maybe talk to some of the steps that you're looking to take here in 2024.

Jon Winkelried^ Yes. Well, I think we've been actively engaged in dialogue with a number of channel partners. And I think, Mike, you know that prior to the AG acquisition, raising some capital through our Private Equity and Real Estate strategies through those channel partners was a routine part of what we were doing on essentially a campaign by campaign basis.

The relationship dialogue now is taking a completely sort of different step function. It's like a step function change because with the expansion of our strategies as a result of the AG acquisition, and the ability to offer more continuously offered vehicles, such as BDCs, et cetera, that -- and the pre-existing dialogue that AG had with a number of channel partners, we've come together now, and we've been having a series of strategic dialogues with our channel partners about a more holistic approach to how we're approaching that channel.

And I've actually had several of those meetings myself over the course of the last month or so. And what I would say to you is that there is a very strong appetite from the Wealth channel partners in having a more holistic product offering from TPG. There's a strong desire in the channel. I mean you obviously know what the data looks like yourself in terms of the available capacity in the Wealth channel, wanting to allocate to various strategies.

And we're seeing strong demand for having some level of diversification in brands that are driving products through the channel. And so as a result of that, I would say that we're very encouraged by what we're hearing from those channel partners, and we're actively deploying into those opportunities.

If you look at our resources here, our resources as a result of the combined two firms, more than doubled in terms of our team that's focused on the penetration of the channel product creation, product structuring, as well as essentially feet on the street and from a marketing and relationship management point of view. And so that's been a noticeable step function change for us. So we have products that are up in the channel and will continue to be across our direct lending business for Twin Brook.

We have products that are up on the channel for our Structured Credit business. And besides, obviously, some of our private equity strategies that we are also going to offer through the channel. So it's now looking like a complete menu of product capabilities, I should have mentioned also including our real estate capability as well. And our brand is a very strong brand, and it's gaining more and more traction in the channel, as we continue to put resources behind it.

So we're feeling pretty good about what we expect to do in the Wealth channels over time. And I think it will -- and we've said before, I think over the course of the last two years, we've talked about it, our objective for strengthening our distribution base there and also having it become a larger part of our sourcing of capital. And we're on a path to do that.

Operator^ The next question comes from Craig Siegenthaler with Bank of America.

Craig Siegenthaler^ So for my question, I wanted to hit on the FRE margin target. Your 47% pro forma FRE margin already beat your 45% long-term target, although I think this was driven by catch-up fees and transaction fees. And then starting '24, Angelo Gordon initially will weigh on the margin, but this will reverse as you realize cost synergies. So as you pull all this together, isn't your 40% 2024 and 45% long-term targets too conservative? Or is this also implying a healthy level of investing?

Jack Weingart^ Thanks, Craig, for the question. We think it's the right target for us to be articulating at this point. I think you mentioned some of the key drivers. The fourth quarter margins, as I mentioned in my comments, were elevated by the catch-up fees. They also benefited from above expected core fundraising but also strong transaction fees.

So some of those will not reoccur in 2024.

Think about the fundraising waves we're in the middle of, over a longer arc, right? We just completed the large flagship private equity fund raises. Those had some natural elevated catch-up fees towards the end of them. Now we're entering the market with some big new flagships like the new Private Equity fund in Climate, the Infrastructure Funding Climate, the new growth fund those will likely complete in 2025. And as you get toward the end of campaigns, you'll see some more catch-up fees again in '25 in connection with those funds.

So when you -- and on your cost synergy point, we mentioned at the Analyst Day, that we had achieved $9 million of cost synergies. We've also said consistently that this transaction is much more about growth and diversification and investing and growing our platform over the years and not really about dropping cost synergies to the bottom line. We are finding additional cost synergies above the $9 million. Our intention is to reinvest those in long-term growth. So when we take all that into account, we think the margins we're targeting for this year are appropriate.

And longer term, we certainly will be scaling our businesses and generating operating leverage.

Operator^ The next question comes from Mike Brown with KBW.

Mike Brown^ I wanted to start with the -- maybe the insurance opportunity. I guess it's few months since you closed in Angelo Gordon, I just wanted to see if there was any update on the opportunities there in terms of the opportunity of looking at from strategic partners? And then when you think about the broader platform now you've got full diversification across a lot of the major product lines. But is there any element of the Credit business that you think you want to continue to bolster and build out to really fully service the insurance balance sheet?

Jon Winkelried^ Sure. Yes. It's a good question because it's very much something that we're focused on and we've been focused on. Let me just say that -- just reiterate that the insurance opportunity -- there's two categories of opportunity. One is we currently have a number of insurance companies that are clients of ours, across a range of our products. So think of the insurance sector as also a source of LP penetration, and that exists here to date on both sides of the firm, both across all of our strategies.

And I think with the expansion of our general product capabilities, I think we are able to have a dialogue with insurance companies that's a bit more holistic, and we're already seeing the benefits of that and we have a dedicated team covering the insurance sector, as LPs with the embedded knowledge of what's important to insurance companies in terms of their asset selection process.

So, that, I would say, is one part of it that continues to grow and continues to be a great opportunity for us, and it's also a global opportunity. Secondly, on the strategic side, Obviously, we've talked about this before with our expansion into -- across the range of asset classes. The opportunity to have a more strategic dialogue with a number of insurance companies is clearly there, it's front and center for us.

And I would say that since the announcement of the acquisition of Angelo Gordon, that dialogue has picked up quite meaningfully. And so we're doing a lot of work on it.

I would say we're evaluating opportunities. And of course, we'll be very selective and careful in terms of what we ultimately do so that we position ourselves in the most strategic way we can.

And as far as the product lines, particularly on the Credit side, we feel great about the mix of product capability that we have in AG. I mean one of the things that attracted us to Angelo Gordon, was that it was a multi-strategy platform. It wasn't a mono line that, for instance, was only doing direct lending. It was a multi-strategy platform. So it has a direct lending capability. It has a Credit Solutions capability, and it has a Structured Credit capability.

And in particular, I would say one of the things that is very important in the process of managing assets on behalf of insurance companies is making sure that you have product structuring capabilities, whether it's creating rated note structures, risk transfer and asset sourcing capabilities outside of just pure essentially EBITDA risk, outside of purely the corporate side, you've got to also be able to reach and source product on the non-EBITDA side.

So our Structured Credit business in terms of asset-based finance, specialty finance, securitized mortgage product, across the whole range of those products -- we have a business that's been built out over the last 15 years that has infrastructure, servicing capability and product breadth. So, now we'll never be done building those businesses. We'll continue to build those businesses and expand them as we're able to scale them with respect to more capital, but we feel pretty good about the tools that we have.

So that's how we feel we're positioned right now.

Operator^ The next question comes from Brian McKenna with Citizens JMP.

Brian Mckenna^ So performance in Rise Climate is pretty impressive today with an IRR of 27%. It would be great just to get some color on really what's driving this outperformance? And then with the next Rise Climate and Infrastructure funds coming down the pike, what are your initial base case expectations for performance for these strategies?

Jon Winkelried^ Jim, I think you're on.

Jim Coulter^ Thanks for the questions and greetings from Geneva, where I'm n about the 10th city of the Rise Climate launch. So I'm well positioned to answer those questions. I'd say the outperformance last year was really being in the right place ahead of a wave. We started the decarbonization investment journey almost seven years ago. And as a result, I think we put ourselves in a position to lead the market in terms of deployment and opportunity creation.

Last year, I think the value creation for the fund was up 37%, which is obviously a standout in Private Equity. But in particular, we were able to execute two very important IPOs in a market where IPOs were certainly rare. And that's because I think that the public market is ready for the next generation of climate forward companies. So this fund is a fund that, so

far in a world where little has happened as expected in Private Equity, it has been invested in exactly the three years that we told the market it would be invested.
It's in 20-plus companies that are well diversified.

And so far, the performance, as you pointed out, has been strong. Going forward, we continue to think we're well positioned to show the market differentiated opportunities, and we should be able to continue to generate the Private Equity target returns that we've been focused on in this fund. In the Infrastructure world, I think you continue to see a fair amount of interest in decarbonization and our position essentially expanding from Private Equity into the Infrastructure adjacency offers, I think, a significant opportunity for us. So this is a period of time that investors are looking for sector differentiation, and I think we're in a good position to continue to offer it in Rise Climate.

Jack Weingart^ And Brian, in terms of fundraising targets for the business, if that's what you're referring to, we did say publicly when the commitment was announced that we were targeting at least $10 billion, across our next Private Equity fund, TRC 2, combined with the Global South Initiative. So those numbers do not include the Infrastructure business. That won't all be raised this year. It will be raised over this year and next year. And assume that those funds will be activated more toward the end of the year.

Operator^ The next question comes from Luke Mason with BNP Paribas.

Luke Mason^ It's just on transaction fees. You talked about pipelines picking back up but Q1 is seasonally weaker, and also as you integrate AG, I'm just wondering how we should think about the potential growth in kind of capital markets transaction fee revenue in the coming years, if we see more benign markets?

Jack Weingart^ Good question, Luke. If you separate that into kind of the legacy TPG businesses and the Capital Markets business we're building here and then think about adding Capital Markets fees through the integration of AG, particularly on the Credit side. What we've said historically is we think of a normal run rate for that TPG Capital Markets business, at today's level to be around $100 million. So on a quarterly basis, $55 million is high, relative to that normal run rate. Now that $100 million is going to be growing over time as we grow our businesses. And then you layer on top of that opportunities from AG, which we're in the early innings of developing.

So I would think of the AG contribution growing, during the course of the year this year. And then the TPG side, stepping down to a below normal level in Q1 because of the seasonally light number of deals closing in Q1. So the TPG side back loaded and the AG side also kind of feathering in, during the course of the year and growing during the course of the year. So much like this year, where you saw our Capital Markets revenue line start low and grow toward the back of the year, I'd expect the same kind of pattern this year.

Operator^ The next question comes from Bill Katz with TD Cowen.

Bill Katz^ Just want to pick up on that last question. As you think about the opportunity set for the capital markets platform within Angelo Gordon, would Apollo be a reasonable directional view? And then how much of that assumption is embedded in the 45% long-term FRE margin target?

Jack Weingart^ Yes, good question. I think what Apollo is doing is a decent kind of directional proxy for the opportunity set.

I would say we're pretty early in kind of underwriting that opportunity for ourselves. So we're not ready to put a target number out there. But the longer-term FRE margin of 45%, I would say, only incorporates a piece of that opportunity.

Operator^ The next question comes from Brian Bedell with Deutsche Bank.

Brian Bedell^ Many of my questions were answered. But maybe just some perspective on the timing of the deployment that you outlined on Slide 18, in terms of the $132 million and thanks for the color on breaking or segmenting that $132 million. But just if you can give us some color on how you think that might be deployed over the course of of this year? Is it -- are we in a situation where we're likely to see that $132 million be reflected, say, mostly by year-end? Or is it much more dependent on credit conditions within AG?

Jack Weingart^ Well, I would say, as I said a few minutes ago, most of that $132 million is associated with capital not yet deployed, not the natural step-up of capital already deployed on fees, the step-up structures -- funds or step-up structures. So just thinking about your question, real time, that capital underlying the capital not yet deployed probably has -- just taking a swag -- a 3-year deployment pace to it on average across those funds. So if I had to take a guess, I'd say that would kind of feather in over about a 3-year period.

Operator^ The next question comes from Adam Beatty with UBS.

Adam Beatty^ I just want to ask about performance within the Credit portfolio. I appreciate the earlier comments around I think it was either private equity or firm-wide, 20% revenue growth with stable margins. But there is some concern these days around middle market credit despite the growth there. Obviously, AG Credit performance was quite good. And I know there's pretty intense monitoring and tight controls around that.

So just wondering, any detail you could share about how those companies are performing, whether or not there's been equity backstops or what have you?

Jack Weingart^ We’ll get to that in a second, but I just want to finish that last question that Brian asked, the $132 million. So I don't want to leave the impression that's like a onetime opportunity that comes in over a 3-year period. As that capital is deployed, we're obviously raising a lot more credit capital, as we've talked about. So the $10 billion of credit capital plus what we expect to raise this year will all come in with no fees yet. And apply whatever fee rate you want to assume across our Credit business, we've provided some detail there.

So that $132 million of fee opportunity should be growing over time as we're realizing what's embedded today.

Jon Winkelried^ Just to pick up on the question -- in terms of credit quality and what's happening in the portfolio. I think that, as I mentioned or alluded to, performance across our Credit strategies has been very, very good. And just to give you some -- maybe a little bit more color on some data on it. If you look at our Direct Lending business through Twin Brook, here, by the way, our pipeline is up reasonably meaningfully this year based upon transaction activity that we're seeing.

We're also seeing generally a quality uptrend, just in terms of the opportunities that we're seeing. But if you look at the performance of the business over the course of last year, we had no credit losses in the business and the performance of the portfolio was generally reflective of what was happening overall within our Private Equity portfolios.

Remember that Twin Brook's business is very sector focused. And so across things like Business Services and Health Care within their portfolio, they saw strong performance. And so at least in terms of our selection criteria, what we do, we obviously have a very selective process of how we're underwriting. We also are underwriting in that business with lower leverage on average, as a result of the lower middle market nature of it, as well as covenant protections across our portfolio, which obviously allows us to get back to the table and work with sponsors to the extent that we need to. But the portfolio was very strong overall. And I would say the outlook in terms of the pipeline continues to be on an uptrend, in terms of quality generally.

In Credit Solutions, if you look across our business, I think I said in my comments that our performance was very strong, in excess of 300 basis point premium, over where the indices ended up. I think Jack alluded to the fact that there was a strong rally in Credit spreads at the end of the year. That obviously had a significant impact on the portfolio. And generally, what we've done is where we see a change in valuations like that and return to historically tight spreads, we've been generally net sellers of the public credit opportunity, as a result of that. So we've been liquidating a number of positions across our Credit Solutions book. And we've essentially pivoted our focus from kind of public opportunities because of the tightness of the market, to really more private opportunities, more bespoke private opportunities, which are a combination of structuring private credit opportunities as well as rescue finance opportunities.

And the opportunity set there in front of us is very, very substantial and very large. If you look at the structure of the market. There's over $1 trillion of single B-rated or CCC rated capital structures that are essentially coming due over the course of the next several years. If you look at the market right now, almost half of the leveraged loan market has less than 2x interest coverage -- that's probably more typically like 20% of the market historically has less than 2x interest coverage.

So with that structural dynamic in force in the market right now, it's going to create a lot of very interesting private opportunities for us to execute on. And there, we're able to use our sector knowledge and our industry knowledge, across both our Credit business as well as our Private Equity business, in order to underwrite those credits and value those companies. So we feel like that the dynamics in terms of the way that's setting up is very positive for us.

And then lastly, on the Structured Credit side, the biggest theme here is, what's going on with respect to the need for capital. And when you look at the community and regional bank stresses that are going on in the market and continuing to go on in the market, we think we're very early in terms of that dynamic playing out. It's kind of a second or third inning dynamic with respect to regional bank deleveraging, and we're going to continue to see that stress drive asset sales and credit risk transfer. And I think overall, we're also seeing an opportunity to upgrade the quality of the counterparties that we're working with, looking for that risk transfer. And on average, I would say non-EBITDA credit has not participated in the rally that corporate credit has participated in. So in terms of relative value, we see a lot of interesting opportunities there.

So -- and there have been a number of situations recently, for instance, we just purchased a portfolio, a $600 million portfolio of consumer secured loans from a community bank with really attractive return characteristics to it. So, the portfolio is in great shape and the opportunity set is even better. So that -- hopefully, that gives you some guidance on how we're positioned.

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^ Great. Thank you. Thank you all for joining us. If you have any follow-up questions, please feel free to circle up with the Investor Relations team. Otherwise, we look forward to talking to you again next quarter.

Jon Winkelried^ Thanks, everyone.

Jack Weingart^ Thank you.

Operator^ This concludes today's TPG's fourth quarter and full year 2023 Earnings Call and Webcast.

You may now disconnect your line at this time, and have a wonderful day.