TPG
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Corporate Speakers

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

Participants

- Alexander Blostein; Goldman Sachs; Analyst
- Craig Siegenthaler; Bank of America; Analyst
- Kenneth Worthington; JPMorgan Chase & Co; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Michael Brown; Keefe, Bruyette, & Woods, Inc.; Analyst
- Brian Bedell; Deutsche Bank AG; Analyst
- Adam Beatty; UBS; Analyst
- Luke Mason; BNP Paribas Exane; Analyst

PRESENTATION

Operator^ Good morning. And welcome to TPG's Third Quarter 2023 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 will now turn the call over to Gary Stein, Head of Investor Relations at TPG.

Thank you. You may begin.

Gary Stein^ Great. Thanks, Angela. And welcome, everyone. Joining me this morning are Jon Winkelried, Chief Executive Officer; and Jack Weingart, Chief Financial Officer.

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'll 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 third quarter. We reported GAAP net income attributable to TPG, Inc. of $15 million and after tax attributable earnings of $196 million or $0.56 per share of Class A common stock. We declared a dividend of $0.48 per share of Class A common stock, which will be paid on December 1 to holders of record as of November 17. With that, I'll turn the call over to Jon.

Jon Winkelried^ Thanks, Gary. Thanks, Gary. Good morning, everyone.
I want to start by acknowledging the recent tragic events and continued loss of life in the Middle East. We strongly condemn the terrorist attacks against Israel and are deeply saddened by the ongoing humanitarian crisis in the region. We are focused on supporting our colleagues and their families, and our thoughts are with all who have been impacted by these horrific events.

Turning to earnings, it's been a busy and productive quarter at TPG. We've remained highly focused on our core business and are excited about the progress we've made across investing, capital formation, and organic initiatives. At the same time, we've made substantial progress on integrating Angelo Gordon into our firm. In my comments today, I'll begin with a brief update on the AG transaction, and then share some highlights from across our business.

We closed our acquisition of Angelo Gordon on November 1st. Now, as one firm, we've strengthened our position as a scaled, global alternative asset manager with six investment platforms totaling $212 billion of AUM as of September 30th. This strategic transaction marks an important and exciting milestone in TPG's evolution, providing us with several complementary business lines as well as additional levers to accelerate growth. We believe the addition of Angelo Gordon, together with our differentiated deal flow and strong investment track record, puts us in an advantaged position to capitalize on a number of long-term secular trends shaping the alternatives industry today, including:

- One, a desire amongst the largest institutional LPs to allocate more capital to a short list of scaled GPs who can partner with them across multiple asset classes;
- Two, in the important private wealth channel, a growing demand for alternatives, especially in semi-liquid structures and yield-oriented asset classes like credit and real estate;
- And three, in the insurance sector, a strong interest in partnering with alternative managers that offer differentiated credit capabilities.

Additionally, our new credit capabilities expand the set of solutions we're able to offer the companies we invest in, which furthers our ability to structure unique and creative partnerships. This is particularly valuable given our history of leveraging our sector themes and geographic depth across business units and strategies.

Although the transaction closed just a few days ago, we're already beginning to see the benefits of our strategic combination.

- For example, *in capital formation,* we've made key introductions among our highly complementary client bases, with only 10% overlap across approximately 900 combined institutional LPs. A number of these clients are in active dialogue with us to broaden and deepen their commitments given our expanded set of strategies across the risk / return spectrum.
- Additionally, *our dialogue with insurance clients* has fundamentally shifted. We are now able to have more targeted and deliberate discussions given our multi-strategy credit capabilities. As discussed, we believe there is significant growth potential for us in the insurance space.
- *On the deal front*, we're seeing the positive impact of combining our intellectual capital and distinctive sourcing engines. Our investment teams are already engaging with one another, collaborating on shared ideas, and identifying opportunities to potentially pursue sizable transactions together.

We have also been working in a very rigorous and systematic way to identify and prioritize joint growth opportunities. This entails launching new products that leverage the expertise and intellectual property of our combined platforms. We're evaluating compelling opportunities in areas that are natural extensions of our business, and we look forward to sharing more details with you over time.

Next Wednesday, November 15th, we'll be hosting a teach-in with TPG's sellside analysts to dive into AG's business in detail. In connection with this, we will publicly share a comprehensive set of materials on our website. We look forward to introducing TPG AG's deep bench of talent and differentiated investing style, portfolio construction, and growth drivers across its strategies.

Now, I'll spend some time discussing how we've been driving growth and executing in our core business over the past quarter.

We continue to make progress on our fundraises, with $3.4 billion of capital raised in the third quarter, including successful closes in TPG Capital 9, Healthcare Partners 2, and Asia 8. Each of our flagship campaigns remains on track to surpass the commitments of its predecessor, and we continue to have high-quality dialogue with clients as we work toward final closes.

In addition to fundraising, our investment teams have been busy across a number of dimensions, including pursuing attractive exits, driving performance in our portfolios, and deploying our significant dry powder into new opportunities. While we continue to see strong top-line growth and stable margins across our portfolio companies, value creation for the quarter was relatively flat as solid performance was largely offset by multiple compression. Jack will provide more details on both capital formation and value creation in his remarks.

In terms of realization activity, I'd like to highlight two notable liquidity events:

- During the third quarter, we closed the sale of Creative Artists Agency, or CAA, one of the world's leading entertainment and sports agencies, to Artemis, the investment company of Francois Pinault. We first invested in CAA 13 years ago, and over the course of our ownership, EBITDA grew more than seven-fold. In 2021, we sold CAA from our commingled fund into a single asset continuation vehicle, which enabled us to return capital to TPG Capital 6 investors while continuing to partner with the company through its next leg of growth. We believe it was one of the largest vehicles of its type to be raised at the time, and our recent exit—which generated over two times our money in two years—is one of the most successful examples of a continuation-vehicle monetization to date. In aggregate across both TPG Capital 6's investment ***and*** the continuation vehicle, CAA generated $2.4 billion of gains. It is a cornerstone transaction in our long and successful track record investing behind the secular tailwinds in media and content creation. We have built a unique ecosystem in the space, and we believe there will be many opportunities to leverage our capabilities going forward.
- In our Asia business, during the third quarter we successfully completed the IPO of RR Kabel, a manufacturer and seller of branded electrical wires and cables in India. The IPO was very strongly received, with high-quality interest from both domestic and international long-only investors. The stock has performed well and is currently trading up 36% from the IPO price. We partially monetized our stake at attractive valuations, highlighting the continued strength of TPG's franchise in India.

Turning to deployment, our sector specialization and long-term, thematic investment approach have continued to generate differentiated opportunities for us. In particular, our deep industry expertise and proven ability to accelerate portfolio company growth have positioned TPG as a partner of choice for many corporates. This has led to bespoke and often proprietary carve-outs, as well as other structured partnerships over many years. Despite our general caution around the broader market today, we continue to find these types of compelling opportunities in spaces we know well, and these are investments we would pursue at any point in the cycle.

In the third quarter, we deployed $5.5 billion of capital across our platforms, a significant increase over the activity levels in the first two quarters of this year, and our pipelines remain robust.

- In TPG Capital, we closed the acquisition of Nextech, a leading provider of electronic medical record, practice management, payments, and related solutions for specialty healthcare providers. Nextech follows our thematic focus on healthcare provider efficiency tools and patient payments, which is reinforced by our successful investment in WellSky. The deal team was co-led by investors from both our Healthcare and Software and Enterprise Technology teams, which reflects the collaborative culture we've built.

- In TPG Capital Asia, we received shareholder approval last week to take InvoCare private in Australia. TPG Asia spent many years tracking InvoCare, the only at-scale, vertically integrated provider of funeral services in the region. We strategically acquired an initial public stake in the company earlier this year as a key step towards the eventual take-private of the company.

Our Impact platform, which invests under the RISE brand, continues to be a significant differentiator for TPG and positions us well as we move into the next decade of investing. Our Rise and Rise Climate funds have been built to address changing societal needs while providing non-concessionary and competitive financial returns. As a testament to the franchise our team has built, the Rise platform was proud to be recognized recently on Fortune's "Change the World" list for the second consecutive year. This annual list acknowledges companies that have had a positive societal impact through activities that are part of their core business strategy. TPG continues to be the only global, multi-strategy alternative asset manager to earn this distinction since the list's inception.

We have maintained a steady investment pace in our Impact platform, and I'll discuss some recent examples.

- Rise and Rise Climate agreed to invest in Tata Technologies, one of India's largest automotive and aerospace-focused engineering R&D service provider aiming to decarbonize transportation. This investment represents our second partnership with the Tata family, the first being with Tata Motors' passenger electric vehicle business. Given the strong relationship we've developed with Tata, we were able to structure this opportunity on a proprietary basis ahead of a potential public offering.
- Our Rise funds also agreed to acquire a majority stake in A-Gas, a global leader in the supply and lifecycle management of refrigerant gases with first-class recovery, reclamation, and repurposing processes. This builds on Rise's thematic focus on supporting the circular economy and advancing the adoption of clean molecules to meet global decarbonization targets.

Another particularly compelling area of investment opportunity for us today is real estate, where global markets have entered into a highly unusual period. Certain parts of the market are experiencing significant disruption, driven by rapid step-function changes in interest rates and valuations, as well as fundamental underlying changes to sectors such as office and retail. From our seat, this is creating distinctive opportunities to acquire assets that would not typically be available for sale. We believe our real estate platform is particularly well-suited for this environment as we raised nearly $7 billion for our current flagship opportunistic fund, TREP 4, over a year ago. We intentionally moderated our investment pace in anticipation of more attractive opportunities and we are beginning to see them now.

- During the quarter TREP completed the $1.5 billion transaction in partnership with Digital Realty Trust to capitalize a portfolio of high-quality data centers assets in Northern Virginia with more than one million square feet in total.

- We also recently announced the $1.5 billion tender offer to take Intervest private, a leading Benelux-based logistics REIT. The team has spent a number of years building conviction around the compelling market fundamentals of industrial real estate in the region and developing a relationship with the company's management team. With its stock trading down approximately 50% off its peak value, we leveraged our knowledge and expertise to approach Intervest about a take-private, resulting in this sizable transaction.

In addition to our existing opportunistic equity funds, we have launched our new real estate credit strategy, TRECO. The combination of downward pressure on real estate values, reduced lending appetite, and elevated borrowing costs has created what we believe to be one of the most interesting investing environments we've seen in at least two decades. We believe we are well-positioned to take advantage of this given the broad reach of our global real estate and credit investment platform. Jack will provide an update on our fundraising for the TRECO strategy in a few minutes.

Together with TPG AG real estate, we now have a combined real estate platform totaling $[36] billion of AUM as of September 30th, and we're well-positioned to play offense for several reasons:

- We have combined dry powder of $15 billion;
- We invest in defensive subsectors where we have longstanding expertise and the ability to collaborate with other TPG platforms in areas such as content production and life sciences;
- With TPG AG, we have expanded our geographic footprint to include Asia. From our perspective, these markets are fragmented and particularly hard to enter into from a standing start, and we believe the two-decade long focus of Angelo Gordon in markets like Tokyo and Seoul is incredibly valuable and advantageous; and
- We have added a net lease capability, which provides attractive growth opportunities through a hybrid of the financing and real estate markets.

Before I wrap up, I also want to spend a few minutes on our credit business. As we'll discuss in more detail next week, we're entering the credit space with a diversified, multi-strategy, and scaled platform that's well equipped to capitalize on the significant tailwinds in this asset class.

TPG AG's activity and performance over the last several quarters have reinforced our thesis in several ways. Let me share a few examples:

- Asset-backed lending and specialty finance strategies have become an increasingly important part of the private credit ecosystem. Current market volatility—especially as it relates to concerns around corporate earnings—has accelerated demand for products that lend against cash-generating, stable assets. Additionally, the regional banking crisis earlier this year has further enhanced interest in the space. In 2021, TPG Angelo Gordon identified a significant opportunity and raised over $1 billion for a first-time asset-backed lending fund. Since activation, the team has already deployed over half of the fund's capital into more than 20 transactions. We expect to substantially scale this strategy over time.

- TPG AG Credit Solutions, our corporate credit strategy, is also taking advantage of current market dislocation with its flexible mandate and the ability to pivot between public and private markets. The platform invested more than $750 million in the third quarter alone, and our proprietary Essential Housing business originated financing projects with more than $2 billion of associated land and site development cost year-to-date.
- And finally, Twin Brook, our middle-market direct lending platform, has demonstrated its resilience as a result of its sector-driven strategy focused on high-quality companies with strong covenant protections. Despite increased volatility, Twin Brook has no realized credit losses year-to-date, and through the third quarter, has deployed approximately $2 billion of capital into more than 20 new companies and over 150 add-on investments to existing borrowers.

I'll close out my remarks by highlighting some important firm events.

- A few weeks ago, we held our annual TPG Capital Investor conference. We had 200 of our Limited Partners in attendance together with nearly every professional on the TPG Capital team. We were able to highlight our strong momentum, including the differentiated investments we've recently made in TPG Capital 9 and Healthcare Partners 2 that exemplify our distinct playbook and flywheel.
    - Although this event is focused on TPG Capital, we have always had the leadership from all of our business units attend, and this year we also included our Angelo Gordon colleagues. We took the opportunity to showcase our talented team and further connections between our LPs and the leaders across our firm.
- Coinciding with this, we also hosted our CEO Conference for the first time since 2018, with over 100 TPG portfolio company CEOs and senior advisors participating. Of all the events we hold, I find the CEO Conference to be one of the most powerful examples of our ecosystem in-action, and we deliberately schedule it alongside our investor conference so that our LPs have an opportunity to engage with our CEOs directly.

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

Jack Weingart^ Thanks, John.

As a reminder, the results I'll be discussing reflect TPG on a standalone basis. They do not include Angelo Gordon since the transaction closed subsequent to the end of the third quarter.

TPG had a record quarter for fee-related revenues, with FRR of $321 million, up 12% sequentially and 14% year-over-year. This was a result of strong growth in both management fees and transaction fees. Management fees totaled $279 million and grew 9% from the second quarter, due to improved fundraising combined with an increase in catch-up fees. Transaction fees increased 83% sequentially to $31 million and continue to be driven primarily by our lead role in structuring and placing the debt financing in connection with new investments across our platforms. Our well-established debt capital markets business continues to be a strategic weapon, providing us and our portfolio companies with differentiated access to capital, which is particularly valuable during this part of the cycle.

FRE was $156 million for the third quarter, up 24% sequentially and 29% year-over year. This significant growth was due to the FRR growth I just mentioned, as well as continued strong expense management, resulting in an FRE margin of 49% for the third quarter. This is more than a 560-basis point improvement from the year ago quarter. Our FRE margin for the last twelve months was 44%, which reflects the consistent progress we have been making toward the 45% FRE margin target that we had set for the end of this year. While our FRE margin in the fourth quarter will blend down with the acquisition of Angelo Gordon, we believe this provides us with a meaningful margin expansion opportunity as we look to realize significant operating leverage from the combination and scaling of our businesses.

After-tax distributable earnings for the third quarter were $196 million, or $0.56 per share of Class A common stock. This includes $43 million in net realized performance allocations, which were primarily attributable to the successful CAA realization that Jon discussed. Additionally, similar to the previous two quarters, we incurred non-core expenses related to the acquisition of Angelo Gordon of $9 million for the third quarter, which is included in our realized investment income and other line item.

Turning to our non-GAAP balance sheet, we had $647 million of cash and cash equivalents and $450 million of long-term debt at the end of the third quarter. In late September, we upsized our revolver from $700 million to $1.2 billion and extended the maturity of both the revolver and our term loan. As a result of the financial strength of our business, we were able to maintain the attractive pricing on our facilities and further enhance our liquidity position to provide ourselves with ample financial flexibility. When we went public early last year, we capitalized our balance sheet with excess cash in anticipation of a potential strategic acquisition. Last week, we closed the acquisition of AG and used this excess cash in addition to drawing down $470 million from our upsized revolver. Pro forma for the cash used at closing, our non-GAAP cash and cash equivalents at September 30th would have been $172 million.

Our net accrued performance allocations at the end of the third quarter were $692 million, compared to $760 million in the prior quarter. This decrease was driven by the realized gains I mentioned earlier, as well as a $24 million decline in the value of our investments. Our aggregate portfolio depreciated less than 1% in the third quarter and appreciated 6% over the last twelve months. This performance reflects continued top-line growth and stable margins across our companies, offset by multiple contraction.

- Specifically, our private equity portfolio grew revenue by 26% over the last twelve months and our companies generally continue to effectively navigate inflationary pressures by passing through higher input costs.
- Within real estate, higher cap rates were largely offset by our careful sector selection and favorable secular growth trends across our subsectors such as light industrials, student housing, data centers, purpose-built single-family rentals, and life sciences, which make up approximately 65% of our unrealized value. Across our portfolio, net operating income for the last twelve months grew 11% year-over-year.

We finished the third quarter with $136 billion of assets under management, up 1% year-over-year. This was driven by $11 billion of capital raised and value creation of $3 billion, partially offset by $13 billion of realizations over the last twelve months. Fee-earning AUM was $79 billion and AUM subject to fee earning growth totaled $11 billion at the end of Q3, of which over $9 billion was not yet earning fees.

Moving to fundraising, we raised $3.4 billion during the quarter and continue to make progress across our flagship fundraises. As Jon mentioned, we continue to expect each fund to be larger than its predecessor.

- For TPG Capital 9 and Healthcare Partners 2, we expect to hold final closes toward the end of this year.
- For Asia 8, we expect a final close in the first half of 2024.
- And for Rise 3, we held our final close for the fund over the weekend, bringing the total fund size to $2.7 billion. This is a 24% increase from Rise 2 and demonstrates the strong support from both our new and existing LPs.

As we complete these campaigns, we are experiencing nice momentum as we launch our next flagship campaigns.

- First, we recently launched fundraising for our sixth Growth fund and are in the process of holding a strong first close.
- Second, we are now approximately 65% invested and committed for our $7 billion Rise Climate fund and we are actively working toward launching the next vintage.

Finally, we are making solid progress across the new business initiatives I've discussed previously.

- For our inaugural real estate credit strategy, after quarter end we received commitments of more than $750 million. We have closed on approximately $650 million of this capital, and we expect to close on the remainder as we raise additional capital for the TRECO fund.
- In our Climate business, in addition to launching the next flagship private equity fund, we are continuing to make progress on the launch of our inaugural climate

transition infrastructure fund. We are seeing strong interest from anchor LPs and expect to be in the market in the first half of 2024.

Overall, we remain very active across all our strategies and are confident in our ability to continue delivering differentiated performance. Our growth engine is strong, and with the addition of TPG Angelo Gordon and our combined capital formation capabilities, we believe we are in an excellent position to drive consistent, meaningful, and diversified growth across our business.

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

QUESTIONS AND ANSWERS

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

Alexander Blostein^ I was hoping we could start with a quick discussion on Angelo Gordon and I understand we're going to spend more time on it next week. So maybe this is a little bit of a preview. But -- as you look at some of the information you put out on the business a couple of weeks ago, it looks like fundraising Angelo Gordon was fair to muted. I think it was only about $2 billion through the first half of 2023. So help us maybe unpack what were some of the sources of constraints in that business?

Was that sort of deal related and uncertainty related? And how do you expect the fundraising to evolve from here - are there of any sort of synergies with TPG?

Jon Winkelried^ Yes, Alex, it's John. I can take a shot at that, and Jack could add in as well. But I think if you look at the fundraising momentum that Angelo Gordon had prior to our transaction, they had made substantial progress across a number of the parts of their business. And when we ultimately announced our transaction, I think that as you would have expected, there was a bit of a pause that I think it was experienced really across the strategies from LPs who naturally, wanted to understand exactly what was happening in the transaction. On several fronts, by the way, wanting to understand how Angelo Gordon will be integrated into our firm, wanted to understand whether or not decision-making would be changing in any respect in terms of the investment process, wanting to understand whether or not there would be any changes in people, et cetera.

So I think that -- not surprisingly, a number of the LPs took a bit of a step back and wanted to have an opportunity to understand the scope of what we were doing and also, frankly, to meet with us and spend some time with both firms together to hear from us directly. So we have spent a fair amount of time now going out together even prior to the actual close of the transaction, meeting with LPs and familiarizing them with TPG, how we were thinking of bringing the two firms together A number of us spent some time at their annual LPAC meeting, which was basically across all of their different strategies and had an opportunity to do a fireside chat in the front of the room, as well as individual one-off meetings with some of the LPs. And this will be a continuing process. But I think that the reaction and response that we're getting from their LP base overall is positive, I think now that we've had a chance to spend some time with them and we'll continue to do that.

I think it's been very good. And I think that we've been clear about how Angelo Gordon will be positioned inside of the broader organization. And it feels to me like we're getting back to sort of more business as usual since we've now closed the transaction and we'll continue the engagement with the LP base together. So -- not surprising, I think, in the context of a transaction that is somewhat transformational for both organizations. And so I think we appreciate LP's desire to learn more to understand it.

But I think we're very confident coming out of it, that we'll be able to accelerate capital formation together.

Jack Weingart^ Yes. I would only add to that in addition to the temporary pause from their existing LPs as they wrap their minds around this and make sure they're comfortable with the combination of the stability, the real longer-term opportunity here is expanding their LP base and introducing them to some of our larger LPs. And that's something that we've already been actively working on that takes a while to play out, but we're encouraged by the early engagement with some of our larger LPs to help expand their capital. So we would expect a reacceleration of their fundraising as we enter next year.

Alexander Blostein^ Great. That's helpful. And then my second question around TPG's fundraising. It's great to see you guys come through with the existing campaigns and getting closer to the end of that as you mentioned, you are on track to launch Climate 2 for next year. And just given the fact that we've seen a more challenging environment for broader private market fund raising over the course of the year - how different do you think this strategy will be received by LPs, given that it is a little bit more nuanced and it is idiosyncratic to you guys? And the ability to upsize the size the fund relative to the predecessor?

Jack Weingart^ I would take a step back on the fundraising market overall and think about as we went public early last year, we knew we had this big super cycle of our flagship funds coming for the next couple of years. As I talked about on the call, we're approaching the end of that. I think the work we've been doing in the meantime has been positioning ourselves for the next wave of growth as we enter next year and the year after. And I'd say we feel good about the progress we've made, both in terms of new business creation like the Climate Infrastructure Fund that you're referring to. And the TRECO fund that we talked about and the acquisition of Angelo Gordon.

So now we've got a whole new growth curve ahead of us.

On your question in particular, Alex, I would think about the Climate private equity fund, the next generation of our $7 billion fund and the Climate Infrastructure Fund together. And we'll obviously be updating you all as we make progress there. But I would say the early engagement is very high. I think we continue to be viewed as having a leading position in that market. And across those two funds, I would expect substantial growth off of the size of the first private equity fund.

And when you take all of what I talked about into account with Angelo Gordon's funds, the growth in credit, the launch of Climate, we expect fundraising activity to increase next year over this year.

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

Craig Siegenthaler^ Thanks. Good morning, everyone. I wanted to focus on the growth capital business. So TPG has almost $9 billion of unrealized value across growth funds 4 and 5. So we're curious, how are those portfolio companies performing against the higher rate backdrop? And if you have any fresh data points like revenue or EBITDA trends to date, that would be helpful to.

Jack Weingart^ Sure. I mean I talked about the overall portfolio performance across our private equity portfolios in my comments, Craig. In Growth, the same dynamics apply, still strong revenue growth, kind of probably mid-teens in the growth portfolio, stronger EBITDA growth. So we're actually seeing margin expansion in the growth portfolio. So the portfolio health is quite good. The broader growth equity market is very interesting, and we continue to feel like we're very well positioned there.

It was obviously the market that saw the biggest spike in activity towards the end of '21 as the most active part of the market. As you know, from looking at our results, we were relatively patient in that environment.

Now with the IPO market becoming more difficult, some of those companies needing to raise follow-on capital with our position as a solutions provider, adding more than just capital. We're pretty well positioned to capitalize on that disruption in the market. And you see that in both our growth and TTAD funds. I mentioned that we accelerated the first close process in growth because we're seeing a pickup in investment activity. So that happened after the end of the third quarter.

So we'll be talking about it in the fourth quarter earnings call, our progress in starting to raise the next growth fund. But the reason we're accelerating it is because of the new investment activity we're seeing. And likewise, in TTAD we're now over half deployed in the relatively new TTAD fund.

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

Kenneth Worthington^ TPG generated meaningful carry on [CAA] this quarter. And Jonn, you mentioned that you see opportunities to leverage continuation funds as we look forward. So maybe first, are there more opportunities like [CAA] in your portfolios? And is that something we can expect if the PE environment actually remains challenging? And then second, last quarter, I think you mentioned TPG backed continuation vehicles in

India, Germany and the U.S. So are there different ways for TPG to participate in continuation funds, either by asset class or regions as we look forward?

Jon Winkelried^ Yes. Let me take a shot at it. First of all, the continuation vehicle market and the evolution of that within private equity, continues to become a more and more important part of the toolkit that firms like TPG or other firms for that matter have. Clearly, I think you've seen an environment where exit activity, exit volume is lower. I think that for what it's worth, I think we would expect generally that trend to continue.

I think that given what's going on in terms of volatility in the market, valuations, we already talked about multiple compression and the overall kind of dynamics of the exit environment. I think you should expect that to continue to be less active.

And in that context, I think there's still a tremendous amount of pressure within our industry to find ways of returning capital to LPs. And I think, as you know, LPs are somewhat constrained as a result of a number of factors, but one of the clear factors is a slowdown in exit activity. So I think that the continuation vehicle market has become, I think, better understood and more and more accepted in the market. I think that, frankly, going back several years ago, I think there was some level of hesitation on the part of LPs generally to understand what was going on with continuation vehicles and how that would affect their ability to both get capital out, but also the dynamics of assets moving from one fund to new vehicles and things like that. And I think over time, it's become a much better understood part of the market.

So in that respect, I think that we will strategically look at using continuation vehicles for our own portfolio where it makes sense. I would say that I still expect it to be sort of the exception, not the rule in terms of the level of activity in terms of exits. But I do think that there is a place for it in the market. And obviously, CAA is a great example of the type of company where by virtue of our partnership with the management team for a very long time, by virtue of having a view that there was a significant amount of growth still in front of the company. And having been held in a fund that had essentially timed out.

And so the desire that we had to try to return some capital, but also continue to be able to benefit from the growth made it a perfect example of why one might use a continuation vehicle.

And by the way, the success in the CAA vehicle, I think, gives us a tremendous amount of credibility with respect to the sources of capital in that part of the market. On the flip side, obviously, the reason that we are now fundraising for TGS, which is our GP solution strategy is exactly the same dynamic, which is that we continue to see more and more sponsors looking to partner with capital sources that understand how to value companies, and can really provide validation in the process of the CV that LPs can rely on. And frankly, in some cases, you have sponsors coming to TPG for GP solutions because they also know that we have deep sector expertise across a number of these different sectors. So we view ourselves as being in an excellent position strategically in order to be a partner of choice in that market. And you mentioned a number of the deals we did, but there has been really no abatement in terms of the level of deal flow that we're seeing in that market.

And so ultimately, it's absolutely a strategy we believe that can be scaled over time. And among the markets in private equity that we deal in, it is one of very few markets that are undercapitalized. This is one of them in terms of the capabilities of the firms that are active in the space. So we would expect it to continue to be a very good opportunity to form capital around.

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

Michael Cyprys^ I wanted to ask on the real estate credit strategy TRECO. I was just hoping you can update us on the build-out of the platform there; where you're seeing some of the most compelling opportunities to put capital to work now in the real estate credit marketplace, the types of investments? And then how are you thinking of building out this platform as you look out over the next 3 to 5 years just in terms of how you're thinking about enhancing your origination capacity.

Jon Winkelried^ Mike, thanks for the question. I think, first of all, we're able to leverage our origination capability that comes out of our public REIT. So that was obviously preexisting. So we're already well seeded into the market in terms of flows with respect to some of the real estate credit opportunities. TRECO is really broader frankly, in terms of the types of opportunities that we'll pursue.

So over time, we'll continue to add to our origination capabilities. We feel like we're well connected to the sources of flow if you look across the banks in particular that are systemically under pressure looking to shed assets in certain cases. That's a clear opportunity for us in this market. If you look at financing solutions, that certain real estate players have in the market right now. It's a very disrupted market, as I'm sure you're aware.

And so as a result of that, because of our deep relationships across the real estate market as a result of both our franchise building out of TREP as well as Angelo Gordon's franchise in a number of different markets.

I think we have deep credibility across the landscape as a financing provider that understands the market and understands the space. So to us, it really looks like a very interesting and scalable opportunity over time. real estate financing overall right now is a pretty broken market. And so I think as a result of that, we expect that by virtue of having a pool of liquidity to be able to do this. And given our expertise, we expect to be able to be a value-add solutions provider and understand the risks of what the market is currently looking like.

There's also just a lot of dislocation in what we are seeing in public markets and publicly traded securities in the real estate world. So our expectation is that we will be able to flex between public markets and private markets as a result of having a pool of capital. The team -- by the way, the team at Angelo Gordon on the structured credit side – they're also seeing those types of opportunities as well. So more to come on this, but I think we'll scale the business in a way that's consistent with what we see the opportunity to be and both in terms of resources and footprint, but we think it's a great opportunity.

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

Michael Brown^ Great. So as you know, Jon, the addition of Angelo Gordon certainly gives you much broader diversification and capabilities to better service the insurance industry and we'll hear more about this next week. But I just wanted to maybe hear a little bit about how you're approaching that channel, thinking about that playbook and maybe how long it would take you to meaningfully tap into the opportunity there? And what's the incremental investment that may be needed just to get you to where you want to be over time?

Jon Winkelried^ Yes. I mean it's a good question. I think you heard in my prepared remarks, that the type of dialogue that we're experiencing right now has meaningfully shifted. And that is -- it's very tangible. Just to put it in perspective, prior to the Angelo Gordon transaction, we had dialogue with a number of insurance companies that were LPs of ours, but really fundamentally only being able to serve them from a private equity and real estate perspective.

We also had a number of insurance companies, particularly life and annuity players that had approached us about a more holistic relationship, and they wanted to understand what our plans were for credit as an asset class overall. And so we had a series of conversations that we were not able to execute on at the time.

Post the Angelo transaction, we've had a very substantial, I would say, inflection in the type and quality of dialogue that we're having with a number of players in the industry. And that dialogue has ranged from,what I would describe, I put them in two categories. One would be general LP-type relationships and credit strategies, participation in SMAs or permanent funds. The other would be a more strategic type of relationship, similar to what you've seen other alternative asset managers execute in the market. And so we currently have several dialogues going on that I would put in that category.

Exactly how long it will take to advance the ball there. Hard to say, but I would say that it's a very high level of focus for us as a combined firm now. We have a team that we put together between TPG and AG that is dedicated to focus on this. I think over time, naturally, we'll continue to attract some talent in the industry with respect to knowledge and understanding about effective asset management for life and annuity players, what you would think of as sort of insurance solutions type of expertise. So I think that we'll be adding some capability in that respect over time.

It's a very exciting opportunity for us. It's an exciting area for us now that we're together as one firm because this is an area where I think we can play a very, very competitive role. And if you look, by the way, at Angelo Gordon's business across the credit spectrum, one of the things that was really attractive to us about them was that it's a multi-strategy credit capability, a multi-strategy credit platform. So a combination of credit solutions on the corporate side, structured credit, the asset-backed side and then Twin Brook, which is a direct lending platform, really incorporates a broad capability that is really required to fully service the insurance industry and the insurance needs. So we're very focused on it.

We think we're well positioned now. And obviously, we'll keep everybody informed as we continue to go down that road.

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

Brian Bedell^ Great. Good almost afternoon. Most of my questions have been asked and answered. But I do have one on the LP conference and then related, of course, to Rise climate and climate infrastructure. Just I guess in terms of the -- what you're hearing from the LPs in terms of demand for those two asset classes individually.

So obviously, the demand is very good for energy transition. But how are they thinking about that for infrastructure? And then I guess what I'm getting at is what are they substituting if they've got limited capacity to invest, what are they substituting either infrastructure or energy transition for?

Jon Winkelried^ Look, first of all, I think that the climate PE strategy and also transition infrastructure is, I would say, a frontier in our markets that is very, very unique. First of all -- having dedicated the resources that we've dedicated to the sector and the space now for the better part of the last 5 years and building this capability, I think that we're in a small category with respect to the number of firms that are very credible in this space. And for us, it's been a very deliberate strategic build because we do believe that over the course of the next, as I mentioned in my remarks, over the course of the next decade-plus the amount of capital required to solve some of these climate-related issues is just absolutely enormous. And the number of credible solutions providers and partners that are in the market right now is actually quite limited. And we view ourselves in a very distinctive category as it relates to what we've built and our capability.

I think what we're seeing from LPs is that are looking at this -- they're looking at this in a range of different ways, but I think what we're seeing from LPs is they view this as a hard to navigate part of the market. And as a result of that, because of our leadership in it, the robustness of our dialogue with LPs in this area is really -- is frankly pretty extraordinary. And what we're finding from LPs is that they're looking at this in a number of different ways. Some look at this as sort of a piece of their private equity strategy. Some are looking at this as sort of a part of some LPs have this innovation pool of capital, and they're looking -- they're starting their allocation of capital from the innovation pool.

And then ultimately, will mainstream it into their private equity allocations. This is too important an area and too big an area for most large pools of capital now to ignore. And so as a result of that, we're seeing, as Jack had mentioned before, I mean we're seeing really strong engagement here, really strong engagement. I think Jack mentioned that we'll expect to raise more capital as we move into climate and climate infrastructure than we did the first time. And everything that we're seeing from LP so far, I think, suggests that is, in fact, the case, and we expect a pretty strong level of engagement from our LPs.

On the infrastructure side, what I would say, too, is that -- and I think Jack alluded to this when he said that think of these things as sort of, in some respects, kind of joined at the hip. What we're seeing in the market is that as the climate -- as climate technologies and the capital requirements continue to evolve in a fairly rapid way, we're seeing kind of a natural trend that you've seen over time over the history of this business, you've seen this as an example in assets like real estate, which starts with opportunistic and it moves down the cost of capital spectrum to things like core plus or core. But we're seeing some of those trends in this market where some of the capital requirements and therefore, the cost of capital required to fund these build-outs of different parts of the industry are quite large. And so we're seeing infrastructure capital move to it in a fairly aggressive way. But what we're finding is that the relationship between the private equity pool of capital and an infrastructure pool of capital provides a flexibility and puts us in a position to create solutions for good companies and different partners that's really differentiated because of our knowledge base across the sector generally.

So I think that this is going to be one of the more interesting areas to watch. We're in a very differentiated position. And I expect that the capital allocated the sector is going to continue to meaningfully increase.

Jack Weingart^ Yes. I would only add, just to amplify Jon's comments that the breadth of LPs interested in this area has expanded significantly. If you think about the last -- the first Rise climate fund we raised was 2 or 3 years ago. And certainly, since the first RISE fund we raised 6, 7 years ago, the awareness among our LP base of the investment opportunity, the capital needed in these areas has expanded significantly. So while it may be the case that any one LP is more capital constrained today than they were 2 or 3 years ago, I think as we embark upon this next wave of fundraising across climate generally, the number of LPs around the world who have identified this as an important investment area for them has increased significantly.

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

Adam Beatty^ I appreciate your staying on and making time for us. I want to follow up on real estate. Thanks. On real estate, maybe a little bit more on the equity side. It was intriguing, what Jon said before about potential sort of multi-decade opportunity.

So right now, TPG is positioned in some of the more resilient real estate subsectors, certain areas of housing, light industrial, life sciences. Just wondering whether you're thinking about deepening the involvement and investment in those areas or maybe seeing opportunities in some of the less favored real estate sectors like office or retail? And then if you could, maybe just a quick thumbnail what Angelo Gordon brings in the areas of value-add and triple net.

Jon Winkelried^ Yes. I think -- I would say that we are very sector focused, as you know, and that's been sort of a core underpinning our strategy, and I would say sort of what's got us here in terms of being very deliberate about where we're investing capital and how we're investing it. And so with respect to your question on maybe do we look at some of the less favorable areas, I would say, in general, one of the things that's kind of marked our approach to investing on the equity side is that we have looked at different sectors over time, done our work on them. And if we felt like the opportunity wasn't quite there yet either from a valuation perspective or a fundamentals perspective, sort of wait until that opportunity is upon us. And we did that actually, by the way, in sectors like, for instance, hospitality. We had not really been involved much in hospitality until we got through COVID and we saw an opportunity to actually make a couple of investments in that space.

With respect to office and retail right now, I think we view the market as sort of sufficiently dislocated and sufficiently uncertain that I think in the near term, we probably don't see compelling enough opportunities there. But obviously, we continue to watch it. But right now, our office exposure on the TPG side is I think 2% of our portfolio. So it's probably not an area that we're going to go into anytime soon.

I think what's more interesting about the market right now is sort of what I said in my prepared remarks, which is that we're seeing things that really kind of need to happen right now because of certain investors' desire and need for liquidity and capital. And as a result of that, it's creating a dynamic where we're seeing larger discrete actionable opportunities in core sectors that we know very, very well, and we still like fundamentally -- we still like the fundamentals in those sectors.

So the take private that we're doing in Europe right now, as an example, is about sort of 80% industrial, 20% office -- they're exiting the office exposure that's within that portfolio, and they've been in the process of doing that. So it's really an industrial play. And it's a part of the market that we've been watching for a while. It's really the sort of industrial corridor between Rotterdam and the ports down into Germany. And so it's an area that we've watched for a while.

Harder to enter, harder to get access to it, but this gave us basically an entry point that we thought was compelling. A similar situation for the data centers that we are engaged in with -- in Northern Virginia, which is core to the core in data centers. Hard to enter the market without either having to pay too much or be able to do it with enough capital deployed. So this gave us the opportunity to do that.

We're working on another industrial deal that we'll hopefully signed very soon that is in North America, that we also think is sort of kind of core to the core as it relates to industrial. So we think these are great risk-reward opportunities now as a result of pricing. And the general dislocation. So I think we'll continue to be focused on that.

On the Angelo Gordon side, the Angelo Gordon business does a number of different things for us as a combined effort. One, as I mentioned in my remarks, was geographical penetration that we haven't historically had. So the Asia business, as an example, it's very hard to enter that market. And Angelo Gordon has been in that market for some time now. So kind of a compelling opportunity for us to be able to continue to grow that.

And I think our footprint as a firm in Asia on the PE side and AG's footprint on the real estate side, I think provides an opportunity to potentially continue to scale that. We'll continue to build that.

On the net lease side, I think net lease is a business that we actually looked at prior to the Angelo Gordon acquisition. And in this environment, given what's gone on with the regional banks and the lack of financing availability, net lease in a lot of respects is a financing product for corporates that are looking to use assets in order to get cost-effective financing. So we think this is actually a pretty good environment to try to build on what is the core of our net lease strategy in AG. So you'll hear more from us about it, but that's our perspective.

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

Luke Mason^ Appreciate more detail next week, but my question is on Angelo Gordon's FRE margin, which was 23% in H1. Just wondering how quickly you think that can scale up? Should you be able to get into the 40s over time?

Jack Weingart^ Yes, good question. We will talk more about this next week. But one of the things we really liked about the Angel Gordon platform. Jon talked about the breadth of it and how important that is for things like the insurance market. But having the multi-strategy coverage of virtually every aspect of private credit was super important to us as we thought about the right platform to grow from.

Now it's also expensive to support all that. to build an operating platform to support each of those businesses, and they have fully built out scalable operating platforms to support each of those businesses.

So now as we come together as a combined firm, find additional synergies and the ability to operate better together and scale their businesses. We absolutely expect that we will grow their margin. Our combined -- really, what we're focused on now is our combined margin. And getting -- beginning the same margin expansion opportunity that we saw for TPG on a stand-alone basis, we now see for the combined business. And I think your comments over time that their credit platform, if it were a stand-alone company and scale should get into the 40s is absolutely correct.

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

Gary Stein^ Great. Thanks, Angela, and thanks, everyone, for joining us today, particularly on such a busy day – we appreciate it. And if you have any follow-up questions, please feel free to circle back to us. Otherwise, we'll look forward to speaking to you again next quarter. Thank you.

Jack Weingart^ Thanks, everyone.

Operator^ This concludes today's TPG Third Quarter 2023 Earnings Call and webcast. You may disconnect your line at this time, and have a wonderful day.