TPG
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Corporate Speakers

- Gary Stein; TPG; Head of Investor Relations
- Jon Winkelried; TPG; CEO
- Jack Weingart; TPG; CFO
- Todd Sisitsky; TPG; President

Participants

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

PRESENTATION

Operator^ Good morning. And welcome to the TPG's First Quarter 2024 Earnings Conference Call. (Operator Instructions)

Please be advised that today's call is being recorded.

Please go to TPG's IR website to obtain the earnings materials.

I'll now turn the call over to Gary Stein, Head of Investor Relations at TPG. Thank you.

You may begin.

Gary Stein^ Great. Thanks, Operator. And welcome, everyone.

Joining me this morning are Jon Winkelried, Chief Executive Officer; and Jack Weingart, Chief Financial Officer.

In addition, our President, Todd Sisitsky, is 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.

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 first quarter, we reported GAAP net income attributable to TPG, Inc. of $16 million and after-tax distributable earnings of $181 million or $0.49 per share of Class A common stock.

We declared a dividend of $0.41 per share of Class A common stock, which will be paid on June three to holders of record as of May 20.

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

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

TPG entered 2024 with significant momentum as a result of the step-function change in scale, diversification, and earnings power we experienced last year. This was driven by three primary factors:

- One, our successful fundraises for existing TPG strategies, with vintage-over-vintage growth for our funds in TPG Capital, Healthcare Partners, Asia, and Rise. Since going public, we have completed six successor fundraises in our private equity and real estate strategies and increased fund sizes by 27% on average. I'm pleased with the strong result our teams have achieved, particularly in the face of a difficult fundraising environment.
- Two, our continued ability to innovate and grow organically into new areas such as GP-led secondaries and real estate credit; and
- Three, most notably, our acquisition of Angelo Gordon, where we expanded into credit investing at scale and doubled the size of our real estate platform.

To frame the breadth of our transformation, at the end of the first quarter compared to a year ago:

- We grew our team over 60% to approximately 1,800 professionals,

- Our number of strategies increased from 18 to 30,
- Our fee-paying AUM grew 74% from $79 billion to $137 billion,
- And, importantly, we are now more diversified, with scaled platforms across private equity, credit, and real estate. The latter two asset classes currently represent 44% of our total AUM.

I'd like to take a moment to highlight our business in Asia, where we are celebrating our 30th anniversary. Since we first started investing in Asia in 1994, we've built a multi-strategy franchise with dedicated buyout, secondaries, and real estate funds. We also actively invest in the region through our global growth and impact funds, and we've been particularly focused on markets such as India, which is one of the fastest growing economies in the world. Over the last 5 years, more than 40% of the capital we've deployed in Asia has been in India, and we've taken 8 portfolio companies public there since late 2021. In the Asia region broadly, we currently have over 250 colleagues working across 9 cities, and we recently completed several important fundraising campaigns that reflect our momentum and scale. Within our private equity platform, we held a final close for TPG Asia 8 last month. We raised approximately $600 million in the first quarter, and over $345 million in early April, bringing the total fund size to approximately $5.3 billion, 14% larger than its predecessor. In addition to this strong result in private equity, we also held final closes for two TPG AG Real Estate funds – Asia Realty 5 and our first Japan Realty Value fund. We raised more than $2.5 billion of capital in aggregate and both funds exceeded their respective fundraising targets. Looking ahead, we plan to extend our leadership position in Asia, with near-term plans for further organic growth.

Our Credit platform is also experiencing strong momentum. In 2024, we're raising capital across Credit Solutions, Middle Market Direct Lending, and Structured Credit. Since closing the Angelo Gordon acquisition in November, we've made meaningful progress introducing our respective TPG and AG clients to one another and delivering the combined platform, with a particular focus on Credit. We raised more than $2 billion in Credit in the first quarter and over $800 million since quarter end, driven by closes in Middle Market Direct Lending and Credit Solutions. Notably, through April, we've closed on approximately $1 billion for our third Essential Housing fund within Credit Solutions. Essential Housing was built to address the growing demand from residential homebuilders for bespoke land financing solutions. It's a great example of a scalable origination platform we created organically to provide our clients with a differentiated strategy and risk/return profile.

We have also been making good progress on organic growth initiatives and scaling new businesses.

- We expect our climate franchise to drive meaningful growth throughout 2024 and 2025 as we build on our market leadership in impact investing. We are currently in the market with three climate strategies:
    - The first is Rise Climate, our dedicated climate private equity strategy, which we launched in early 2021. The enormous capital needs for energy transition, combined with our focused investment strategy and distinctive sourcing capabilities, have generated robust pipelines and

highly attractive investment opportunities over the last three years. Our inaugural fund, which is approximately 85% invested and reserved, had value creation of 21% over the last twelve months. We are currently in the market with our second Rise Climate fund and are seeing strong interest from both existing and new clients ahead of an expected first close in the third quarter.

  - Secondly, we continue to innovate our climate private equity strategy through our recently-launched Global South Initiative. This is a new frontier for us, focused on driving much-needed capital to tackle the decarbonization challenge across the Global South. We announced an anchor commitment from Altérra at the end of last year and expect to raise additional capital this year.
  - And our third strategy is climate infrastructure, which we are building organically within our Rise platform. The energy transition will require a complete re-configuration of global infrastructure and we are well-positioned to become a leading provider of climate-related infrastructure capital. We continue to anticipate a successful first close for the strategy later this year.
  - Our largest and most important clients are highly supportive of our efforts in climate, and in the near term, we expect to announce additional strategic initiatives with partners that will continue to help us scale these strategies.
  - We manage $19 billion of AUM across our market-leading Impact platform today and expect to grow to more than $35 billion of AUM within two years.

- TPG GP Solutions, our inaugural European and North American GP-led secondaries fund, has completed five investments to date, and in every transaction, we're engaging in meaningful bi-lateral dialogue between TGS and the sponsor to directly negotiate the transaction ahead of a broader syndication. Over the last several months, I've met with dozens of our largest clients around the world, and the topic of secondaries, especially GP-led secondaries, has been consistently top-of-mind given the liquidity pressures across private equity today. We expect to scale this strategy meaningfully over time.
- Finally, I'd like to highlight our focus on private wealth, where we are expanding our global distribution capabilities and developing products specifically tailored for this channel. We have historically raised $1 to $2 billion of capital annually from the wealth channel, and we are focused on growing that figure by several multiples over the coming years. During 2024, we plan to raise capital for 9 products in the wealth channel, including climate, growth, credit solutions, direct lending, and structured credit. Looking forward, we plan to further expand our product set through the launch of semi-liquid funds, beginning with private equity. We believe we are well-positioned to offer retail investors differentiated products given our strong track record, distinct investment style, well-established global brand, and existing

relationships with key distribution partners. The addition of TPG AG Credit, especially TCAP – our non-traded BDC managed by Twin Brook – has accelerated our growing presence in the channel.

Turning to deployment, you might recall from our last several earnings calls that we have been accelerating the pace of deployment across our platform – particularly in private equity and real estate – for much of the past year. That trend has continued. In 2023, our deployment pace more than doubled in the second half of the year compared to the first half and has remained strong through the first quarter of 2024. We believe our robust investment activity relative to the broader alternatives space has been driven by our distinctive sector-based sourcing approach and patient, targeted strategy of developing our own proprietary opportunities, including corporate carveouts and structured partnerships. With over $51 billion of dry powder in an increasingly active market, we are well-positioned to capitalize on the differentiated opportunities that our global investment teams are sourcing.

We invested over $6 billion of capital in the first quarter and I'll highlight some notable recent activity.

- Starting with our private equity strategies, our funds are on track for a three-to-four-year deployment cycle. We continue to expect structured partnerships and carveouts to be an important source of proprietary deal flow, and are also beginning to see more sponsor-to-sponsor activity.
    - To highlight an interesting example of a corporate partnership, after quarter end our Rise and Rise Climate funds invested in Syre, a company founded to decarbonize and de-waste the textile industry through recycling at hyperscale, starting with polyester. We are making this investment together with several key partners, including H&M which entered into a multi-year offtake agreement for a significant share of their recycled polyester demand in connection with this transaction.
- Next, our Real Estate platforms ended the quarter with nearly $15 billion of dry powder on a combined basis. Our diversified capabilities, with dedicated pools of both equity and debt capital, enable us to provide solutions across capital structures globally.
    - Within our equity strategies, the higher-for-longer rate environment is continuing to create a wide range of investment opportunities that we are pursuing on a very selective basis.
        - Last month, TPG Real Estate completed the acquisition of a large office building in downtown Manhattan that will be converted into an approximately 800-unit multifamily rental property. This was a result of our broader thesis on the secular headwinds within the office market, and the opportunity to pursue office-to-residential conversions as multifamily fundamentals in New York City have been historically resilient.
        - Within TPG AG Real Estate, our net lease business is

seeing a significant increase in activity from corporate owner-occupiers looking for sale leaseback transactions. Given the cost and challenges within the traditional financing markets, many companies are seeking alternative forms of balance sheet financing. As a result, we are seeing entry cap rates at their 15-year highs. During the first quarter we entered into three separate sale leaseback transactions in highly attractive sectors which are insulated from typical economic cycles.

  - Our real estate credit strategy, TRECO, is purpose built to leverage our leading real estate platform and capitalize on what we see as the most attractive investing environment in the last two decades to provide capital solutions across the real estate credit market. We activated our inaugural fund in the first quarter and have already closed three investments which underwrite to mid-teens returns. The first investments are concentrated in the multifamily housing sector and are representative of the opportunities we are seeing as a result of elevated borrowing costs and a reduced lending appetite from banks.

- Finally, within Credit, we deployed over $3 billion across our strategies in the first quarter.
  - During what is normally a seasonally slower quarter, Twin Brook, our lower middle market direct lending business, had its busiest first quarter ever with approximately $1.7 billion of net originations. Most of this volume was driven by M&A activity from sponsors seeking liquidity within their portfolios given the improved valuation environment.
  - The pace of deployment within our asset-based lending and specialty finance strategy remains very strong as clients continue to diversify a portion of their fixed income allocations to private structured credit opportunities. During the quarter, TPG AG's first asset-based private credit fund, ABC, together with Barclays Bank announced a new lending partnership with Funding Circle to provide up to £300 million of loans for small businesses in the U.K. ABC is already more than 75% deployed and we are in the market with our new evergreen vehicle and our second ABC fund, with anticipated closes in the second half of the year.
  - Our corporate credit strategy, Credit Solutions, continued to rotate its portfolio in response to changing market conditions. In 2022, we took advantage of higher yields and lower dollar prices to deploy capital opportunistically into the public debt markets. As spreads have tightened over the last year – recently touching near five-year lows – we've shifted our focus to private opportunities where we control the economic, legal, and structuring terms. Across our Credit Solutions funds, we generated more than $2.5 billion of gross sales

over the past twelve months, achieving strong returns, and are recycling the proceeds into bespoke private financing transactions on what we believe are highly attractive terms. TPG AG Credit Solutions is well-positioned as one of the few lenders of scale, and our pipeline for deployment is robust as corporate borrowers and sponsors seek sizable creative, privately-structured financing transactions.

Moving to realizations, as we've mentioned before, we aggressively monetized our portfolio during the period of peak valuations a few years ago. Since mid-2022, we have been net buyers given the investment opportunities arising from the market dislocation. But now, as we enter a relatively more stable environment with improving valuations, we are beginning to see selective monetization opportunities. We are cautiously optimistic regarding the outlook for potential realizations as our pipeline gradually builds.

- In the first quarter we sold approximately half of Rise Climate's remaining position in NEXTracker following its successful IPO just over a year ago, and last month TPG Growth exited its investment in Onfido, a global leader in identity verification, through a sale to Entrust.
- Capital Asia closed the sale of Singlife to Sumitomo Life during the quarter, bringing to conclusion a distinctive deal for our Asia franchise, representing the first-ever private equity insurance transaction of scale in Southeast Asia.
- And just last week, we successfully took Viking Cruises public in a $1.8 billion offering, the largest U.S. IPO so far this year. We priced near the top-end of the initial range, and were able to upsize the offering by over 45% from launch due to strong investor demand. The book was multiple times oversubscribed from high-quality, blue-chip accounts. We originally invested in Viking in 2016, providing the company with its first institutional equity capital investment. We subsequently leaned-in during the height of COVID in 2020 with a significant follow-on preferred investment. This was driven by our confidence in the company's long-term differentiated positioning, and post-pandemic, Viking continues to achieve record booking levels. We are incredibly proud of the partnership we have built together.

Taking a step back, we've successfully executed across a number of growth opportunities and our platform is substantially more scaled and diversified today. Since our last earnings call, we've hosted advisory committee meetings for six of our strategies attended by nearly 150 of our LPs and I've met with some of our largest clients around the world, including a visit to the Middle East a couple of weeks ago. Given the depth of our relationships, the focus of our conversations has evolved from single strategies to engaging on cross-platform solutions and meaningful strategic partnerships. Our largest clients want to do more with us and we believe we are well-positioned as the partner of choice given our track record of delivering strong investment performance and differentiated deal flow. This is one of many clear levers we see to drive continued growth and we look forward to executing on these opportunities over time.

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

Jack Weingart^ Thanks, Jon. And thank you all for joining us today.

We ended the first quarter with $224 billion of total assets under management, up 63% year-over-year. This was driven by $75 billion of acquired AUM from Angelo Gordon, $18 billion of capital raised, and $7 billion of value creation, partially offset by $13 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 $51 billion of dry powder, representing 37% of fee-earning AUM. We also had AUM subject to fee earning growth of $25 billion at the end of the quarter, of which $14 billion was not yet earning fees.

Our fee related revenue in the first quarter was $451 million, up 70% year-over-year, primarily driven by the acquisition of Angelo Gordon. It's important to point out that, in addition to the growth attributed to AG, TPG on a standalone basis grew fee related revenue 20% organically year-over-year. Our Q1 FRR included management fees of $403 million and transaction fees of $34 million. The first quarter is typically seasonally light for new deal closings but transaction fees were strong, due in part to a number of opportunistic refinancings for our existing portfolio companies to take advantage of improving credit market conditions. Looking forward, we expect to drive further growth in transaction fees as we expand our capital markets team and integrate our broker-dealer capabilities into the TPG AG platform.

We reported fee-related earnings of $182 million for the first quarter, up 84% year-over-year, and our FRE margin was 40%. As we noted on our last call, our normalized margin has blended down through the inclusion of TPG AG, and we now have an opportunity to drive profitable growth through margin expansion. Although our FRE margin will fluctuate quarter-to-quarter due to items such as catch-up fees and transaction fees, we expect our margin to exceed 40% for the full year in 2024 as we realize operating leverage from the integration and scaling of our businesses, while also investing in growth initiatives.

Moving below FRE, we had $32 million of realized performance allocations in the quarter. While we've been net buyers over the last couple of years, we are gradually building our realization pipeline as the exit environment improves. As Jon mentioned, just last week our portfolio company Viking Cruises executed a highly successful IPO – the largest U.S. IPO so far this year. This is the largest remaining position in TPG VII, a 2015 vintage fund, and we sold approximately $675 million of equity in the offering. We continue to differentiate ourselves with our fund investors through our consistent return of capital. While TPG VII is a strong, promote-paying fund, this particular monetization will not generate promote due to the fund waterfall mechanics. We currently expect PRE to begin picking up in the back half of this year.

Our realized investment income and other line item in the first quarter included $8 million of non-core expenses related to the acquisition and ongoing integration of Angelo Gordon, a step-down from $18 million last quarter. We expect to incur a similar level of quarterly non-core expenses through the end of this year, primarily focused on IT investments to integrate our operating platforms.

After-tax distributable earnings for the first quarter totaled $181 million, or $0.49 per share of Class A common stock. Our effective corporate tax rate was lower than usual in the quarter due to the tax benefit of the first annual vesting in January of our at-IPO and ordinary service RSUs. We expect this will be a recurring seasonal factor in the first quarter of each year going forward.

Turning to our non-GAAP balance sheet, during the quarter we issued long-term bonds for the first time, benefitting from the strong investment grade credit ratings we obtained in connection with our IPO. We raised $1 billion through the highly successful issuance of 10-year senior notes and 40-year subordinated notes. We used the proceeds:

- to fully repay our revolver, which we had drawn in the fourth quarter in connection with the AG transaction,
- to fully repay our term loan, and
- to replenish additional cash on our balance sheet.

Following these transactions, our balance sheet remains conservatively capitalized with moderate leverage and ample liquidity. We ended the first quarter with more than $290 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 at the end of the first quarter was $915 million compared to $891 million in the fourth quarter. This 3% increase was driven by $56 million of value creation in our investments, partially offset by the $32 million in realized gains. At the end of the first quarter, our performance eligible AUM totaled $193 billion, or 86% of our total AUM, of which $153 billion is currently generating performance fees.

Our investment portfolio has continued to perform well. We generated positive value creation across all of our platforms for the first quarter and last twelve months.

- Our private equity portfolio, which includes our Capital, Growth, and Impact platforms, appreciated approximately 2% in the first quarter and 7% over the last twelve months. In aggregate, our portfolio grew revenue by 19% over the last twelve months and margins have remained stable.
- Our credit portfolio appreciated 3% in the quarter and 15% over the last twelve months. This performance was consistent across our credit strategies, and was driven by continued strong credit selection and low annualized loss ratios.
- TPG’s real estate portfolio appreciated approximately 4% in the first quarter and 1% over the last twelve months, and TPG AG’s real estate portfolio appreciated 40 basis points in the first quarter and 1% over the last twelve months. This positive value creation in a very challenging commercial real estate market is attributable to the quality of our portfolio construction in our core thematic areas. These defensive sectors, such as light industrial and student housing, continue to see strong secular demand growth, limited supply, and rental rate improvements.

Turning to fundraising, we raised $4.7 billion during the first quarter. Approximately $2.1 billion of this capital was raised across TPG AG Credit with nearly $1 billion in Credit Solutions and approximately $600 million in Middle Market Direct Lending. In addition, our private equity strategies raised $1.8 billion, with incremental closings across Asia 8 and Growth 6.

Looking forward, consistent with our prior guidance on fundraising:

- We continue to expect our total private equity and infrastructure capital raised in 2024 to grow compared to 2023, driven by the fundraises for Growth and Rise Climate, as well as the launch of our climate infrastructure strategy. More than 200 LPs in our Growth, Rise, and Rise Climate funds are here with us in San Francisco today and tomorrow for their respective annual meetings, providing us with a great opportunity to connect in-person and discuss our strategies in depth. Notably, fundraising for our second Rise Climate fund, which is our largest active campaign, is off to a strong start with very high levels of investor interest and engagement. We expect a substantial re-up rate among our current clients as well as new strategic partnerships, driving us towards a sizable first close in the third quarter.
- Additionally, in 2024 we expect fundraising for TPG AG Credit to exceed $10 billion, more than doubling the capital raised by the platform in 2023. As Jon mentioned, we're seeing strong interest from some of our largest LPs in engaging with us about our credit strategies, and we are excited to share more with you in the coming quarters.

To wrap up, we have a lot of growth opportunities ahead across all of our businesses. Our existing portfolio continues to deliver strong performance and we are well-positioned with substantial dry powder to deploy into an increasingly active market. We have been successfully scaling our existing businesses and investing into a number of growth initiatives that will contribute meaningfully to our business and build shareholder value over time.

Now I'll turn the call to the Operator to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We'll take our first question from Craig Siegenthaler with Bank of America.

Craig Siegenthaler^ So our question is a big picture one on the investing side of the businesses. And we're focusing on the three large legacy TPG businesses, capital impact and growth. So if you strip out Angelo Gordon, the contribution was 55% of deployments or investing activity was somewhat muted in the capital business. So how are your investment pipelines tracking in the legacy TPG businesses? Are you expecting a significant ramp in capital and growth deployments later this year? And we track a lot of the activity.

I think Classic Collisions and Olympus Terminals were the only recent announcements that could close; I think Olympus was an impact investment too.

Jon Winkelried^ Thanks, Craig. I'm going to let Todd start on that.

Todd Sisitsky^ Yes. I'll start that. Craig, thanks for the question I don't want to repeat too much of what Jon said, but just from a framing standpoint relative to the legacy businesses, we actually felt very good about the deployment pace and probably as a forward indicator, the pipeline over the past almost a year now.

I think we were earlier than some in terms of saying that we're seeing a significant pickup. And as Jon has mentioned, our legacy TPG deployment pace more than doubled in the second half versus the first half of '23.

When I look at the pipelines across our businesses, particularly on the legacy side, I continue to feel like the pace is going to be strong going forward.

From a qualitative standpoint, I think there are two reasons for that. There are sort of two drivers.

One is more the macro where in private equity, you see bid-ask spreads narrowing, There's, I think, more of a need for creative capital solutions that apply certainly to PE, Credit Solutions, and TTAD and other businesses need for liquidity and recapitalizations in real estate and elsewhere.

I also feel like the stuff -- the second driver is more related to our -- to our particular approach to private equity, which is that our pipeline and our portfolios have a large number of often proprietary carve-outs structured relationships with strategics.

It's really across growth, capital, Asia, real estate and that side of the business has been -- is a little less cyclical, I think, than maybe the first side of the business is why I think we saw the pace increase as much as we did.

On your specific comment about TPG Capital, that's our largest pool of capital as a firm. And we just finished fundraising for TPG IX and TPG Healthcare Partners, II. And in TPG IX, we're about 50% invested and signed. And so very much on pace for the 3- to 4-year investment period that we think is prudent and the one that we have articulated to our LPs. You mentioned Classic Collision, which was announced, we did close G&A Partners.

So at a steady pace on that side on GP Solutions, which is the business Jon highlighted, that's been -- we just had a pricing call -- investment committee call earlier this morning before I got on this call.

We closed Yellow Hive in April, so subsequent to the end of the quarter. TPG growth we had two deals that closed in the quarter, one in March, one in January, Compass Surgical Partners and Sayari Labs, a deal on TTAD at ezCater.

So I think that the overall picture for us on the legacy businesses has been a strong pace in the sense of not only a strong pipeline, but a differentiated pipeline.

So we've been excited about the investments we've been able to execute on. And I think the broader market is coming back as well but we felt at a steady pace through the first part of the year.

Jon Winkelried^ Craig, the only thing I would add, and then we can move on is that just having come back from two days down at Milken and seeing a lot of our LPs, a lot of clients -- to Todd's point, we feel we feel like our pipeline just deal flow around our firm is generally really strong.

I think that one of the interesting, I think, questions going on in the market right now is the importance of -- and I think we're very focused on this, is the importance of selectivity. And we definitely see an uptick in terms of overall kind of deal flow.

I think the questions also relate to pricing in a number of cases as well because with financing having gotten much more fluid and available.

And we're -- relative to last year, I think we see an increase in sponsor-to-sponsor level activity given the pressures on sponsors to try to return capital. And I think also again, as Todd said, we felt we were a little earlier in terms of some deal activity in the third and fourth quarters of last year.

We liked the prices a lot, and we like our deal flow a lot I think that we're now seeing signs of, in some cases, looks like people sort of jumping over one another a little bit in terms of pricing and valuation.

So I think there's some I think just continuing to keep our eyes on being selective and being focused on performance is something that's front and center for us.

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

Kenneth Worthington^ I was hoping to get more color on your prepared remarks on the integration of Angelo Gordon. You mentioned cross marketing is well underway.

What sort of reception are you getting given you have a number of Angelo Gordon funds in market this year. And as you think bigger picture about Angelo Gordon and next steps for growth, what are the priorities, say, over the next 12 months and then over the next three years as you build out the business?

Jon Winkelried^ Good question.

I mean I think that if you were a fly on the wall inside of this organization, you wouldn't be able to miss the level of focus and intensity around the engagement between kind of TPG AG. And as I say that, too, I just think that the other sort of -- the other dynamic that I guess I would point to is that the integration of our two firms has gone extremely well. And again, every day, I think we don't think of ourselves as two firms.

We think of ourselves as one firm. And we've spent a lot of time using resources across both organizations to systematically deploy into our LP bases. And so all of us that do this very routinely in terms of meeting with our most significant relationships around the world. are organizing and deploying together to make sure that it's clear that we are one firm now and that the strategies that are represented under the -- what was the AG umbrella are core parts of our strategy here as a firm.

So if you were with me on my trip to the Middle East two weeks ago, you wouldn't be able to differentiate between me talking about our private equity strategies or our real estate strategies or our credit strategies.

In other words, it's a core part of what we're talking about. And I think that as we do that, we're also having many, many meetings and discussions like down at Milken over the last two days. Most of our meetings were some combination of our private equity team and our credit teams together because one of the things that we feel is a differentiated part of our business now and our model is that we have the ability just like we've always collaborated between our strategies here at the firm, we have the ability to collaborate now between our PE and our credit businesses in terms of sourcing opportunities, valuing opportunities, in creating sort of value-add solutions that create really interesting investing opportunities.

The thing that you're hearing around the world right now when you talk to LPs is this concept of solutions capital is becoming more and more prominent because of interest rates being higher for longer, because of valuation dislocation, because of the pressure on sponsors to return capital there's more and more focus on how the large institutional LPs use their capital to partner with us to create really interesting investment opportunities and return opportunities. And we just feel like we're incredibly well positioned with our clients to do that because if you look at the orientation that we've always gone to market with, we have our core strategies across the various asset classes.

We have horizontal step-out strategies that provide solutions-based capital like our TGS business that Todd was talking about or Tech Adjacencies fund. And now within our credit strategy, things like Credit Solutions, given the leverage, the number of levered capital structures that need to be worked through or Essential Housing as an example, which is a kind of a purpose-built creative approach to financing the major homebuilders that are all ramping their production. And so we honestly feel great about it so far in terms of how we're delivering the firm holistically to our clients.

So more to come on that. We'll keep you apprised, but we feel like we're really well positioned.

Jack Weingart^ Ken, it's Jack. I would just add, you asked kind of what we're focused on going forward.

As I think about it, it's scaling the existing TPG AG credit businesses, which we've talked about.

It's innovating new products together and penetrating new channels together including insurance. It opens up the -- obviously the addition of the TPG AG credit businesses opens up the insurance channel like we've never had access to before, we're very focused on that.

On scaling their existing businesses, as I mentioned in my comments, we are making very good progress with TPG's historically larger LPs in introducing the credit platforms to them. Jon talked about the trip to Middle East, the meetings and the fact is that we just launched most of those campaigns this year. And creating a new LP relationship in a new asset class is a multi-meeting cycle.

So we're halfway through those meetings with some of our largest LPs.

As I mentioned in my remarks, we will be sharing more about that in the coming quarters as we complete that multi-meeting cycle and bring in new clients to that platform.

Operator^ Our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein^ So one of the key elements of growth strategy for the firm has been expansion into wealth. You highlighted a couple of things on this as well. But can you speak a little more to the sort of product development you expect to have over the next kind of 12 to 18 months when it comes to the wealth channel, both in terms of maybe the semi-liquid products and any other sources of capital raising you see there?

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

Look, we're very focused, as we've been saying, on expanding our presence in the wealth platform, and that's got multiple dimensions to it. We’re internally, we're significantly building our own resources in that area, building out our distribution team focused on wealth.

On the new product side, we definitely see significant movement of client demand into permanent capital open-ended structures.

We've obviously got TCAP, the direct lending vehicle in the market. We've got a couple of other vehicles already focused on that. We don't yet have a private equity semi-liquid product, but we're actively working on that. and expect to launch it early next year at the latest. And we expect that to be -- as you know our performance across our private equity products around the world has been differentiated. And I would just say that all of our conversations with our partners on the bank channel side, they are very eager to have a differentiated TPG semi-liquid private equity product in their channel.

So we intend to keep pursuing that and other ways to access, which obviously is where client demand is slowing.

It's also beneficial to us to have more stable and growing sources of capital that don't rely upon starting from scratch each fundraising cycle.

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

Michael Cyprys^ Just hoping to circle back to credit for a moment. I understand you have all -- I believe all your credit strategies in the market capital raising this year. I think you reiterated your expectations to raise over $10 billion in credit. But question, how should we think about the growth profile of the credit business on a multiyear basis? Would you anticipate any sort of slowdown in '25 or '26 as some of those strategies won't be in the market raising or do you think you can maintain or even grow that $10 billion pace on a multiyear basis? Just curious how you're thinking about that and what some of the biggest contributors might be within credit?

Jon Winkelried^ Well I think with respect to sort of the long-term growth profile, I think that -- and this is something that we talked about just after having completed the acquisition.

If you look at the platforms within the credit business, all of them continue to outsource and out-originate the underlying capital base.

So we have a factory and a team and a capability that's been built that I think I would describe as undercapitalized and that's obviously a clear opportunity for us.

So the focus on raising over $10 billion of capital this year is the beginning of rightsizing the capital base associated with that business.

I think that we have many opportunities as we -- digging into the business, if you look across our platform, and we have -- as you look at, for instance, our direct lending business, our Credit Solutions business and our structured credit business, I think we're in the right neighborhood in all three of those businesses in terms of what's coming and what's happening just in terms of the flows.

If you look at our direct lending business, where we're currently focused on the lower middle market.

We had our largest sourcing and origination first quarter in the history of the business. And so the ability to continue to scale that business within the lower middle market and our differentiated position there is, I think, provides continued upside in growth within that platform.

I mean just to give you an idea, right, we -- we had new loan deployment in the first quarter of $1.7 billion. Just to give you a relative framework, the previous high quarter -- the previous high watermark for another quarter was the first quarter of 2021, where we originated $1 billion.

So with the level of activity stepping up add-ons to the portfolio, this continues to represent a growth opportunity in the core part of our business there. And as we've talked about before, as companies grow and move out of the lower middle market into their next stage of life and the next -- and to their next owner, we have the ability to move with them in terms of what we think of as kind of companies that are graduating out of our portfolio.

So I think that business has a lot of scale in front of it, both sourcing from institutional sources as well as from sourcing in the channel. The other piece of our business is on the structure -- flipping to the structured credit side. When you go around and you talk to sources of capital in credit right now there is a lot of focus on how to continue to diversify exposures away from EBITDA-based credit.

How do we think about our fixed income allocations and our private credit allocations moving from exposure to EBITDA-based credit, we're naturally, at some point, there will be some kind of a credit cycle to non-EBITDA-based credit, particularly given the constraints that we're seeing in the regional banking system and the lack of liquidity there.

So I mentioned that in my prepared remarks in terms of some of the flow arrangements and the joint venture arrangements that we're creating.

If you look at what's happening in the regional banking system, what we're seeing right now is we're at the part -- we're at the part -- we're at the stage in the market development where people are trying to sell their highest priced assets and better assets to continue to work on capital levels within their businesses.

We expect that to continue systemically. And so the opportunity to finance asset-based financing to finance nonbank lenders and having the factory that we built over time positions us to, I think, really continue to scale that business.

So -- and again, we're out originating our capability there in terms of our embedded capital base.

So we expect that we'll continue to grow both through asset base, through co-mingled funds, SMAs and structured arrangements with clients as well as the opportunity potentially to take that to the wealth channel as well.

And we're seeing people obviously think now evolve semi-liquid structures and permanent capital structures around non-EBITDA based credit opportunities. And then in Credit Solutions, looking at the opportunity in front of us there in terms of private market solutions. Just to give you an idea of the flow that we're seeing in that business.

As I mentioned in my prepared remarks, we're shifting toward private market solutions and the -- from kind of public opportunities just because of the compression in spreads.

If you look at the number of levered capital structures and the -- and the compression in things like interest coverages, the significant backlog of companies trying to be sold or refinanced.

This is going to be a really interesting source of bespoke return opportunities. And to give you an idea, in the first quarter, I think we signed something like between 60 to 70 NDAs with sponsors and companies to work on bespoke capital structures. And what we're doing is we're basically where appropriate, we're bringing together our private equity expertise where we've seen these companies before, we have industry expertise or sector knowledge with the tactical knowledge that we have on the credit solutions side and working on essentially these bespoke capital structure solutions. And there -- as you would imagine, given the size of some of the companies that are sponsor-controlled now these opportunities are very large.

So we're looking basically to raise more capital in the wake of those opportunities, partner with LPs in terms of co-invest opportunities.

And we think that, that will continue to require more capital, and it's a big opportunity to grow into.

And then we also have the Essential Housing business, where we originated that business and started that business with Lennar, our first partner, and we've now added 11 other homebuilders to the strategy. So that has the ability to continue to scale in a pretty major way.

So that all -- you should put all of that in the context of at some point, will probably flow into a credit cycle managing through that credit cycle and being smart about deployment and how we deploy capital will be important not only to us but everyone in the market.

So -- but anyway, that's the frame of reference that we have on the growth of the business going forward.

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

Daniel Fannon^ Jack, I wanted to follow up on your comments around transaction fees and maybe separate the near-term based upon activity levels and then the longer-term opportunity as you get the benefit fully from Angelo Gordon. And then also maybe if there was a split between the revenue contribution of the two businesses in this quarter to maybe get a sense of how that's tracking?

Jack Weingart^ Sure. Let me start with the last question because it kind of frames the rest of it. The transaction fees in Q1 were almost entirely associated with legacy TPG businesses. Think about almost nothing coming from AG because that requires a little bit of work.

We're in the process of integrating the broker-dealer into their businesses, requires a little bit of new hires.

It requires a little bit of work on their fund documents to allow for more capital markets business. So that will be a growth driver going forward. The baseline in Q1 was a little higher than we indicated on our last call we thought it would be because we didn't see a big enough new deal closing pipeline to get to the kind of levels we got to.

As I mentioned in my remarks, that ended up being amplified by some opportunistic refinancing as credit spreads tightened, and we're able to improve the capital structures of many of our private equity portfolio companies.

As I think about it, the current quarter represents a decent kind of average run rate for TPG's existing business in capital markets.

We've -- we're expanding our -- and then from there, the growth will come from a couple of things. Number one, expanding that capability across more of TPG's business, as we grow in climate, as we grown in climate infrastructure. There are a lot of ancillary capital markets needs around those businesses. and we intend to build a capital markets business to service those needs more broadly than just our private equity focus today.

And then secondly, the AG opportunity, which I think you should expect to kick in really late this year and into next year. as we keep doing the work that I outlined.

So that -- those two elements on top of the current quarter, of course, you're going to see fluctuations quarter-to-quarter.

But as you think about kind of the baseline for that business, over the coming couple of years, those two opportunities will create kind of two steps up in the average opportunity in that business.

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

Brian Mckenna^ So a follow-up on AG Credit. How should we think about the change to fundraising and how that flows through into fee earning AUM? I'm assuming it will be more driven by deployment activity, but is there a way to think about the ramp of fee earning AUM inflows throughout 2024 for the segment, specifically? And then I know there can be some noise quarter-to-quarter on fee rates, but are the first quarter fee rates for AG Credit and AG real estate, good starting points for 2Q and beyond?

Jack Weingart^ I'll start on that, I guess.

I think the way I think about kind of the credit business flowing into FAUM is, first and foremost, deployment because almost all of the capital in that business pays fees on deployed capital only.

I think all the fundraising you see us talking about in doing this year, the more than $10 billion is really setting us up for the second leg of growth next year. Most of the funds we're raising this year, some will be deployed this year, but it's hard to -- in your modeling, it's hard to draw a direct connection between this year's fundraising and 2024 FAUM and FRR, that's more driven by deployment pace in the near term.

And I think on the average fee rate question, there's nothing abnormal in the first quarter there.

As we talked about at the analyst day, I guess the only thing I'd say is that there are obviously three or four different -- very different businesses within AG Credit, and the average fee rate will be driven more by the deployment mix across those businesses. than it will be by some kind of macro factor.

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

Adam Beatty^ I want to follow up on the wealth management channel, focusing on your existing product set and your existing distribution relationships. I know there's a lot more to come on both those dimensions. But just trying to get a sense of among your distribution partners in wealth right now how many of the products, Jon mentioned several products, out there targeting wealth. How many of those are on a given platform, what's kind of the average or what have you.

What I'm trying to get at is maybe the near term, maybe next 12 months opportunity where you have a distribution relationship in wealth, you already have one or two products on there, but maybe not all of them. So how you could maybe roll more of those into those relationships in the near term.

Jon Winkelried^ I think, as I mentioned in my comments, I think that what we have progressively over the last several years, it's not -- this is not a new phenomenon this year, we continue to be disciplined about establishing distribution arrangements and wealth arrangements for essentially every strategy we bring to market through various partners of ours. And of course, as you would imagine, we have multiple relationships and multiple partners, which we highly value. And that those products, in some cases, are being distributed through, in some cases, one partner. And in some cases, a particular strategy is being distributed actually through multiple partners depending on the sequencing of when we're launching and then frankly, the calendar schedule that our partners have as well in terms of kind of queuing up various strategies. And those are for sort of the traditional fund structures that we've historically brought to market.

And we're continuing to do that, and we've ramped that over last year and now into this year.

So to the extent that you see products of ours that are in the market that we're fundraising for, there will be a private wealth strategy around essentially all of them.

We are, as we said before, and obviously all of the important partners in the market, our partners of ours as a result of our brand and our performance and the relationship that we've established with those partners over time through multiple interactions at different levels of these organizations. And I spend time, Jack spends time, Todd spends time, Jim spends time with meeting with these partners, both in terms of the strategic relationship at the top of the house as well as on the key people that are driving those distribution relationships into private wealth and marketing our brand, marketing our strategies, meeting with advisers, et cetera.

So we're well into that process in terms of how we're approaching it. So you should expect, I think, that we'll continue to kind of up-ramp the overall level of distribution and the amount of capital we're raising and that over time, the pie chart of distribution for our capital will continue to inflect more and more towards wealth as we do that.

We're obviously now focused on the next stage of that, which is these continuously offered products, which are very important. Jack mentioned that and emphasizes that in the channel now the ability for advisers to recommend to their clients to allocate it to various strategies is requiring alternative products to be available on a continuous basis.

So just like mutual funds are or other products are in the market. And so we're actively working on structuring and preparing our semi-liquid private wealth product that Jack already talked about, and we will be launching that into the channel.

We have our BDC from our Twin Brook business that's actively being marketed in the channel.

Over time, I think you probably -- what you should probably expect to see from us is other continuously offered products maybe in the form of nontraded REITs for parts of our business as well.

So I think that's what you should expect. And we know that it is a significant source of capital on a go-forward basis and the relative allocation in that channel is certainly less than what we see on the institutional side.

So the ability to kind of have a multiplier effect in terms of growth is clearly present.

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

William Katz^ So maybe a question on your longer-term FRE margins sort of heard the affirmation of sort of getting to that 40% plus margin for this year. But as you think about the step function of the scaling of the credit platform, the scaling of your capital solutions footprint.

I was just sort of wondering, as we look beyond '24 and to '25, maybe '26, how do you sort of see the profile of the company? Can you realign with some of the bigger peers? Or is there a different sort of glide path from here?

Jack Weingart^ Yes. Good question, Bill.

We have not provided any longer-term FRE margin guidance other than to say that we do believe we'll be expanding back to 45% and eventually higher, which was our initial TPG target margin.

As you think about our margin profile and the reason we reiterated 40% for this year, think about a lot of the FRR contributors and the fundraising activity we have this year, our current assumption is that the biggest fundraises we're in the market with right now that have fees on committed capital, that being across all the climate strategies, we're assuming those probably turn on in the third and fourth quarter of this year, that means that FRR from those businesses doesn't really pick up meaningfully until I call it the fourth quarter.

We could be wrong about that. We could accelerate the activation earlier, but that's our assumption. But during the course of the year, the investment we're making in raising those funds, which will become more and more visible in the coming quarters, will set us up for more meaningful FRR growth next year as you get the annualized benefit of that plus accelerated credit deployment.

So as we're thinking about the FRE margin trajectory, we do believe that the guidance toward exceeding 40% this year is the right guidance. And then we'll begin to see an acceleration of FRE margin expansion next year as some of those FRR drivers kick in next year. And there's no reason we shouldn't get back to 45% and eventually higher than that as we keep scaling our business.

Operator^ This concludes the Q&A portion of today's call.

I would now like to turn the call back over to Gary Stein for closing remarks.

Gary Stein^ Great. Thank you. Thank you all for joining us today.

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

Jon Winkelried^ Thanks, everyone.

Operator^ This concludes today's TPG's first quarter 2024 earnings call and webcast.

You may disconnect your line at this time. And have a wonderful day.