TPG Inc.
First Quarter Earnings Call + Angelo Gordon Transaction
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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
- Brad Berenson – TPG, General Counsel
- Josh Baumgarten – Angelo Gordon, Co-Chief Executive Officer
- Adam Schwartz – Angelo Gordon, Co-Chief Executive Officer

Participants

- Glenn Schorr – Evercore ISI, Analyst
- Alex Bernstein – JPMorgan Chase, Analyst
- Craig Siegenthaler – BofA Securities, Analyst
- Brian Bedell – Deutsche Bank AG, Analyst
- Michael Cyprys – Morgan Stanley, Analyst
- Finian O'Shea – Wells Fargo Securities, Analyst
- Bill Katz – Credit Suisse, Analyst
- Adam Beatty – UBS Investment Bank, Analyst
- Brian McKenna – JMP Securities, Analyst
- Luke Mason – BNP Paribas Exane, Analyst

PRESENTATION

Operator^ Please stand by. Your program is about to begin. (Operator Instructions)

Good morning and welcome to the TPG conference call. Currently, all callers have been placed in a listen-only mode, and 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 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, Ashley. Thank you all for joining us on our first quarter conference call. We're also excited to announce that we have entered into a definitive agreement to acquire Angelo Gordon, and we will be discussing the transaction today in detail.

Earlier this morning, in addition to posting our standard quarterly earnings materials to our Investor Relations website, we issued a press release announcing the acquisition and posted an investor presentation that we will be referring to during this call.

With me this morning are our Chief Executive Officer, Jon Winkelried, and our Chief Financial Officer, Jack Weingart. Our Executive Chairman and Co-Founder, Jim Coulter, and our President, Todd Sisitsky, will also be available for the Q&A portion of this call. Additionally, we are pleased to be joined this morning by Josh Baumgarten and Adam Schwartz, the Co-Chief Executive Officers of Angelo Gordon.

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

We'll also be discussing certain non-GAAP measures on this call that we believe 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 first quarter, we reported GAAP net income attributable to TPG Inc. of $25 million and after-tax distributable earnings of $88 million or $0.24 per share of Class A common stock. We also declared a dividend of $0.20 per share of Class A common stock, which will be paid on June 5th to holders of record as of May 25th.

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

Jon Winkelried^ Thanks, Gary. Good morning, everyone. Earlier today, we made a very important announcement. TPG has agreed to acquire Angelo Gordon, a fully integrated and scaled multi-strategy alternatives platform in credit and real estate, with approximately $73 billion in AUM and $50 billion in fee-earning AUM at the end of 2022. This transaction is highly compelling and advances our position as a diversified global alternative asset manager. We've been focused on strategic diversification since our IPO, and we believe Angelo Gordon puts us in a strong position to continue delivering growth and scale.

We have a lot to cover this morning, so Jack and I will briefly review our quarterly results before discussing the Angelo Gordon transaction in detail.

During the quarter, the timing of fundraising and deal activity continued to be impacted by market volatility and increased macro uncertainty. However, we've navigated through similar dynamics in prior cycles and continue to feel very good about our long-term growth trajectory, particularly with the addition of Angelo Gordon. We raised $27 billion of capital over the last 12 months and $2 billion in the quarter in a challenging fundraising environment. The $27 billion represents a 9% increase over the last 12 months ending first quarter 2022, while fundraising in the industry was down 11% during the same period.

We continue to engage in robust, high-quality conversations with clients around the world. Interest remains strong, but timelines for capital commitments across the industry have been elongated. Similar to what you've already heard from other alternative asset managers, we believe near-term fundraising will remain difficult for the industry, and Jack will discuss what this means for our funds. It' still too early to know how long the remainder of our current flagship campaigns will last, but we will make thoughtful decisions around the timing of our final closes.

As discussed broadly across the industry, deal activity in the first quarter was slow. We deployed $2 billion in the first quarter and $14 billion over the last 12 months. However, we've recently seen a significant pickup in our deal pipelines and our investment committees are very active. TPG's long-term, patient and sector-driven approach to investing is well suited for this environment. We believe the intellectual capital and ecosystems we built around our core themes, along with $43 billion in dry powder, leave us well-positioned to capitalize on unique deployment opportunities. This includes an increasing proportion of corporate carve-outs, take privates and proprietary partnerships, and we've recently signed a number of differentiated deals.

In TPG Capital, we agreed to carve out Elite, a provider of financial and practice management solutions for leading law firms, from Thomson Reuters Corporation.

We also announced the acquisition of OneOncology in partnership with AmerisourceBergen. This is an example of a creative, proprietary corporate partnership from our leading healthcare franchise, and the transaction includes a unique structure with significant downside protection.

In Capital Asia, we announced an investment in Manipal Hospitals, the second largest pan-India healthcare services platform, out of our current fund after originally investing from TPG Capital Asia VI in 2015. This investment was done alongside the company's founder and Temasek, both of whom were eager to bring in TPG for the next leg of value creation, given our track record of driving significant growth over the last eight years.

Our impact platform continues to deploy capital at a healthy pace. Rise Climate and the Rise Fund recently invested in Palmetto Clean Technology, a fast-growing rooftop solar platform in the US. Rise was also the lead investor in the latest round of funding for Ohmium, a leader in the development and the implementation of hydrogen electrolyzer technology.

Across our current funds, we feel very good about our solid portfolio construction and sectors, where we have strong thematic conviction and deep expertise. Our portfolios continue to perform well and in aggregate, they appreciated 3% in the first quarter and 4% over the last 12 months.

On an LTM basis, aggregate portfolio company revenue growth across all our platforms was 25%. Although inflationary pressures persist, aggregate EBITDA margins have remained stable and our companies have been able to effectively manage pricing and costs.

Realizations across our platforms were more than $2 billion in the first quarter and $13 billion over the last 12 months. Given the long-dated nature of our capital, we will be very targeted and deliberate around monetizing investments during this part of the cycle. We've prepared for this type of environment in our underwriting and believe now is an opportune time to continue building value and driving growth in our portfolio companies.

Now Jack will spend a few minutes on our financial results.

Jack Weingart^ Thanks, Jon. Good morning, everyone.

At the end of the first quarter, we had assets under management of $137 billion, which is up 14% year-over-year. This was driven by $27 billion of capital raised and value creation of $3 billion, partially offset by $13 billion of realizations during the last 12 months. Fee earning AUM increased 23% year-over-year to $79 billion at the end of Q1. AUM subject to fee earning growth totaled $13 billion.

Before I walk through our financials, I want to call out a few quarter-specific factors that impacted our first quarter results.

First, the stepdown of our predecessor Asia Fund, which resulted in a one-time step down in management fees of approximately $9 million during the quarter.

Second, an unusually light quarter in our capital markets business, resulting from the timing of our investment activity. As a reminder, in Q4 of last year, we highlighted that our transaction fees of $45 million were unusually high. We believe that the average of these two quarters of approximately $20 million to $25 million represents a normalized quarter for our transaction fees.

Non-Core expenses totaled approximately $11 million, primarily related to diligence, legal and accounting work in connection with our acquisition of Angelo Gordon. This resulted in a one-time reduction in our distributable earnings for the quarter, which is reflected through our realized investment income and other line item.

The unusually low capital markets fees plus the one-time M&A expenses caused our distributable earnings to be approximately $30 million lower than they would have otherwise been during the quarter.

That being said, first quarter management fees of $248 million increased 22% compared to the year-ago quarter, and were relatively unchanged from Q4'22. This is due to the one-time stepdown of the prior Capital Asia Fund that I just described.

Total fee-related revenue was $265 million in Q1, a 10% increase year-over-year. While transaction and monitoring fees were light in the quarter, based on the robust transaction pipeline that Jon referenced, we expect capital markets revenue to pick back up to more normalized levels over the balance of the year as our pace of deployment increases.

Fee-related earnings totaled $99 million in the first quarter, up 8% year over year. LTM FRE of $461 million notably grew 31% compared to the pro forma last 12 months ended Q1‘22. Our first quarter FRE margin of 37% was impacted by lower capital markets revenue as well as the Asia step down. Given the inherent fluctuations in capital markets activity quarter-to-quarter and the one-time nature of the step-down, we believe that our run rate FRE margin is better represented by our margin over the last 12 months, which was 42%. This is in line with our full year 2022 results, and a 335-basis point improvement from the pro forma last 12 months ended Q1‘22.

We continue to be very disciplined around cost management and are working toward our 45% margin target, which we believe we remain on track to hit by year-end for TPG on a standalone basis. I'll touch more on the impact of the integration of Angelo Gordon to our free margin in a few minutes.

We ended the first quarter with $709 million in net accrued performance allocations, which is a 10% increase from the fourth quarter of 2022. After-tax distributable earnings for the first quarter were $88 million or $0.24 per share of Class A common stock and $589 million over the last 12 months. We announced a quarterly cash dividend of $0.20 per share of Class A common stock representing 85% of our after-tax distributable earnings.

Moving on to an update on fundraising. We raised $2 billion in the first quarter, as Jon mentioned, and $27 billion over the last 12 months. Notably, in the first quarter, we completed the final close of our highly successful campaign for TTAD II, our technology adjacency fund. We raised an aggregate of $3.4 billion for TTAD II, more than doubling the size of the inaugural fund. We believe the strength of TPG’s brand, client relationships, investment style and returns continue to stand out among alternative asset managers.

As Jon mentioned, we have strong ongoing engagement with both new and existing LPs. However, we set our original flagship fundraising targets under different market conditions. We still expect each fund to grow compared to its predecessor, but in aggregate, they may not grow as much as we previously expected. We've already been managing the business with this in mind as you can see from our cost discipline in the first quarter.

To dimensional this for you, I would note the following:

- Across our flagship funds currently in market - TPG IX, Healthcare Partners II, Asia VIII and Rise III - our original targets totaled $27.5 billion.
- While it’s still too early to tell what the outcome of each fundraise will be, we're currently managing the business assuming we'll raise an aggregate of approximately $23 billion to $24 billion, which would represent greater than 10% growth over the aggregate predecessor funds.

- This implies we would need to raise approximately an incremental $7 billion across these four funds. Based on our strong pipeline of LP engagement, we have confidence in our ability to achieve this outcome.

Finally, we continue to make good progress capitalizing our new strategies, including TPG NEXT, Life Sciences and TRECO, our real estate credit fund, as well as preparing to launch our first climate infrastructure fund. We expect to have a further update on these organic initiatives in the coming quarters.

Given the significant fundraising headwinds, I want to acknowledge the strong progress we've made in our campaigns and the considerable growth in our fee-earning AUM. We have a near-record level of dry powder available to invest in growing pipelines and increasingly interesting opportunities across our platforms. So, there's a lot to look forward to.

Now I'll turn the call back over to Jon to talk about the Angelo Gordon transaction in greater detail.

Jon Winkelried^ Thanks, Jack. Since our IPO early last year, we've consistently signaled our desire to drive continued growth and diversification through both organic initiatives and strategic transactions. We always seek to build long term shareholder value, and we have been focused on scaling our existing platforms and providing a broader array of high-quality investment solutions to our clients. We believe the Angelo Gordon transaction delivers on these objectives.

We've been seeking a platform that we believe will generate strong returns for our limited partners. Angelo Gordon has done that historically, as evidenced by their proven investment track record and significant recent AUM growth, and we believe they are well positioned to continue delivering attractive risk-adjusted returns going forward.

Assuming TPG and Angelo Gordon had been combined at the end of 2022,. we would have had approximately $208 billion of total AUM and $128 billion of fee-earning AUM, with approximately 1,800 employees located in 18 cities around the world. We expect this transaction to be mid-to-high single digit accretive on an FRE and after-tax DE per share basis in 2024, before any revenue or cost synergies.

The acquisition of Angelo Gordon, with its scaled credit and real estate businesses, is directly on target with our strategic objectives to further diversify and unlock new avenues for growth and innovation in attractive and complementary asset classes.

- First, Angelo Gordon's $55 million Credit platform brings significant momentum to TPG in what is widely recognized as a multi-trillion-dollar market opportunity in credit investing. This business has grown AUM at a 15% CAGR from 2017 to 2022. Importantly, this growth is diversified across four major scaled strategies along the credit spectrum, including corporate credit and special situations, direct lending through their Twin Brook Business, and structured credit. Angelo Gordon's credit platform is not concentrated within a single product, but rather offers multiple compelling paths for growth as we look ahead.

- Second, Angelo Gordon's $18 million real estate platform has also demonstrated strong momentum, with AUM growing at 14% a year over the last five years and is very complementary to our existing, fast-growing platform. The combination with Angelo Gordon will expand our current real estate presence in Europe, open new geographies with their business in Asia, broaden our product set to include strategies such as net lease and enhance our global sourcing capabilities. Combined, we will have meaningful scale with $38 billion of collective real estate AUM as the as of the end of 2022.

We believe this transaction offers multiple ways to accelerate growth. There are clear synergies with our core investment processes and deep combined sector knowledge. We also see numerous opportunities to expand our product set by offering joint new strategies to a much larger client base that has minimal overlap.

In addition to attractive growth opportunities, this transaction significantly diversifies TPG with Angelo Gordon. Our strategies outside of private equity increase as a percentage of our total AUM by 30 percentage points from approximately 20% to half our total AUM. Our institutional client relationships will increase more than 60% from 550 to approximately 900, and we will have the ability to offer them a broad range of products across 27 total strategies.

From a cultural standpoint, we've been very focused and deliberate about identifying a firm with a culture and approach to doing business similar to ours. We first met with the Angelo Gordon team over a year ago and since then have spent a considerable amount of time building relationships and getting to know one another. What stood out from the beginning was the close and unique alignment of our two firms.

Since our first meetings in early 2022, Angelo Gordon's distinct culture came through and it was consistently reinforced in our regular interactions over the last year. The culture at Angelo Gordon is entrepreneurial, collaborative, nimble and respectful. They approach the business with high ethical standards and a strong commitment to ownership and accountability. We've really enjoyed getting to know them, and it's clear that Angelo Gordon's culture is strong and highly complementary to everything we do at TPG.

We also share similar histories. TPG and Angelo Gordon were both founded more than 30 years ago and have evolved in similar ways, transitioning from founder-led businesses into leading next generation firms. Both firms place a strong emphasis on business building and innovation, which is evidenced by the significant growth each of us has experienced in recent years.

Between our two firms, we've launched 13 new products over the last five years, and we've already had extensive conversations about the many types of businesses and strategies we can create together. The Angelo Gordon partners joining us have been at the firm for an average of 13 years, and we admire the outstanding business they built. Importantly, this transaction is structured to create long term alignment between TPG and Angelo Gordon. Non-founding partners and Angelo Gordon will receive approximately 85% of their consideration in equity with multi-year vesting and lockup provisions. This ensures alignment between our respective teams that are coming together as one firm as well as with our LPs and public shareholders over the long term.

Finally, we both have a deep bench of extremely talented and dedicated employees, and we believe the combination will create exciting new opportunities for our combined team going forward.

On Slide 7 of the investor presentation, you'll see an overview of the favorable long term dynamics driving growth in credit investing. The markets have been experiencing a multi-decade trend of non-bank lenders stepping in to fill the void created by the retrenchment of traditional lending sources. At the same time, the continued scaling of private equity has increased demand for flexible and alternative financing solutions. And, following a prolonged period of low interest rates which drove institutional investors to search for yield, alternative credit has become a core component of institutional portfolio allocations. As a result, credit has been growing at a steady pace and this is projected to continue well into the future.

Slide 8 provides a high level overview of Angelo Gordon. The firm was founded nearly 35 years ago, and currently has more than 650 employees, including 245 investment professionals, located in 12 offices around the world. Angelo Gordon has built a scaled alternatives business with a broad spectrum of investment strategies across both credit and real estate. Based on their strong investment track record and focus on innovation, over the last five years, they have generated significant growth, doubling AUM and fee AUM $73 billion and $50 billion, respectively.

Slide 9 highlights the broad spectrum of alternative solutions we'll be able to provide to our clients following the combination of TPG and Angelo Gordon. As you can see in the chart on the left, the combined entity will have a much broader suite of investment strategies across a number of asset classes. In addition, the right side shows the transaction will substantially expand our offerings to target a wider range of risk and return profiles.

On Slide 10, we highlight the strategic rationale and benefits of this transaction.

- With a broader spectrum of investment strategies, we will be an even more compelling partner and solution provider for clients globally. Additionally, we will be able to offer customized, multi-asset class solutions that include credit, real estate and private equity.

- Looking at the client bases of TPG and Angelo Gordon, they are highly complementary. This provides us with a substantial opportunity to expand our respective relationships across a broader range of platforms and strategies. Upon the closing of this transaction, we expect to have more than 900 combined institutional LP relationships that will be well diversified by both geography and channel, and there is minimal overlap between the two client bases. Only around 10% of our relationships are currently shared.

- The combined company will benefit from shared intellectual capital, including sector and investing expertise, broader deal sourcing and the support of robust infrastructure. We expect this will drive enhanced opportunities for growth, business expansion and product development.

- With a broader base of clients and investment strategies, we believe the combined company will be well positioned to expand our distribution capabilities in high-growth channels such as insurance, high net worth and retail.

We're incredibly excited to bring our businesses together. I want to thank Josh and Adam and the broader teams at both TPG and Angelo Gordon who have put in countless hours over the last year to make this happen. Of course, there's still a tremendous amount of work in front of us to execute on what we've outlined here today. This has been an extraordinary team effort, and I know I speak for the entire leadership team of both organizations in thanking all of you for your partnership, execution and continued focus.

I'll turn the call over to Josh and Adam to make a few comments.

Josh Baumgarten^ Thanks, Jon. I'm very excited to finally get the opportunity to discuss the transaction with you all today. It's been a long year.

Today marks a major milestone for Angelo Gordon. It's truly a testament to the team and the business we have built over our nearly 35-year history. I'm very excited to be speaking with you all this morning. And I'm going to briefly discuss why this is the opportune time for a combination with TPG and why TPG is the ideal partner for us.

As many people know, we're seeing a steady shift in the dynamics across our industry. Access to LP capital is more competitive today than ever before, and many LPs want to build larger strategic relationships with more established best-in-class managers who offer a diverse set of products. There's no doubt today that there's a clear competitive advantage in scale and diversification.

Now as a firm, we've reached an inflection point where we're now routinely competing with some of the largest alt managers in the world on a daily basis. We have big ambitions with the firm’s talented professionals who are focused on delivering for our LPs, and smart and strategic growth is an absolute imperative. We have the brand, the people and the solution set to continue to grow and drive performance for our clients. But at the same time, we've always had an eye towards strategic opportunities that would expand our capabilities and product offerings.

Importantly, our firm was not for sale. However, given what we want to accomplish and after our meetings with our new partners at TPG, we recognized the opportunity and unique power of this combination. We knew that in any decision we made, we would remain uncompromising. And our deep commitment to a firm culture of collaboration, an investment philosophy built on fundamental research and downside protection, and an unwavering focus on our clients. We believe the combination with TPG reflects all of these commitments and also delivers significant opportunities for all of our employees.

I'm now going to turn the call to my partner, Adam Schwartz.

Adam Schwartz^ Thanks, Josh. Good morning, everyone. So we believe that this is a transaction that will strongly deliver benefits of scale, diversification and opportunity for both firms. TPG will bring expanded investment capabilities, significant industry and domain expertise and a broad and deep base of LPs, all of which we believe will help accelerate and expand the trajectory of Angelo Gordon.

Consistent with Jon's comments, I want to reiterate that we are confident that the combination represents a strong strategic and cultural fit. When the transaction closes, TPG and Angelo Gordon will join to form a leading investment platform with a shared philosophy of firm culture, investment excellence, and delivering for clients. And importantly, our firms are entirely aligned on achieving growth through performance.

Our investment teams will have the opportunity to leverage TPG's deep industry and sector expertise in areas such as healthcare, technology, internet and digital media, consumer and business services. And the scale of the combined platform will enhance our access to capital, unlocking new opportunities to expand our deal pipelines and driving performance for our LPs.

With the power of our combined platform, we will be able to pursue new solutions for our clients across the risk and return spectrum by leveraging our individual and collective investment capabilities and approaches.

Ultimately, this transaction is about growth and capitalizing on our collective momentum in order to do more together. Our priority is focusing on execution to realize the opportunities that we are confident exist, which ultimately will be a positive, as Josh said, for our people and our clients. Josh and I spent a lot of time with Jon, Jack, Jim, Todd, Anilu and many others at TPG over the last year. It's been a great team effort getting to this result today. We are very excited about this partnership and how our businesses fit together. We couldn't be more enthusiastic about joining together with them to drive growth and create significant long term value.

Jack will now walk through the transaction details and the financial benefits.

Jack Weingarten^ Thanks, Adam. As you can tell, we're all looking forward to working together as partners. I'll close out our prepared remarks by reviewing the financial impact of this transaction. We're acquiring Angelo Gordon in a cash and equity transaction valued at approximately $2.7 billion based on TPG’s share price as of Friday. This includes approximately $970 million in cash and up to $62.5 million common units and RSUs of TPG, which represents approximately 16% of the equity of the combined company.

We believe the transaction has been well structured to ensure a clear alignment of interests. Angelo Gordon's active partners will generally receive 85% of their consideration in equity, while the founders of Angelo Gordon will receive 90% of their consideration in cash and 10% in equity. The unvested common units and RSUs that the Angelo Gordon non-founder partners are receiving will generally vest ratably over a five-year period with a full lockup during the first year post closing.

Importantly, a portion of Angelo Gordon's equity consideration will be distributed to its employees, creating broad based employee ownership. This is similar to the IPO award given to TPG employees when we went public, ensuring everyone is a shareholder and directly benefits from the growth of the business.

This transaction also includes post-closing contingent consideration, which is valued at up to $400 million. This earnout is based on Angelo Gordon achieving certain fee related revenue milestones in 2026 and if earned, will be paid out in 2027. In order to receive 100% of the earnout, Angelo Gordon will need to grow its annual FRR by 16% per annum through 2026, and TPG will have flexibility to determine the cash and equity mix used to fund any earnout payment due.

Consistent with our business model, the transaction has been structured so that 20% of performance allocations generated by Angelo Gordon's funds will flow through to TPG operating group, with public shareholders receiving their customary proportion.

Upon closing, Angelo Gordon will become a new significant investing platform within TPG. In terms of management, Angelo Gordon's co-CEOs, Josh and Adam, will become co-managing partners of the platform reporting directly to Jon. It's expected that Angelo Gordon's other executives and senior management will continue in their current roles upon the closing of the transaction. Finally, a senior Angelo Gordon partner will also join TPG’s Board of Directors.

Looking briefly at the pro forma financial impact, as Jon mentioned, we expect this transaction to be mid-to-high single-digit accretive to TPG's FRE and after-tax DE per share in 2024, and that's before any revenue or cost synergies that we may realize. We'll provide more specific financial disclosure around the time of close, but in the meantime, I wanted to provide the following framework.

- At the end of 2022, Angelo Gordon's fee-earning AUM was $50 billion. This FAUM has more than doubled over the past five years, growing at a 17% CAGR.
- The average fee rate for 2022 was approximately 85 to 90 basis points across all real estate and credit funds.
- Additionally, I would note that several of their core credit products pay fees on drawn capital only. Due to their strong recent fundraising momentum, Angelo Gordon had AUM not-yet-earning fees of approximately $11 billion at the end of 2022. As they invest this capital, it will flow into FAUM and begin paying management fees.
- Next, Angelo Gordon has been pursuing an expansion of their FRE margin, much like TPG. Given the firm's recent growth and investment in their business, they’re earlier in their execution and the process of realizing operating leverage and margin expansion. We expect Angelo Gordon's FRE margin on a standalone basis in 2023 to be in the mid to high 20s. Post-closing, we expect our combined FRE margin to blend down to the high 30s, creating an opportunity for us to resume our margin expansion, benefiting from operating leverage across a much larger base of fee-related revenue as we integrate and scale the businesses.
- Finally, on PRE, as I mentioned, we're acquiring 20% of historical and go forward carried interest across Angelo Gordon's funds and expect to flow this through to TPG

shareholders. At the end of 2022, Angelo Gordon had accrued but unrealized carried interest of approximately $760 million. So the 20% applicable to TPG shareholders was approximately $150 million. This will be additive to the current TPG balance of $709 million.

In terms of funding the cash portion of the acquisition at close, we expect to use our current cash balance and undrawn revolver. Upon completion of the transaction our leverage will remain conservative and we'll have ample liquidity and significant financial flexibility.

Lastly, the transaction is subject to customary closing conditions, including Hart-Scott-Rodino, international regulatory approvals and other client and third party consents. The transaction was unanimously approved by TPG's Board of Directors and is expected to close in the fourth quarter of this year.

Before I turn the call back over to the operator so we can take your questions, I'd like to echo Jon, Josh and Adam's enthusiasm for this transaction and thank everyone at TPG and Angelo Gordon for helping us reach this milestone. We look forward to building a great combined business together in the coming years. Ashley, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We will take our first question from Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr^ Hi. Thanks very much.

Jack Weingarten^ Hey, Glenn.

Glenn Schorr^ Hello. So I guess I'll go with thank you for the FRE margin, but I'm getting hit up by some people asking what was FRE? What was DE? What multiple do you feel you're paying for this business you bought? I understand all the synergies. And then maybe with a 90% cash payout to the founders, maybe talk about any lessons learned from the past experience with Sixth Street and how you went about this transaction and structuring it to keep both sides engaged. Thanks so much.

Jack Weingarten^ Yes. I think, Glenn, the intent in providing the roadmap I did on the financial information was to give people enough data to kind of calculate what they believe FRE is for the business. We're not disclosing an acquisition multiple, but hopefully the framework helped. And I would add that we feel like we paid a fair value for the business and we feel good about the buy-in price.

Jon Winkelried^ Glenn, I think there's a couple of things as it relates to the structure of the transaction and I guess lessons learned. Importantly, Angelo Gordon is joining the firm as another platform of ours. You know how we're structured with respect to the various platforms of the firm. And Angelo Gordon is coming into the firm as another significant platform of the firm, managed and run consistently with the rest of the platforms. Governance structure is the same.

Control structure is the same. And as you might recall, when Sixth Street was part of the platform it was really operating as kind of an independent entity underneath sort of the umbrella.

And so from the very start, it's really being structured in a different way. And we're all collectively, ourselves and Angelo Gordon, are enthusiastic about doing that. I think we also structured the consideration in a way where I think, as you heard, that other than the two founders, the estate of John Angelo and Michael Gordon, the rest of the team that's coming on board is coming on board with about 85% -- approximately 85% -- of the consideration in equity. And I think that I can -- I won't speak for my two new partners here who are here, but they can talk about their desire to own the stock and the desire of the rest of their team to own stock.

Josh Baumgarten^ Yes, for the non-founding partners, it was very critical in terms of the consideration mix to receive as much equity as we possibly could for obvious reasons, alignment reasons, but also, we all want to contribute and participate alongside the combined growth that we expect -- to offer the TPG platform. So the equity as part of the consideration was absolutely critical to all of us.

Adam Schwartz^ And I would just add that the majority of the consideration is going to the non-founder partners. So the redeeming founders or a minority interest -- were a minority portion of the consideration.

Operator^ And we will take our next question from Ken Worthington with JPMorgan.

Alex Bernstein^ This is Alex Bernstein on for Ken Worthington. Congrats on the transaction. You mentioned the $55 billion in AUM for Angelo Gordon credit's business. Can you give us any sort of rough breakout around the size of the CLO, direct lending, and structured credit businesses. And then maybe in direct lending specifically, just given the expected big opportunity set there in the market more broadly, can you talk about what portion of value is sponsor and non-sponsor driven?

Josh Baumgarten^ Sure, I'm happy to grab that. So the $55 billion of credit that's broken down broadly to I guess we think about it as pretty significant sectors, about $22.5 billion is going to be in corporate credit and multi-strategy, the two biggest components of that would be about $13 billion in our Credit Solutions business, about $8 billion in our performing loan, or CLO business. Next to that, as you mentioned, in our lending business, Twin Brook, about $18.5 billion in terms of AUM. And then lastly, from our structured credit business, about $14.2 billion.

To your second question on the lending, Twin Brook and all of its AUM is 100% sponsor-backed. So we are serving borrowers in the lower middle market, generally sub $25 million in EBITDA, but will be sponsor-backed opportunities.

Jack Weingarten^ I would say -- it's Jack. We agree with your comment that there's real significant opportunity in the direct lending area. For those of you who know, the Twin Brook brand is an excellent, excellent business focused very sharply on the lower middle market space, as Josh mentioned, lending to companies with below $25 million EBITDA and we see a real opportunity to scale the business into larger company lending.

Operator^ And we will take our next question from Craig Siegenthaler with Bank of America. Please go ahead.

Craig Siegenthaler^ Hey, it's Craig Siegenthaler. Good morning, Jon, Jack, hope everyone's doing well. And congrats on finding your credit manager. So my first one is on your existing portfolios, especially in the capital business. We all know the economic backdrop is getting a little more challenged. It's also not surprising to see that we're starting to see some defaults emerge across private markets. I want to understand how you think about it. Are you expecting to see a larger number of defaults if the economy deteriorates into the second half? And as you construct your portfolios with 15 or 20 portfolio companies per fund, how do you plan for defaults and funds? And is it common to have one or two in a fund, which of course is offset by multiple stronger performing investments?

Jon Winkelried^ I think Todd's going to give you some color on that.

Todd Sisitsky^ Thanks, Craig. I think your point that there are a lot of conflicting signs of the economy is certainly very well taken. And we're spending a lot of time sort of looking not only at results, but leading indicators for our companies.

I would say that so far we feel quite good about the performance of our, and you asked specifically about the private equity side, so I'll focus on that. If you look across our private equity platforms with Capital, Asia, Growth and Impact, our average LTM growth is sort of mid-20%. And that's probably on the high side for the fact that most of our companies are scale companies. But I think it really speaks to the strategy that we have.

We're very sector focused. We focus a lot of time just in a -- in a forward-looking way to try and figure out how to make sure we're in the right neighborhoods. And then we spend a lot of time trying to develop some of the interesting proprietary opportunities that Jon went through earlier in the call.

So we are cautious about the overall environment in which these companies are operating, but we feel like we've been pretty well served by virtue of where we sit and the spaces we're in and the level of conviction we built up in most cases over many years in studying the spaces and building relationships with the Chief Executive Officers and other executives.

To your second question, in the large-scale investment areas that we focus on, which is the vast majority of what we do in private equity -- we certainly think of it as a portfolio, but we focus on concentrating in companies in areas we really have conviction about. And we really do not focus on the idea of taking long shots that might end up defaulting. We really want all of our companies to succeed.

That's not to say that in in retrospect, that some will underperform because that's always the case in any portfolio that they will. But we are not looking for two or three home runs to offset some laggards. Our focus is really trying to generate strong risk-adjusted returns across the portfolio in companies and in spaces where we have deep conviction.

And so far, as Jon said, we had a nice -- despite the volatile market -- tick up in valuation this quarter. And that really reflects the fact that, as I said earlier, we have very strong underlying growth in the portfolio even, through bumpy times.

Jon Winkelried^ I would just add to your question that the reason why our two new partners are sitting here next to us is because in this cycle that we're going into, whether or not we have a recession or not, one thing that's obviously very different than the last kind of recession cycle that we went through is that interest rates now are meaningfully higher. The term structure is meaningfully different than it was back in the GFC, when we had essentially near zero interest rates, and refinancing stresses were very different and the realities of that were very different.

So we're in a different kind of environment right now and I think that environment creates a lot of opportunity. I mean, we have to manage our portfolios on the private equity side, like Todd described, and we do that. And that's core to our business. But we also foresee a tremendous amount of opportunity, whether that's triggered by default or whether that's just triggered by capital structure, rebalancing or refinancing, we expect to see a number of interesting -- we're seeing a number of interesting opportunities across capital structures. So the Angelo Gordon team obviously is going to create a really nice strategic fit as it relates to capitalizing on those opportunities.

Operator^ And we will take our next question from Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell^ If I can ask -- maybe if I could squeeze the two-parter in here, just quickly on the closing approvals for international, if you could just touch on which markets and which regulators, that would be. And then, as we think about the FRE margin profile -- again, this excludes the synergies, like you said, but how are you thinking about aligning those -- the FRE margin between the two -- I guess -- I guess the AG platform versus TPG, is there -- are there easy structural things to eliminate to bring that margin up, or is it more of a longer term project?

Jack Weingart^ Yes. Brian, on the -- let me start with the FRE margin. On the FRE margin, as I mentioned, Angelo Gordon has been expanding their operating margin and on a standalone basis would have seen continued operating leverage as they scaled each of the businesses we talked about. They're earlier in that journey, so they're in the high 20s today.

We see it as a real opportunity, and you've seen our discipline in expanding our FRE margin toward our own 45% target. On a combined basis, we believe that over the coming years, there's no reason we shouldn't get to a higher number together than we would have by ourselves with a larger platform scaling over time.

We're not providing a specific target date for any FRE margin until we get a little bit further into the integration of the businesses. But we do see a real opportunity.

This is not a transaction that's premised on immediate cost takeout. We see real opportunity from growing our businesses faster together. We'll certainly find some cost, but it's really premised more on faster growth and operating leverage.

Jon Winkelried ^ Brad - can you respond to the regulatory question?

Brad Berenson ^ Yes, I'm happy to, Jon. There are a number of foreign regulators from whom we will need to seek approval. We're not anticipating any difficulties or unusual problems with any of them. The one that we expect will take the longest just based on how transactions are being processed around the world right now is the FCA in the U.K. but there are several others given the global nature of our business and Angelo Gordon's business.

Gary Stein^ That was Brad Berenson, our General Counsel.

Operator^ And we will take our next question from Michael Cyprys with Morgan Stanley.

Michael Cyprys^ Congratulations on the deal. Just with Josh and Adam on the line, I was just curious if they wouldn't mind sharing their perspective on what they see as most differentiated with Angelo Gordon in the marketplace versus others? And if they could maybe also elaborate on the approach to sourcing of investments that they take on the credit side?

Josh Baumgarten^ I'll start on the credit side. And then particularly the last question, from a sourcing perspective, we've taken a very deliberate pivot from our brand over the past couple of years. Traditionally, people knew us as a sharp elbowed distress investor. We since pivoted that to more of a partnership approach, where we are doing our best to actively work alongside of the companies or private equity sponsors, of asset owners to solve their capital needs and what we've seen in particular over the past two to three years, is an explosion in terms of origination as a result, people want to come to us because they know we are trying to work with them across all of our different business lines.

And I would say, as Jon mentioned earlier, from an opportunity set perspective, while we're not seeing much in the way of distress in our portfolio, frankly, in the markets, what we are seeing is a significant increase in terms of origination opportunities that are significantly greater than our capital base today. And that's one of the things we're so excited about partnering with TPG is working with them, working with their clients to create new solutions for all the opportunity we're seeing. But I would just say the partnership approach has yielded massive, massive improvements in terms of our sourcing activity.

Jon Winkelried^ Yes. Let me just add to that when we first engaged with our new partners at Angelo Gordon, I think one of the things that we were focused on is that if you listened to Josh before, described the distribution of strategies on the credit side across Angelo Gordon, it's clear that they've grown themselves in an approach where they're attacking the credit markets with multiple disciplines, they have the direct lending business, they have the opportunistic business, they have structured credit business, multiple, multiple angles in terms of attacking the opportunity.

As we got more familiar with the platform, in some respects, it reminded us a little bit of our approach on the private equity side, where we've grown in a number of different strategies. We've never necessarily kind of maxed out in one particular fund or the size of one particular fund, if you remember when we took people through that at our IPO. But rather, we had grown our pools of capital laterally with step-out strategies, trying to take advantage of the ability to grow over time through multiple vehicles because, obviously, none of us know exactly where the flows are going to go or where the real opportunities are going to be. And so it creates a nimbleness in terms of being able to raise capital and also attack the market opportunity.

And in the environment that we're in right now, what I think was different about the Angelo Gordon platform relative to other platforms we actually met with, because we met with a number, is that it wasn't a monoline business. It wasn't just focusing on one aspect of the market, let's say, like the direct lending opportunity, it was focused across the range of opportunities. And over time, as the platform pivoted, as Josh just described, what they did is they invested heavily in their business. They went out and attracted a cross section of new people and new talent.

Josh originally came from Blackstone, a number of other people on the platform did. And so from the credit -- just focusing on the credit side, this pivot that Josh mentioned from sort of the distressed world into a kind of a multi-strategy role within credit was something that was very attractive to us, and it's differentiated.

If you look along -- throughout the market and you say, what are different credit managers doing and who has approached the market in this multi-disciplined approach and as a result of that, who has some kind of minimal scale level in terms of the size and scale and kind of balance in the platform. There are actually not that many managers that have actually successfully done that and they've reinvested heavily in the business just like we did in approaching our IPO. And so obviously, that has margin consequence to Jack's point before.

But once you hit that point of being able to really scale the platform, which we think we'll be able to do on a combined basis, we have a lot of confidence that we'll be able to accelerate growth.

Operator^ And we will take our next question from Finian O'Shea with Wells Fargo Securities.

Finian O’Shea^ Congratulations as well. Can you touch on what Angelo Gordon brings in terms of the retail channel for fundraising. And then also, Jack, you mentioned that you would work to grow Twin Brook from its lower middle market orientation to a large market. How quickly can that happen? Is that immediate or sort of a multi-year journey?

Jon Winkelried^ You want to talk about retail first, yes. A little bit where you are now.

Josh Baumgarten^ Sure, just briefly. Yes. On the retail side, our retail and intermediary distribution side, it's been a key area of focus for us. We have significant retail exposure in a number of our open-end fund and more recently increasing our closed-end fund structures. It's actually one of the areas that I think, from a client side perspective, that both ourselves and TPG highlighted a real need to lean in there and get more exposure to that channel. And I think we're going to be working on that together very early on.

Jon Winkelried^ I mean, on that topic, the combined brand between the two firms, obviously, and our ability to deliver product to our retail channel partners is greatly enhanced by this transaction. I mean we're -- I think as you know, we're already distributing our private equity products through the channel consistently, essentially in every capital raise we do, we have a channel partner that's taking us to the market in that. What we don't have is we don't have more yield-oriented products currently. We obviously know what's been interesting to the market about floating rate, interest rate exposure through the loan business, et cetera. So we feel like this will give us a greater importance, frankly, as a channel partner. And so we're excited to expand that part of the platform.

Jack Weingarten^ Yes. I would say we are -- since we've been working together for a year now trying to create this partnership, we've already been talking to each other about new products and new structures to create to be attractive to the channel. So we expect to begin that work relatively quickly.

I'd say more broadly on the fundraising side, this has been alluded to, but when you think about the institutional mix, Angelo Gordon's current mix is almost 80% Americas across their businesses and a little over 20% international. As you all know, from the time we've spent together, we've built a very significant LP presence in some of the bigger areas internationally with growing AUM.

And we think there's a real opportunity, given the lack of overlap of our LPs to expand faster together on the institutional side as well as the retail side. On your direct lending question. As I mentioned, Twin Brook is very focused on lower middle market. They've become real differentiated in that area. I think to accomplish a scaling of that business is going to take a little time. We're going to have to raise additional pools of capital focused on other segments of the market. But we strongly believe that Angelo Gordon's got the credit infrastructure to support that buildout.

Even on the basis of the business now, by the way, I mean, if you look at obviously, I don't have to tell anybody about what's going on in the regional bank world and the contraction of credit that's continuing. I mean, it's really this year, unfortunately, it has shifted into another gear in terms of the contraction of credit, the provision of credit from the traditional banking channels. And that's going to be accentuated as a result of the regional banking crisis that's going to be accentuated for the mid-market to lower middle market.

So there's just a very large opportunity period for an established brand like Twin Brook in the lending market. So we intend to be the beneficiaries of that.

Josh Baumgarten^ And just to highlight that, in terms of being responsive to that more retail investor base in Twin Brook specifically, we've actually looked to diversify our capital structure of that business. So while we might be in the market for our traditional next series, you know, fund in the market, we're also raising BDCs and evergreen pools of capital specifically because that investor channel is demanding access to ongoing permanent capital vehicles. And we've been met there with significant success so far.

Operator^ And we will take our next question from Bill Katz with Credit Suisse. Please go ahead.

Bill Katz^ Thank you very much for taking the question and congrats as well on the transaction. Just coming back to the opportunity to grow the franchise, I think in your supplement, you talked about high net worth, retail, and insurance. I was wondering if you could maybe prioritize where you might see the growth first?

And then one for Jack. Just as you think about on the other side of the transaction, what kind of leverage are you comfortable running the franchise at and how would you think about maybe negating some of the stock dilution from the share issuance? Thank you.

Jon Winkelried^ Well, let me just touch on the opportunity with respect to additional growth and diversification of capital sourcing. We've talked about this before with everyone in terms of our franchise and our ability to penetrate retail and insurance in particular. And I think that one of the reasons that we've been focused on adding a series of new products and new capabilities is that in order to service the insurance market, I think we clearly needed to build out our product capabilities in terms of return profiles and the structural profile of these products.

I mean, if you look at what's happened in the insurance market and obviously having helped some of the insurance players fund their liabilities, it's a mix across an array of products from traditional fixed income to more structured private debt and fixed income to some higher returning private equity opportunities

So the ability to offer a cross-section of those products and customized structured solutions for insurance partners is something that we're, post this transaction, we're in a much stronger position to do. And even prior to this transaction, we've been approached by a number of insurance players that view TPG as an attractive partner because of our reputation, our history and our global brand. So this really kind of unlocks from a number of perspectives our ability to do that.

On the retail side, I mean, look, we've had a product mix at TPG that's been quite appropriate for what you would think of as high net worth, but probably not mass affluent and the retail channel. And so this simply, this is transformative as it relates to our ability to service that channel with a different type of product array.

And also the other thing that this does for us as well, which we're excited about, is the ability to bring some of our capabilities along with, for instance, the debt origination side of the business as an example in something like Impact and Climate, where there's a reasonable amount of interest and demand from retail channels and things like impact focused lending products, as an example.

We have the leading -- we're -- I mean we think of ourselves as the leader as it relates to Impact and our capabilities across that that market. And so this gives us again, several other tools in which to grow into that market with a differentiated products.

Jack Weingart^ And Bill, on your balance sheet question. As you know, at IPO, we set ourselves up with significant flexibility to accomplish something like this. We had, as I mentioned at the end of the first quarter, a little over $600 million of cash on the balance sheet. This transaction will result in us using about $450 million of that cash to bring us down to a normalized cash level of between $150 and $200 million for flexibility.

We'll also be dipping into our our $700 million revolver. So we do believe that this transaction creates a step toward a more efficient balance sheet and creates a really efficient use of the capacity we created at IPO. After this, we'll still have pretty modest leverage.

If you think about the revolver plus our existing balance sheet leverage. It will be relatively modest at kind of call it one and a half times leverage. So we continue, post this transaction, to have significant flexibility. There's no intent near-term to buy back stock to offset the dilution. We want to increase our float, not reduce our float in the near term. And as we mentioned, we're only issuing about 16% of the pro forma share base. And over time, we'll think about how to continue to use our balance sheet to create growth.

Operator^ Thank you. And we will take our next question from Adam Beatty with UBS. Please go ahead.

Adam Beatty^ Thank you. And congratulations. Just wanted to ask about revenue synergies in particular in the historically strong areas for TPG private equity and growth oriented investing. Appreciate the very small overlap with Angelo Gordon's existing LPs and just wanted to get your thoughts around how you're thinking about maybe taking some wallet share there, what -- how you would approach that, that incremental opportunity.

And also given that you have some flagships still out in the market, wondering if you are expecting any of the Angelo Gordon LPs to maybe participate in some of the fundraising this year. Thank you.

Jon Winkelried^ Yes. Well, thanks for the question. I guess yes, yes and yes. I mean, I think that when we got together with our new partners, one of the things that was really interesting and almost to some extent surprising was that we have modest overlap in terms of our LP basis. And I think that that presents a real interesting opportunity for us to both introduce one another to important relationships that we both have.

And before we did this, before we announced this transaction, I think you're probably well aware that on the last, I don't know how many earnings calls we've had now, but six; on the last six earnings calls we've been asked about this strategy on all six in terms of what we were doing to expand our product mix and expand our product offerings.

And consistent with that, we've probably been asked since we went public by most of our LPs how we were thinking about this part of the market. And we take our LP partnerships incredibly seriously. And one of the things that we have as a core objective is to be as strategic a partner as we possibly can be with our LP partners. And that means holistically providing multiple products, multiple return streams to our LPs.

If you're watching what's going on in our market, obviously generally there's been a concentration of capital formation among the larger alternative asset management firms in the market where we're providing -- we're engaged with our LPs across multiple strategies, strategic relationships, developing partnerships with LPs. And so the inclusion of the Angelo Gordon capabilities across credit and real estate, I think are really a great benefit to our ability to do that.

And we've already been asked by many of our LP partners, we're looking forward to once you guys solidify this partnership, we're looking forward to meeting your new partners and exploring opportunities. So that's clearly a big opportunity for us.

I can tell you that our combined capital formation groups, on a combined basis really powers up our capability there. We already, as you know, we're investing in our capital formation and our fundraising capabilities. That's been an area of focus for us. This more than doubles the size of our team. It brings other disciplines that we didn't have and other product knowledge that we didn't have necessarily within our core team.

So this expands our capability to form capital in a meaningful way. So lots of opportunity kind of back and forth between both of our respective franchises that we think will have a impact on our ability to accelerate growth.

Jim Coulter^ This is Jim Coulter. I'd say we've already this morning been in contact with trillions of dollars of capital and our partner group to let them know about this. And it was very well received. And I would note that we have a history of successfully introducing our LP base to credit platforms in a way that has been highly creative.

Operator^ And we will take our next question from Brian McKenna with JMP Securities. Please go ahead.

Brian McKenna^ Thanks. Good morning all and congrats on the deal.

So it's clearly been a tough backdrop for fundraising, specifically in private equity. But could you talk about fundraising trends in Angelo Gordon over the past year or so? And now I'm assuming more parts of this business raise capital on a more recurring basis given the mix of AUM. So how should we think about the cadence and consistency of fundraising on a pro forma basis at TPG longer term?

Josh Baumgarten^ Sure. I'll start from the credit side. We've actually had really, really solid momentum over the past couple of years. We have about 1,500 new LPs at the firm over the past five years. As it relates to credit, specifically, in corporate credit we successfully raised two vehicles throughout 2022, both of which closed above our target return expectations.

We've deployed a good amount of capital, but we have significant dry powder there to be prepared to invest in what we think will probably be the next and probably the largest opportunity set in our careers in the credit market going forward.

Twin Brook Middle Market Lending, as I mentioned earlier, we're in the market now for our traditional series of funds. And also as mentioned, we're changing the capital structure of that business to also be raising more permanent capital. Permanent capital with Angelo Gordon is $5, $5.5 billion right now. It's something that our investors are demanding. We expect it to be significantly greater as a proportion of our capital base going forward.

But right now, we have very solid momentum across our middle market lending franchise. And then going to structured credit. When people talk about private credit, it's interesting. They're talking a lot more about corporate middle market lending. But structured credit is everything in our world that touches the consumer in all different forms. And I would posit over the next five, ten years, it will be at least as big as what people refer to as a current private credit market.

It's at the most nascent stage right now. We've been in that market for well over a decade, so we expect that we are just scratching the surface and in particular what happened in March, banks are exiting this market or changing their posture in this market faster by the day. We expect that to continue. And we think we're going to be a significant leader and beneficiary there. So we're just scratching the surface in terms of structured credit and specialty finance – it’s a multi-trillion dollar opportunity. And again, we're one of the few who's been there for well over a decade.

Adam Schwartz ^ On the real estate side, I’d echo the sentiment. We're seeing very good support from investors. They're excited about this vintage for the real estate opportunity as we're all seeing day to day in the news. And so without being able to comment specifically on funds that are in the market because we are actually in the market on all of our real estate products, we are seeing strong response.

Jack Weingart^ And Brian, I'd say more -- it’s Jack, more generally, as Jon mentioned, one of the things we really found attractive just structurally about Angelo Gordon is the number of different products they have across both credit and real estate. There's a lot of monoline credit firms out there that have blown up in one category, and would come, if we had gone that direction, with much more concentrated risk around the single fundraising cycle. In Angelo Gordon's case, they've got multiple well positioned strategies across most segments of credit and therefore are less reliant upon one single fundraising cycle. And obviously on a combined basis, that does a lot to diversify our own exposure to single fund fundraising cycles. And then on the more continuous nature of fundraising, as Josh has alluded to, I think Angelo Gordon's relatively early in the establishment of the structures to enable that kind of constant fundraising. But that's one of the real growth opportunities for us together.

Operator^ And we will go next to Luke Mason with BNP Paribas. Please go ahead.

Luke Mason^ Yes. Good morning and thanks for taking my question.

It's just around the fundraising targets and I appreciate the much more challenging environment. I'm just wondering if there are any areas specifically, or funds, that are more challenged within the flagships. And then as it relates to the impact platform --

Jon Winkelried^ (Multiple speakers) Sorry. We can't hear, you’re coming through quite muffled.

Jack Weingart^ I think he was asking – is there differentiation among the flagships in terms of what's easier or harder to get raised. I think that was the question.

Luke Mason^ Yes, that was the question. Thanks.

Jon Winkelried^ Look, I'd say relative to the difficult backdrop among the flagships I talked about, we're making similar progress across all of them. All of them have good investment performance backing the fundraising campaigns, and all of them are continuing to see progress toward targets. We just think across -- so I wouldn't say one is blowing out and one struggling. They're all doing well relative to a tough backdrop. But we think it's prudent to plan for slightly smaller fund sizes as we think about our cost base. And as I mentioned on the call, we still expect in all cases that we're going to see growth versus the prior fund in each business.

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

Gary Stein^ Great. Thanks, Operator. Thanks, everyone, for joining us this morning. Please feel free to follow up with me or Evanny if you have any questions.

Operator^ Thank you. And this concludes today's conference call and webcast. You may now disconnect your line at this time and have a wonderful day.