TPG
August 6, 2024

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
- James Coulter; TPG; Executive Chairman and Co-Founder

Participants

- Alexander Blostein; Goldman Sachs; Analyst
- Craig Siegenthaler; Bank of America; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Kenneth Worthington; JPMorgan; Analyst
- Glenn Schorr; Evercore; Analyst
- Adam Beatty; UBS; Analyst
- Brian Mckenna; Citizens JMP; Analyst
- Daniel Fannon; Jefferies; Analyst
- William Katz; TD Cowen; Analyst
- Brian Bedell; Deutsche Bank; Analyst

PRESENTATION

Operator

Good morning and welcome to TPG’s second quarter 2024 earnings conference call. Currently, all callers have been placed in a listen-only mode, and following management's prepared remarks, the call will be opened for your questions. If you would like to ask a question at that time, please press star 1 on your telephone keypad. If you need to remove yourself from the queue, press the pound key. At any time, if you should need operator assistance, press star 0. 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.

Gary Stein

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, are also here and 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, and 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 second quarter, we reported GAAP net loss attributable to TPG Inc. of

$14 million and after-tax distributable earnings of $207 million, or $0.49 per share of Class A common stock.

We declared a dividend of $0.42 per share of Class A common stock, which will be paid on August 30, 2024 to holders of record as of August 16, 2024.

I'll now turn the call over to Jon.

Jon Winkelried

Thanks, Gary. Good morning, everyone.

Our strong second quarter results highlight the significant momentum across our business as we continue to successfully scale and diversify. We finished the quarter with $229 billion of AUM and $137 billion of fee-earning AUM across more than 30 strategies in private equity, credit, and real estate. Over the course of last year, we drove a step-function change in our growth profile and earnings power as a result of both organic and inorganic activity. Our firm is capitalizing on our expanded breadth, and in my comments today I'll focus on two areas in particular:

- First, the strong momentum in our capital raises across our diversified product base; and
- Second, our active pace of deployment and the differentiated deal types we are sourcing across our platforms.

In addition to these two topics, before I hand the call over to Jack I'll also touch on the significant market volatility that has been taking place over the last few trading days.

Beginning with fundraising, we raised $6.3 billion in the second quarter. Importantly, over 70% of this capital, or $4.5 billion, was raised across our credit strategies.

- During the quarter, we held a final close for Twin Brook's fifth drawdown fund. In total, we raised $3.9 billion, which exceeded our original fund target and is 13% larger than its predecessor. This successful outcome was driven by Twin Brook's strong investment track record and differentiated focus on sponsor-backed, lower middle market companies, as investors seek to complement and diversify their exposure to the U.S. direct lending market. In addition to receiving strong support from existing clients, Twin Brook meaningfully expanded its investor base globally,

particularly in Asia, and increased diversification towards sovereign wealth funds as well as multi-national insurance companies in Europe and Japan. This campaign is a strong indicator of the power of our platform and the cross-selling opportunity in front of us.

  - We are also raising capital through other vehicles to accommodate investors across the broader Twin Brook platform as we continue to out-originate our capital base. This includes standing up new SMAs and strategic partnerships with our LPs, as well as through evergreen structures and our non-traded BDC, TCAP. TCAP continues to raise capital at a steady pace and ended the quarter with $2.5 billion of total AUM. Currently, TCAP is being distributed by two of the largest wirehouses in the U.S., and we expect a third to be added by the end of this quarter.

- Turning briefly to our Credit Solutions platform, during the quarter we raised approximately $2 billon, including $1.1 billion for the first closing of Credit Solutions 3. We also held additional closes for Essential Housing 3, bringing total capital raised for the fund to $1.3 billion at the end of the second quarter.
- Looking to the rest of the year, we expect our robust fundraising momentum to continue, led by our Rise Climate franchise. Last quarter, we stated that we expect our Impact platform to achieve $35 billion of AUM within two years, and we believe that we're tracking ahead of plan on that objective.
  - In our climate private equity strategy, we are seeing strong support from both existing and new clients. We are holding a first close for Rise Climate 2 this quarter, and expect to announce a strong start to that campaign on our next call. We continue to target an aggregate $10 billion across this fund and the Global South Initiative, and we expect a majority of the capital to be raised in 2024.
  - Additionally, we expect to hold a close before year-end for our first Rise Climate Transition Infrastructure fund. In May, we announced a $1.5 billion strategic partnership with Hassana Investment Company, a substantial portion of which will anchor our infrastructure fund, and we are in active dialogue with other LPs to provide additional anchor capital. Our leadership position in climate investing is a powerful differentiator that enables us to organically expand into adjacent asset classes with significant growth potential such as transition infrastructure.

As you can see, our fundraising momentum continues to ramp and is well-diversified across our businesses.

Similarly, our deployment pace remains robust. We invested $7.6 billion of capital in the second quarter and more than $35 billion over the last twelve months on a pro forma basis including TPG AG.

- I'll spend a moment on TPG Capital to illustrate the interesting ways we are deploying capital through our proprietary and distinctive sourcing approach. Over

the last twelve months, TPG Capital has announced or completed nine investments with an aggregate equity commitment of nearly $7 billion that resulted from longstanding C-level relationships within our core thematic areas. More than half of this capital was invested into deals that were either a complex corporate carve-out or creative partnership. TPG has a long and successful history of unlocking value and driving growth through these types of differentiated deals.

- I also want to highlight our activity in Europe, which is a high priority region for us. Our President Todd Sisitsky just returned after spending six weeks there working closely with our teams to further build on our strong investment momentum, client relationships, and franchise in the region. Over the last few months, we have announced or closed several interesting transactions in Europe and our pipeline remains strong.
    - For example, in the second quarter, TPG Capital announced the €3.9 billion carveout of Aareon, a leading provider of SaaS solutions for the European property industry, from Aareal Bank in Germany. This investment represents an attractive opportunity to accelerate Aareon’s growth as a standalone company in a resilient but fragmented market.
- Turning to TPG Growth, in the quarter we closed the proprietary acquisition of Untitled Entertainment, a leading Hollywood talent management firm. Untitled will be a part of a newly formed platform that will leverage our deep experience investing in media and entertainment to acquire and build a diversified global business focused on talent management and representation.
- Our Rise and Rise Climate funds continue to deploy capital at a steady pace given our differentiated position as the partner-of-choice in the impact space. Since quarter end, we have already signed or closed four additional transactions with an aggregate equity commitment of approximately $800 million.
    - Rise recently led an investment of over $200 million into Foodsmart, a leading U.S. telenutrition provider and food benefits management platform.
    - Additionally, Rise Climate agreed to acquire Olympus Terminals, a large-scale renewable fuels logistics provider in California. Olympus plays a critical role in the decarbonization value chain and represents our focus on investing in companies enabling the energy transition.
- Turning to our real estate strategies, over the last few years we had been anticipating substantial stress in the system to drive attractive investment opportunities, so we were purposely patient in our approach to capital deployment. Since mid-2023, we have seen a significant increase in investment activity, acquiring a number of distinctive, high-quality assets from sellers in need of liquidity. With combined dry powder of $14 billion across our real estate businesses, we expect to lean into the growing number of interesting opportunities we are sourcing in our core areas of focus. We invested $1.2 billion in the quarter, and I’ll share some brief highlights.

   - Within TPG Real Estate, during the quarter we completed investments into two office-to-residential conversions in New York City. In aggregate, we acquired the properties at a significant discount to their prior basis, and we are working with best-in-class partners to execute these conversions.
   - TPG AG's European real estate business has also been capitalizing on this environment, including investing in a mixed-use property in Berlin, several Swedish logistics assets, and a homebuilding platform in the U.K. Each transaction was off-market and bi-laterally negotiated with highly-motivated sellers. Our TPG AG Real Estate sourcing model, which leverages hundreds of operating partner relationships across local markets, continues to demonstrate its unique value proposition.
- Finally, within Credit, we deployed $4.5 billion across our strategies in the second quarter.
   - Twin Brook, our direct lending business, continued its strong investment pace in the quarter, bringing total gross originations in the first half of the year to a record $4.8 billion. This exceeds Twin Brook's prior first half gross origination record by more than a billion dollars. Twin Brook is a leader in lending to lower middle market private equity-backed companies, and 100% of Twin Brook's loans are senior secured, first lien with financial covenants. Twin Brook has generated attractive net returns of 11% since inception with an annualized loss rate of only one basis point.
   - During the second quarter, our Credit Solutions platform deployed approximately $900 million of capital, primarily through our proprietary Essential Housing business. Notably, Essential Housing, which provides land financing to leading homebuilders, has seen substantial origination volume. We closed on $1.8 billion of project value across 67 projects with nine homebuilders during the first two and a half months of the current fund's investment period.
      - Within our Credit Solutions funds, given our flexible mandate, we continued to monetize our public positions and are currently evaluating the largest pipeline of private investment opportunities since the strategy was launched. We are actively working to partner with a range of public and private companies with various needs for bespoke private capital solutions.
   - Finally, we continue to see growing client demand for specialty private credit given the desire to diversify exposure away from corporate credit into more non-correlated risk. During the quarter, our Structured Credit platform deployed $1.9 billion across a diverse array of consumer, specialty, and mortgage finance transactions. Most notably, our Asset Based Credit fund completed its first investment in Australia, demonstrating the global reach of this business.
   - Overall, given the breadth of capabilities within our credit business, we are well-positioned to continue to accelerate growth as evidenced by our fundraising momentum, deployment pace, and investment pipelines. Each of these strategies is currently out-originating its capital base, so we see a significant

opportunity to scale them through a combination of raising additional capital and driving further product innovation.

Continuing with this theme, innovation is the cornerstone of our ability to grow the firm. Looking at a five-year period from the beginning of 2021 to the end of 2025, we expect we will have raised approximately $40 billion during this timeframe across new strategies, pro forma for TPG AG. This includes growing our Rise Climate franchise and expanding into infrastructure, leveraging our real estate footprint across asset classes and geographies including Japan, scaling our GP-led secondaries businesses, and broadening our credit platform. Our proven ability to innovate is even more powerful across our well-diversified platform, which provides many new avenues for organic growth.

Before I turn the call over to Jack, I'd like to comment briefly on the current market backdrop. Based on the market correction we've all witnessed over the last few days, it seems likely we have entered a new period of increased volatility marked by more imminent interest rate cuts and heightened geopolitical risks. Although the markets have clearly become far more volatile since late last week, it is not yet clear how this may impact the underlying economy. We are fundamental investors, and from our perspective, the fundamentals we look at every day remain reasonably strong. We have experienced many market cycles during our careers, and we know periods of market dislocation create compelling investment opportunities. We have been preparing for an environment like this, and we are well-positioned with $53 billion of long-dated capital available to invest across our private equity, credit, and real estate platforms.

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

Jack Weingart

Thanks, Jon.

We ended the second quarter with $229 billion of total assets under management, up 65% year-over-year. This was driven by $75 billion of acquired AUM from Angelo Gordon, $23 billion of capital raised, and $11 billion of value creation, partially offset by $17 billion of realizations over the last twelve months. Fee-earning AUM increased 74% year-over-year to $137 billion and we ended the quarter with more than $53 billion of dry powder, representing 39% of fee-earning AUM.

We also had AUM subject to fee earning growth of $25 billion at the end of the quarter. This includes $16 billion of AUM not yet earning fees, which increased 17% sequentially as a result of the strong fundraising progress we made across our credit businesses this quarter.

Our fee related revenue in the second quarter was $459 million, up 61% year-over-year, primarily driven by the acquisition of Angelo Gordon. In addition to the contribution from TPG AG, on a standalone basis, TPG grew fee related revenue 13% organically year-over-year. Our Q2 FRR included management fees of $413 million and continued strong transaction fees of $34 million. Following a strong first half of the

year, we expect capital markets revenue to be more muted in the third quarter due to deal-specific factors. As we look to the end of the year, we expect capital markets activity to accelerate into 2025 as our new investment pipeline remains strong and we begin to see the benefits of integrating our broker-dealer capabilities into our credit platform.

We reported fee-related earnings of $201 million for the second quarter, up 60% year-over-year. Our FRE margin of 44% in the quarter was above trend as we benefited from incremental catch-up fees, strong transaction fees, and lower-than-expected cash compensation due to the timing of hiring. As we have indicated previously, we continue to expect our full year FRE margin to exceed 40% in 2024 and expand in 2025 as we benefit from increased credit deployment and the activation of several new funds, most notably our second Rise Climate fund.

After-tax distributable earnings for the second quarter totaled $207 million, or $0.49 per share of Class A common stock. This included $26 million of realized performance allocations, which was largely driven by credit and real estate. Although exit activity remains muted for the industry and TPG, and has been slower to recover compared to deployment, we are actively evaluating monetization opportunities across all of our portfolios.

Our realized investment income and other line item in the second quarter included $5 million of non-core expenses related to Angelo Gordon, which declined from $8 million last quarter as we continue to make progress on our integration workstreams. We expect our integration expenses to remain at around this reduced level through the balance of this year.

Turning to our non-GAAP balance sheet, TPG remains well capitalized with moderate leverage and ample liquidity. We ended the second quarter with $330 million of cash and cash equivalents and $1.2 billion of undrawn capacity on our revolver, providing us with significant flexibility to continue investing in growth.

Our net accrued performance balance stepped up to $929 million at the end of the second quarter. Our performance eligible AUM totaled $198 billion, or 86% of our total AUM, of which $158 billion is currently generating performance fees.

Our investment portfolio has continued to perform well, with positive value creation across all of our platforms for the second quarter and over the last twelve months.

- Our private equity portfolio, which includes our Capital, Growth, and Impact platforms, grew revenue by 18% over the last twelve months and margins have remained stable as inflationary pressures have moderated. Our private equity strategy is characterized by deeply thematic, growth-oriented investing where we believe we can inflect growth in our portfolio companies that will outpace any potential multiple compression. This disciplined approach has resulted in significant strength and durability against a volatile macro backdrop over the last 24 – 36 months and our PE portfolio appreciated approximately 2% in the second quarter and 7% over the last twelve months.

- Turning to credit, our portfolio appreciated approximately 3% in the quarter and 14% over the last twelve months.
  - In Middle Market Direct Lending, all of our funds were at or above their target return ranges as of quarter-end. Overall, our portfolio of more than 260 companies continues to perform well with strong revenue growth and cash flow generation, and no realized losses in the quarter. At the end of the quarter, our weighted average loan-to-value at close was 41%, which is consistent with historical levels.
  - In Credit Solutions, as spreads have tightened, the team has continued to aggressively monetize public positions across the portfolios and crystallize gains. We are now pivoting into private transactions where we believe there is a more attractive return profile, particularly on a risk-adjusted basis, given significant downside protection in these customized financings. This purposeful approach has resulted in accelerated realizations relative to deployment as private deals have a longer execution timeline. As Jon mentioned, we are currently evaluating the largest pipeline of private transactions ever for the strategy, and expect deployment to increase in the back half of the year.
- TPG's real estate portfolio appreciated approximately 1% in the second quarter and 2% over the last twelve months, and TPG AG's real estate portfolio appreciated 20 basis points in the second quarter and 70 basis points over the last twelve months. Focusing on TPG Real Estate for a moment, the positive value creation in the quarter is attributable to the quality of our portfolio construction in highly attractive sectors. This includes light industrial, student housing, and data centers, which continue to see strong secular demand, supply limitations, and rental rate growth. Capitalization rates and discount rates remain flat to slightly down in our core thematic areas as availability of debt and equity capital has increased this year, driving more transaction volume. As a result, we have been opportunistically monetizing high-quality assets across our light industrial, build-to-rent, and student housing portfolios.

Turning to fundraising, we raised $6.3 billion during the second quarter, with $4.5 billion of this capital raised in credit. Looking forward, consistent with our prior guidance on fundraising:

- We continue to expect credit fundraising to exceed $10 billion for the year, more than doubling the capital raised in 2023. We have raised $6.6 billion for our credit strategies through June, so we are pacing ahead of this objective.
- In addition, we expect our total private equity and infrastructure fundraising in 2024 to grow compared to the $12.8 billion we raised in 2023, driven by the ongoing campaigns for Growth and Rise Climate, as well as the launch of our climate transition infrastructure strategy. We have raised $3 billion in the first half of this year, which is consistent with our expectation that these campaigns would be weighted to the back half of the year. As Jon mentioned, we have significant momentum toward a strong first close for our new Rise Climate

fund and expect to have more to report on our next call.

- We held a final close in July for our Life Sciences Innovations fund, bringing total capital raised to $580 million for the overall strategy, which includes a portion of commitments from The Rise Fund. We will also hold a final close for our inaugural GP Solutions fund in the third quarter, and we expect to hold a first close for our Rise Climate Transition Infrastructure fund before year-end.

Wrapping up, we are very pleased with our strong second quarter results and the progress we continue to make to drive growth and diversification across our business. Our investment portfolios are performing well, and we have been selectively pursuing monetization opportunities. At the same time, we have been deploying capital at a steady pace, and with $53 billion of dry powder, we are well-positioned with a robust pipeline of opportunities across our diverse platforms. We are continuing to experience strong momentum across our active fundraising campaigns in our private equity and credit businesses. And we are leveraging our culture of innovation to drive a variety of exciting growth initiatives that have the potential to build significant scale and long-term value.
Now I'll turn the call to the Operator to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question will come from Alex Blostein with Goldman Sachs.

Alexander Blostein^ I want to start with credit. So at a high level, trends sound pretty good on both deployment and the fundraising side. But obviously fee-paying AUM was flat sequentially. Could help bridge what were some of the offsets in the quarter? And then more importantly, talk a little bit about your growth outlook in credit with respect to management fees and fee-paying AUM over the next 12 months.

Jack Weingart^ Sure. Alex, it's Jack. I'll start on that.

On the quarter, the reason the fee paying AUM was relatively flat quarter-over-quarter is because, as you'd expect, the $4.5 billion of credit capital we raised during the quarter really, none of that was fees upon being raised. It turns into fee-paying AUM as we deploy it.

So that's why you saw AUM growth quarter-over-quarter, but really no FAUM growth. And that's why, to my comments, the AUM subject to fee step-up increased so much quarter-over-quarter. So that's how I would think through that bridge.

Now we do expect accelerated FAUM growth in credit as we work through the year and next year and deploy the capital that we just raised in the first and second quarter, and we expect to continue raising in the back half of the year.

Jon Winkelried^ And Alex, I guess the only thing I would add to that on the deployment outlook going forward is, I think you heard in our comments, what we have a lot going on at Twin Brook and our direct lending platform.

We're on a record pace by a meaningful margin in terms of the uptick in activity in the lower middle market sponsor space. And when you look at the originations there, one interesting dynamic to it is somewhere in the vicinity of around 40% of the origination volume there is essentially add-ons to the existing portfolio.

So the base portfolio that Jack had referred to in his comments continues to just generate with add-on acquisitions, tuck-ins, et cetera, continues to just generate a substantial amount of inherent growth in the portfolio beyond the 60% of the growth that's basically new buyouts.

On the Credit Solutions side, which we've talked about a number of times, I mentioned in my comments, obviously that our Essential Housing business is very active.

Jack mentioned in his comments that we -- our team has actively been liquidating and selling most of our public book that we accumulated over the course of 2023 and maybe early '24 and given spread tightening and the contraction and essentially the compression in spreads. You can see what the value creation looks like in that book.

But essentially, we spent a lot of time monetizing the -- we pivoted, as you would expect, given the nature of what's happening in terms of the refinancing challenges in the market for some of the highly levered companies, we pivoted to private opportunities. And just to give you an idea of the flow of that, we look at -- we're engaged with many sponsors around the market - we measure that flow and backlog by the number of NDAs that we have actually signed. And we have actually so far this year have signed 160 NDAs.

Just to give you an idea, that's like double our prior flow base. And naturally, those transactions are more bespoke, more structured, take longer to get done. But we would expect that we'll have an uptick in deployment around those opportunities. And by the way, particularly with the increase of volatility in the market.

And then lastly, on the structured credit side, I think we're seeing now finally with the potential for interest rates to come down. We are seeing a number of transactions with risk transfer going on in the market among a variety of different banks who have been waiting and pausing as it relates to the value within those portfolios and how they feel about interest rates. We are seeing a pickup in partnerships with a number of financial institutions.

I mentioned the Australia opportunity that we were able to do. So we're -- but based upon capital formation versus the opportunity set to deploy we're actually trying to pace ourselves a little bit as we hopefully will accelerate our capital formation process in the second part of the year for our structured credit business.

Operator^ Our next question will come from Craig Siegenthaler from Bank of America.

Craig Siegenthaler^ We have a modeling question on the fee-earning AUM quarterly roll for it. In credit, you raised $4.5 billion and you also invested $4.5 billion, but fee-earning AUM only grew by $200 million and the fee earning AUM inflow is just $300 million.

So I know I just threw a lot of numbers out there, but my question is why didn't fee-earning AUM in credit growth faster in the quarter, just given how big the fundraising and deployment numbers were? What am I missing?

Jack Weingart^ Craig, the $4.5 billion of capital we raised during the quarter, really none of that shows up as fee-earning AUM as of the end of the quarter. It was raised, it's dry powder ready to invest, but it doesn't flow into fee-earning AUM until deployed, which will happen in subsequent quarters.

Craig Siegenthaler^ Got it. But you also invested $4.5 billion of prior capital. So wouldn't that have triggered fee increases.

Jack Weingart^ Right. I'm just looking for the number. That should -- I think it was definitely offset by realizations during the quarter.

Craig Siegenthaler^ Got it.

Jack Weingart^ We can follow up with you.

Craig Siegenthaler^ Yes. We can follow up there.

I was just -- I was really curious because the fundraising number was so big and the investing number was also so big. And between the two, I figured that would have drove a larger increase in fee-earning AUM.

Jack Weingart^ It was -- basically, all the capital we raised during the quarter was not fee earning and our deployed capital was roughly offset by monetizations. We can follow-up and share those numbers with you.

Operator^ Our next question comes from Michael Cyprys with Morgan Stanley.

Michael Cyprys^ Maybe just sticking with credit and the AG deal. You mentioned some overseas investors coming into the Twin Brook fund sounds like some maybe

distribution synergies happening there. Maybe you could just elaborate a bit on some of the synergies you've realized so far from bringing Angelo Gordon into the franchise. And as you look out over the next 12-24 months, maybe you could just update us on your latest thoughts around synergies that you'd expect to drive across the business as you look out from here. And I know one of the things you're looking to do is to help the AG credit business move up market a little bit. So maybe you could just update us on where that initiative stands.

Jon Winkelried^ Yes. Thanks, Mike. On the fundraising side, I think that we have experienced what I think of as a fair amount of crossover between our LP bases. And as we talked about, as part of the underlying thesis and growth drivers for the AG acquisition, we felt like that was a major opportunity for us in terms of being able to cross-sell into both historical pools of capital that haven't participated with AG and also just the size and scale of some of those pools of capital. So that really is beginning to take shape.

And as an example, if you look at the Twin Brook fund raise, there are a number of cases where we have been able to be successful by partnering together between our two fundraising groups, that's an area where there were a number of examples where both some combination of sovereign wealth funds, large pensions and particularly international penetration.

If you look at the footprint of TPG's LP base and the existing footprint of AGs at the time of the acquisition, the global scale of TPG's footprint was quite a bit larger. And so when you look at what we have been able to do and are continuing to do with in the Asia region, in the Middle East, in Europe, I think we've been very happy with the progress that we're making in terms of both mandates that we've gotten as well as engagement that we continue to have across the credit platform.

Same thing is true, by the way, and really across the entire platform from Twin Brook to Credit Solutions to structured credit. And so I expect what you'll be hearing from us as we continue to form capital is you'll be hearing similar things with respect to the continuing fundraising effort with respect to bringing in those traditional relationships on the TPG side, and bringing those to bear in the AG credit business.

So we're pretty optimistic with respect to that based on tangible evidence that we have so far as well as well as where we're currently engaged in terms of relationship dialogue.

In a number of cases, as you would expect, given how credit is -- how capital is formed on the credit side, in a number of cases, we're working on multi-strategy SMAs with some large pools of capital. And then the other area where I think we're pretty encouraged as well is extending the reach of our relationships in the channel with respect to the private wealth part of the market.

I mentioned, for instance, Twin Brook, about to go up on its third major wirehouse platform for TCAP. And we have a number of launches that we're expecting to do with the channel with our Credit Solutions business as well as our structured credit business.

So we feel pretty good about it. And I think you'll continue to hear from us as we report out the progress that we expect to make.

The other areas of synergies that get to your question that are quite tangible -- for example, I mentioned our Credit Solutions business and the private opportunities that we're prosecuting there, the level of engagement between the private equity side of the house and the Credit Solutions side of the house, after signing NDAs and working with sponsors is also quite significant and quite tangible. And the ability to use both credit expertise that we have on the Credit Solutions side. And our underlying understanding of many of these companies on the PE side because many of these companies, as you would expect, we've seen and the ability to both understand how to structure deals, but also ultimately what you're lending against fundamentally in terms of loan to value is valuation of companies. So those skill sets coming together is quite tangible.

One of the things that we are in the process of doing is we are actually launching a new strategy we called Hybrid Solutions, which essentially, think of that as a middle of the capital structure, more structured return type of opportunity -- we've already established an anchor LP for the strategy. We've already done our first deal in the strategy. And just to give you an idea, that strategy is led by Ryan Mollett from Credit Solutions, David Trujillo and Nehal Raj from the private equity side.

So that's an example of forming a new opportunity basically through the combination of the two businesses.

Jack Weingart^ Mike, it's Jack. Just a little more data for you on the Twin Brook fundraising migration.

If you look at the last fund, Fund IV versus Fund V, which we just completed raising. The U.S. represented about 61% of Fund IV LP base, and this went down to 36% in Fund V replaced by significant growth in the Asia Pac as John said, as well as Europe and the Middle East. And by type of investor, insurance companies represented only 6% and of the LP base in Fund IV and 29% in Fund V. And sovereign wealth went from 1% to 17%.

So I think those numbers give you a real sense for the the synergy we're seeing on distribution. And by the way, obviously the closed-end fund MMDL V is not the end of fundraising for Twin Brook. We have a number -- not just TCAP in the high net worth channel, but we have a number of large SMAs. We're in the process of raising that will sit alongside MMDL V as additional sources of capital, as you can imagine, those SMAs are oriented toward our large historical client base as well.

Operator^ Our next question will come from Ken Worthington with JPMorgan.

Kenneth Worthington^ -- [TECHNICAL DIFFICULTY] …hiring and catch up fees boosting margin this quarter. Were there any other unusual items impacting compensation? And is the delayed hiring expected to be resolved later this year? And then on margin as well as we think about Angelo Gordon, I know the focus has been top line growth and things look great so far. Are there also efficiencies that you're bringing to the AG platform that has contributed to the improving margins you're seeing at TPG proper?

Jack Weingart^ Sure. I think, Ken, you broke up a little bit at the beginning of your question, but I think I got the gist of it.

On the margin profile, in particular, I think you were asking about the comp expense in Q2. I think last quarter, we mentioned that our comp expense in Q1 was unusually high because of the elevated RSU-related expenses, and that will be flowing through as a seasonal factor in Q1 each year. So stepping down off of that number was not unexpected.

The other piece of it that I referred to is we are, as we've talked about in the process of hiring to expand the business in all the ways that we've talked about. And much of that hiring did not kick in -- to answer your question, we do expect that to kick in, in Q3 and Q4. So I would expect that comp expense line to normalize in Q3 and Q4.

On the cost synergy side, as we've always talked about, this is not -- this was never a transaction premised on cost synergies. We're much more focused on what we just answered on revenue synergies, and we're very optimistic about that.

That being said, of course, we're looking to operate a cost-efficient business. And I'd say at this point, we believe we've realized at least $30 million of cost synergies, and we intend to invest most of that back into things like expanding our product development and expanding our distribution capabilities.

Jon Winkelried^ The only thing I just want to add to that is that just in terms of integration and the functioning of the organization, we have executed a full integration of all of our services functions, all of our operational functions, et cetera. So that is basically completely done and working very smoothly.

So just in terms of the ability to benefit from scale as we grow. We feel like the full integration and the capabilities of the two firms combined will support that as well.

Operator^ Our next question will come from Glenn Schorr with Evercore.

Glenn Schorr^ So I was hoping for a little color on Twin Brook. Your track record is great. You mentioned all senior secured first lien, good covenants, almost no loss as

ever. So I don't feel bad asking a question that some people think of a middle-market player that plays in a $24 million average EBITDA more at risk in a client base that's more at risk in a decelerating economic backdrop. Maybe you could talk about the control aspect and why that hasn't actually been the case in the past.

Jon Winkelried^ Yes. That's a good question, Glenn. Thank you for that.

Well first of all, I think that it's a timely question because I just got back a week ago from spending a few days in Chicago with our Twin Brook team and digging into all aspects of what we're doing there. And it was a great opportunity to just get deep in the portfolio.

I think you're right to say that if you had a general statement that smaller companies are riskier than larger companies, I think it's generally correct.

However, when you look at the way the business works at Twin Brook, a couple of comments.

One is that the relationship that we have with the middle market sponsors that we are working with are deep and long historical relationships. And so we have a very good understanding for how they look at value, how they manage their portfolios. And I think that familiarity and that partnership orientation in terms of how we work with them, is very much partnership like. And I would say that, obviously being TPG and being on the other side of the lending equation, it relates to financing our own buyouts.

I would say, generally, I'd describe it as less transactional, if you will, because of the nature of how loans are structured, the covenant structures surrounding them and the engagement process, particularly as a result of what I had mentioned before in terms of the add-ons to portfolios over time.

We're serially engaged with these sponsors and serially engaged with the portfolio. Each time we go through that process, by the way, there's an interesting dynamic that goes on, which is it allows for some level of re-underwriting of the portfolio, which we do. It allows for adjustments and tweaking of covenants, which we do because we do have financial covenants.

And as you know in the lending world, essentially, when you think about risk management, there's only really two ways to risk manage alone. One is either you sell it -- or the other way is basically you get back to the table with your borrowers and you get back to the table with your sponsors. And as a result of covenant protections and the fact that we're usually almost always the admin agents and the sole lender, and that's changing a little bit as our companies are getting slightly larger.

But we are in a position where we are seeing -- there's all kinds of early warning systems. So for instance, like when companies are drawing on the revolver

So if you look at a time series, as a company has drawn the revolvers over time, it's correlated sometimes with stress or it's correlated with sometimes dips in margin.

So we have an early warning system. We have a watchlist. The team is very focused on the watchlist. We have weekly meetings where we're reviewing the watchlist. We're reaching out to our sponsors. And basically working on, in some cases, covenant modifications and in some cases, restructuring loans.

We are not -- one of the things that -- the other important thing to your point about relative levels of risk is that our companies are starting at lower levels of leverage.

Our companies are starting generally with levels that are somewhere in the vicinity of around 4.5x leverage, whereas larger buyouts are starting at higher levels of leverage. And we're also starting at what I would call higher coverage ratio levels as well. We're starting generally at around 3.25 - 3.5x. And when you look at what's happened to our portfolio, over the course of rising interest rates, we've gone from -- in some cases, as rates have gone up and coverages have been compressed, which has happened across the entire market, lower middle market and upper middle market - our coverage ratios have compressed in some cases to like 1.9x or 2x whereas for larger upper middle market or upper market sponsored deals, coverage ratios, many coverage ratios compress more like to 1.1x, 1x, in some cases, slightly below that.

So we're managing the business fundamentally in a somewhat different way. The metrics are different, the risk tolerances are different. The loan to values are inherently different as a result of that, that's what's really produced a lower loss ratio.

So we have a lot of confidence in the business. We believe the business continues to grow and expand. If you look at the opportunity set for us there, I think that one of the clear opportunities that we've talked about is what we finally referred to as the graduating company opportunity where companies are growing from $20 million or $25 million or $30 million, to $40 million, $45 million, $50 million, $55 million of EBITDA, but we know these companies intimately well. We've banked them essentially for three, four, five years. In some cases, we've watched them grow. We've been part of that process. And so we are working with some clients to form some capital around that opportunity to grow with some of ours borrowers. And likely, as we grow with some of our borrowers, those loans, which would be done outside the context of what is our traditional Twin Brook funds. Those companies may come with single covenant deals, in some cases, maybe even a cov-light deal as we get slightly higher.

But that won't be at the expense of the focus that we have at Twin Brook and what we're doing there because we believe that business continues to have a lot of growth inherent in it and a lot of upside, and we feel like we're certainly one of the category killers in that part of the market.

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

Adam Beatty^ I want to ask about real estate. It looks like pretty balanced deployment in the quarter. and from the tone of John's comments, it seems like maybe you're leaning in a little bit, my words, but I appreciate your take on the opportunity set there, how you're managing risk given some lingering uncertainty? And also, if you could, maybe a few words on the complementarity of the TPG AG Real Estate capability with the legacy TPG capability.

Jon Winkelried^ Yes. That's a good question. Let me start with the back end of the question, which is the complementarity.

Our businesses -- both businesses have been around for quite a long time now and they've created distinct approaches to what they do on the real estate side. And just very quickly, just to remind people, the TPG Real Estate franchise, what we call TREP is essentially an opportunistic high-return strategy. We're investing right now out of Fund IV, which is about a $7 billion fund. And we are targeting deploying capital in chunks that are in the range of $100 million to $400 million. So we're targeting pretty large check sizes.

We have talked about our strategy there as a private equity style real estate investing strategy, where we're essentially deploying and acquiring platforms and most often doing it where essentially the operating capability is embedded in the platform itself as opposed to investing with a third-party operating partner, not exclusively, but in most cases, we are doing that. And by the way, we're investing out of a single fund, and we're investing in the U.S. and Europe in that -- on the TPG side.

The TPG AG funds, our regional funds, we have a U.S.-based fund, a European fund, and an Asia fund and now have also a fund dedicated to Japan – the Japan Value fund. And the TPG AG Real Estate franchise has been built over the course of a long history, 25 to 30 years in the business of working with operating partners.

So a very deep, broad base of operating partner relationships where we're partnering on deals. And as you would expect, in many cases, serially doing that over time where we've worked with them on multiple deals.

Our equity check -- the equity deployment on the AG real estate side is more in the range of $25 million to $75 million. And we think of it as a value-add real estate strategy where we're buying assets where we believe we can add value with our operating partners and ultimately create value in the portfolio that way.

So that's -- those are two quite distinctive strategies in terms of how we're doing it. And naturally, obviously there's benefits of being -- having a lot of feet on the street -- participating in various regions of the country, regions of the world, understanding the

markets, which is very important, some level of local knowledge is very important when you look at this from a sector-by-sector basis.

And so that's essentially what these two franchises look like and there is some benefit from the -- just the overall market knowledge that we glean as a result of being as broad and deep as we are. And as I said before, having $14 billion of dry powder, puts us in a position of being offensive in this market.

As far as what we're doing in terms of deployment and what we're doing on the deal front, I think you're right to say that basically, we were probably more measured at the beginning of the upward interest rate cycle.

We were certainly more measured with the dislocation that was happening in real estate more broadly. And we would -- we expected over time as a result of some stress in the system, we would see interesting assets be available for sale. And that's exactly what's happened. And so I would say in the back half when some of that was actually beginning to happen, we started to accelerate our capital deployment across the business in the back half of '23.

And when we look back at that vintage and what we did in the back half -- we like those deals a lot based upon cap rates, we're able to acquire various assets that were basically hard to get a hold of. We like that a lot.

We've continued to deploy into '24. I would say, naturally as a result of the expectation that rates are coming down and people naturally being more bullish on what may happen in real estate as a result of that. I think that we've seen more of an acceleration of capital more broadly in the market into some of the real estate sectors that perhaps are a bit more defensive. And we're certainly still participating in that, but we're also trying to be very thematic and very careful about where we are deploying. And so the areas like, for instance, in certain aspects of the industrial market we continue to like and feel that they're quite defensive. Student housing, we continue to like and are deploying actively in student housing, where we feel we have real expertise.

Certain markets for multifamily are in areas where we're continuing to deploy, although it varies quite a bit regionally depending upon new supply coming into the market. So we're quite cognizant of that. Specialized deals like, for instance, carve-outs like we just announced this carve-out of a manufactured housing business in Canada, residential opportunity in the U.K. Certain aspects of the market like that, we continue to lean into. Other areas of the market, we're more cautious on.

Obviously we continue to be cautious on office. We still continue to see stress in that market. We continue -- we're cautious and we're becoming more cautious on the hospitality side, where we see slowing there in terms of demand and in terms of the ability to price -- so that's -- we're leaning in where we like those sectors where we feel

like we've got unique opportunities. And so that's how we're feeling about the market right now.

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

Brian Mckenna^ Okay. Great. So you've deployed a good amount of the capital that you raised for your latest flagship capital strategies and performance for all those vintages has been really strong out of the gates with net returns of at least 20%. So given the strong performance and then that nearly 50% of the capital raised for these funds has been deployed, how should we think about the timing and the potential demand for the next round of capital funds.

Todd Sisitsky^ Great. Well Brian, thank you for the question. It's Todd.

As you point out, we have in the flagship, the TPG Capital fund, which focuses on the U.S. and Europe, we've signed or completed 10 investments.

It is a really interesting portfolio to your point, actually, I think the majority, two-thirds are some combination of corporate carve-out or structured partnerships with strategics which have some -- several of them have some very interesting risk-reward characteristics and protective downside. So we're really excited about the portfolio and have been excited about the pace. I'd say our pipeline continues to be robust as well.

So to your very specific question, we're on track for deploying this fund in the three or four year period that we have been targeting internally and advertising to our LPs, and that would probably put us in the market to start our next fund raise. And again, this reflects -- this relates to both TPG IX and TPG Healthcare Partners II, so the successor funds of TPG X and Healthcare Partners III in the first half of 2025.

Operator^ Our next question comes from Dan Fannon with Jefferies.

Daniel Fannon^ Jack, one more for you on margin. I understand the comments for this year. But as you think about the scaling of some of the funds you mentioned as well as the transaction fees, what is a reasonable expectation as you balance also investing for margin expansion as we think about next year versus where you've guided us to this year?

Jack Weingart^ Yes. Thanks for the question, Dan.

We haven't put out specific guidance other than to say that this year, we expect to be at a baseline off of which we will grow. And if you think about the levers of margin expansion in our business, it's really driven by operating leverage and revenue growth. And if you think about all the capital we're raising this year, much of which is not flowing into FAUM yet, particularly on the credit side, as we deploy that naturally, and obviously

we disclosed that in the earnings release as AUM not yet earning fees, which grew a lot quarter-over-quarter. That you can see in our disclosure, represents a significant amount of shadow FRR, if you will.

On top of that, we have the large climate-related funds. We're in the process of raising which will pay fees on committed capital. but not really activate until closer to the end of the year this year. So you'll see a full annualization of that fee income next year.

So those are the primary drivers of our, what I would say, our resumption of FRE margin expansion next year. And we certainly believe that as we continue to scale all of our businesses, we'll get back to the original TPG target of 45%. And beyond that, we just haven't put a time on that yet.

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

William Katz^ Just coming back to fee paying or fee earning AUM just in general. If I look at the last couple of quarters, it's been relatively flat, about $137 billion. So I appreciate you have a couple of vectors of growth as we look out over the next 12 to 6 to 18 months. If you think that realization is going to pick up, can you walk me through the path of how fee-paying AUM grow from here?

And then I think, John, you had mentioned in your prepared comments that you plan on raising $40 billion of gross flows through the year-end '25. I was wondering if you could give me the pro forma number that you're comparing that up through June of this year.

Jack Weingart^ Bill, let me take the first part of that.

On the FAUM roll going forward, the way I would think about that is the significant pickup that we expect in credit deployment will obviously flow from AUM into FAUM. The minute we activate these big new pools of capital on the climate side, that will then create a significant step-up in FAUM. And that will be partially offset by realizations, but we certainly expect that be positive drivers will more than offset the realizations. And the reason we expect FRR growth next year is the net of all that will, in our minds, be expected to drive FAUM growth throughout the course of the year next year.

Jon Winkelried^ On the latter part of your question, Bill, which we can follow up with you on just in terms of making sure that you understood the comment. But what I said in my prepared remarks was that looking at the 5-year period beginning 2021 to the end of 2025, we expect we will have raised approximately $40 billion during this timeframe across new strategies, pro forma for TPG AG including our Rise Climate franchise expanding into infrastructure, leveraging our real estate footprint across asset classes and geographies including Japan, scaling our GP-led secondaries business and broadening our credit platform.

So we can follow up with you just in terms of understanding the components of that.

Jack Weingart^ The other thing to keep in mind, Bill, is on realizations. If we sell a position that we've created value around, it's earning fees based on actively invested capital in those cases. And if we're selling it at, call it, 3x our money, the dropout from FAUM is a lot less than the nominal amount sold.

Operator^ And our final question will come from Brian Bedell with Deutsche Bank.

Brian Bedell^ Great. Also maybe just to go back -- tip back to the RISE climate and climate infrastructure franchise. Obviously developed a fantastic brand here over a long period of time. Can you talk about how you might be thinking about retail product development, whether there's an opportunity in this space, given it's not really well penetrated in this area on a retail basis across other alts?

I think you mentioned, Jack, that some of the cost savings that you'll be reinvesting in product development, maybe if you can talk about to what extent that might be in this -- on this platform? And also, I think you mentioned in infrastructure debt, capability that you're looking into developing as well? If you can comment on that?

Jon Winkelried^ I just -- I'll make one quick comment and then maybe Jim, if he can connect in, can comment on it as well.

But one comment is that we're actively working on the launch of our first semiliquid private equity vehicle, which we're expecting to launch in the beginning of 2025. And that is going to -- as you probably know the semiliquid private equity vehicles that exist in the market.

Obviously our -- each of them are a bit bespoke, depending on the franchise and the composition of business at each firm that has the capability and the breadth of launching that.

As we put together our semiliquid private equity vehicle, one of the distinct features, obviously that we have as a firm is the climate franchise, the impact and climate franchise that we have built over a number of years now and that will be a piece of the offering and the componentry of the deals that we ultimately have within the semiliquid private equity vehicle.

It will essentially be a broad compilation of opportunities and deals across our private equity franchises, but including climate.

So we feel like that will continue to give us additional distinctiveness with respect to what the channel has an opportunity to participate in. Jim?

James Coulter^ Yes. First of all, we do expect there to be retail demand for this product. And in fact, we're just launching the channel part of the regular way fundraising for TPG Rise Climate.

In fact, looking at my calendar, I'll be doing a series of one-on-one meetings across Texas, which is always interesting in climate, but the fact that we're seeing demand there gives you a sense of the overall demand in the marketplace.

So I think there are substantial opportunities to expand the distribution of our climate-related platform products. But to Jon's point, I think as a differentiator to our semiliquid product, it will be very powerful.

Operator^ And this will conclude the Q&A portion of today's call. And I would now like to turn the call back to Gary Stein for closing remarks.

Gary Stein^ Great. Thanks, Operator. And thanks everyone, for joining us today.

We look forward to speaking with you again next quarter. In the meantime if you have any questions, please feel free to follow up with the IR team.

Operator^ And this concludes today's TPG second quarter 2024 Earnings Call and Webcast. You may disconnect your line at this time. And have a wonderful day.