TPG(Q3 2024 Earnings)

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Corporate Speakers:

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

Participants:

- Alexander Blostein; Goldman Sachs; Analyst
- Glenn Schorr; Evercore; Analyst
- Craig Siegenthaler; BofA; Analyst
- Kenneth Worthington; JPMorgan; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Brennan Hawken; UBS; Analyst
- Unidentified Participant; KBW; Analyst
- Michael Brown; Wells Fargo; Analyst

PRESENTATION

Operator

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

I will now turn the call over to Gary Stein, Head of Investor Relations at TPG.

Gary Stein

Thanks operator, and welcome everyone. Joining me this morning are Jon Winkelried, Chief Executive Officer, and Jack Weingart, Chief Financial Officer. In addition, [our Executive Chairman and Co-Founder, Jim Coulter, and] our President, Todd Sisitsky, [is / are] also here and will be available for the Q&A portion of this morning's call.

I'd like to remind you this call may include forward-looking statements that do not guarantee future events or performance. Please refer to TPG's earnings release and SEC filings for factors that could cause actual results to differ materially from these statements. TPG undertakes no obligation to revise or update any forward- looking statements except as required by law.

Within our discussion and earnings release, we're presenting GAAP and non-GAAP measures, and we believe certain non-GAAP measures that we discuss on this call are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to the nearest GAAP figures in TPG's earnings release, which is available on our website. Please note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any TPG fund.

Looking briefly at our results for the third quarter, we reported GAAP net income attributable to TPG Inc. of

$9 million and after-tax distributable earnings of $189 million, or $0.45 per share of Class A common stock.

We declared a dividend of $0.38 per share of Class A common stock, which will be paid on December 2, 2024, to holders of record as of November 14, 2024.

I'll now turn the call over to Jon.

Jon Winkelried

Thanks, Gary. Good morning, everyone.

It's been an incredibly busy quarter across the firm. Looking at our financial results and key business drivers, you can see we have strong, broad-based momentum. Our investment approach is continuing to drive robust deployment, our realizations are accelerating, and our capital raising is benefitting from our increased scale and diversification. Through the first three quarters of this year, we have deployed nearly $23 billion of capital, generated realizations of almost $16 billion, and raised more than $21 billion across our strategies. Our strong track record and brand, and the integrated business we've built across private equity, credit, and real estate, are clearly resonating with our clients.

At the same time, the environment in which we are operating has shifted. In the broader market, we are seeing a meaningful pick-up in activity, fueled by the lower cost and greater availability of capital and easing concerns around the economic outlook. Against this macro backdrop, where valuations are rising and equity markets are reaching new all-time highs, we are maintaining our discipline and selectivity in deploying capital in our core sectors and themes. We continue to pick our spots where we believe we can drive outperformance and generate alpha. In addition, the strong culture of collaboration we've established across TPG has enabled us to unlock proprietary opportunities and deliver differentiated value for our clients.

As you'll recall, we were early to identify and execute on an increasingly attractive deployment environment last year. Our investment pace continues to be robust across each of our platforms. We invested $8.6 billion in the quarter, and year-to-date through Q3 our deployment is up more than 30% compared to the same period last year on a pro forma basis.

- We recently announced an interesting series of transactions involving our existing portfolio company, DirecTV. This is a great example of how we are able to uniquely solve the complex needs of our corporate partners by leveraging our full suite of

solutions. To briefly summarize:

  - Our Capital business agreed to take full control of DirecTV as our corporate partner, AT&T, was looking to divest its remaining ownership stake to focus on its core businesses.
  - Simultaneously, DirecTV agreed to acquire EchoStar's video distribution business, DISH, subject to the success of an exchange offer proposed to the DISH bondholders that is currently pending. If completed, it would provide significant value to EchoStar by restructuring its balance sheet and reducing its refinancing needs, allowing for greater strategic and operational flexibility as it looks to enhance its wireless network.
  - As a critical component to this, our Credit Solutions platform led a $2.5 billion highly bespoke financing to address an imminent debt maturity at DISH and provide the company with additional liquidity for growth.
  - And lastly, our Capital Markets team served as arranger for the DISH financing and drove the syndication, and will also separately lead a dividend recap in connection with our full acquisition of DirecTV.

- Additionally, during the quarter, we announced two separate private equity investments in the private wealth sector, which is a space we first began investing in nearly two decades ago. Since that time, as the private wealth landscape has evolved, we have continued to follow the industry closely and refine our thematic work. As a result, we identified the independent wealth advisory channel as a primary beneficiary of secular growth trends within the sector. Over the last 18 months, we studied and diligenced the space through a shared, cross-platform team and evaluated a number of opportunities that culminated in two distinct and very interesting transactions. TPG Capital is investing in Creative Planning, one of the fastest-growing full-suite financial planning and independent wealth managers in the U.S., and TPG Growth is investing in Homrich Berg, one of the Southeast's leading fee-only independent wealth managers.
- Within our Impact platform, Rise Climate announced one of the largest deals in Europe so far this year with the €6.7 billion (euro) acquisition of Techem, a European market leader for home decarbonization through its digital submetering services. Techem is Rise Climate's largest transaction to date with an aggregate equity commitment of over $4 billion, and it will be the first investment in our second Rise Climate fund. Techem is interesting for several reasons:
  - One, it demonstrates the large-scale investment opportunities available in climate, which we are able to source given our leadership position in the space.
  - Two, we co-underwrote this deal with GIC, which underscores our ability to provide interesting partnership opportunities to our strategic clients.
  - And three, Techem builds on our thematic focus of enabling homes in Europe to digitize and decarbonize. It follows our investments in Enpal, Europe's

    - largest and fastest growing decarbonization platform for single-family homes, and Aareon, the leading provider of property management software for the European residential real estate industry.

- Turning to Credit, this week marks the one-year anniversary of our acquisition of Angelo Gordon, and we are operating as one firm with the full force of our combined capabilities. The integration has gone as seamlessly and quickly as a I could have imagined, our teams are operating as one, and the combination is delivering clear commercial value. We have invested $11.5 billion year-to-date through the third quarter across our credit businesses, which has already well-surpassed full year 2023 credit deployment on a pro forma basis.
    - We deployed $1.7 billion in Credit Solutions in the quarter, which is a notable step-up from our pace in the first half of the year. This includes 5 private financing transactions within our Credit Solutions fund, one of which is part of the initial seed portfolio of our new Hybrid Solutions strategy. This also includes strong deployment within our differentiated Essential Housing strategy, which continues to grow its origination activity and expand the number of homebuilders in the program.
    - In Middle Market Direct Lending, following a record first half of gross originations, Twin Brook had another robust quarter and deployed $1.3 billion of capital. The team anticipates a strong fourth quarter driven by a more active M&A environment.
    - And our Structured Credit business continues to benefit from the changes taking place within the banking sector and the overall market. Our team is focused on two areas in particular:
        - One, areas where new origination is being impaired by banks pulling back, and
        - Two, areas where the securitization markets are still adjusting to changes or new dynamics, such as opportunities to unlock embedded home equity value.
- Lastly, in real estate, we invested a total of $1.4 billion in the third quarter and over $4 billion year-to-date across our equity and debt strategies. Our global real estate franchise has been very active across asset classes and geographies as we've continued to capitalize on opportunities in our thematic areas.
    - In TPG Real Estate, we closed the acquisition of Ireland's largest privately-owned homebuilder, which has a 4,600-unit land bank concentrated in the Greater Dublin area. We identified Dublin as one of the most attractive residential housing markets in Europe with compelling supply/demand characteristics and a fast-growing population and economy.
    - In our European TPG AG Real Estate business, we signed the acquisition of a Dutch residential portfolio with nearly 3,000 single and multi-family units across approximately 90 sites. This is TPG AG Real Estate's largest transaction

since the platform's inception, which we expect to close in the fourth quarter.

  - And the opportunity set for TRECO, our real estate credit strategy, has remained attractive given the pullback in bank lending. We closed 3 transactions in the third quarter, all with compelling risk-adjusted returns.

On the realization front, there has been a notable acceleration of activity in recent months across our portfolios. Our realizations year-to-date through the third quarter of nearly $16 billion have already surpassed our total for the full year 2023 on a pro forma basis. We have signed additional monetizations that we expect will drive our performance-related earnings over the next couple of quarters, which Jack will provide more details on.

Turning to fundraising, we've also been very active across the firm. Our capital raising has increased and become more broad-based as a result of our diversification and scale. We raised $10.4 billion in the quarter, bringing total capital raised this year through the third quarter to over $21 billion, which represents considerable progress against our 2024 fundraising targets. I'll share some highlights, and Jack will provide an updated outlook in his remarks.

- During the quarter, we held a first close for our Rise Climate private equity strategies, including the Global South Initiative. We have raised approximately $6.0 billion in aggregate commitments for the funds and related vehicles, which includes capital that has been committed but will close at a later date. This strong result represents 60% of the $10 billion target we set.
- We also held a final close in the quarter for GP Solutions, or TGS, our GP-led secondaries strategy focused on North America and Europe. We raised $1.86 billion for our inaugural fund, which is 25% greater than our target, and we believe this is the largest first-time GP-led secondaries fund ever raised. We've committed approximately 50% of the fund across eight investments so far, with each performing ahead of our underwriting case. We expect to be back in the market in mid-2025 with our next campaign. We were early to identify a structural shift in the market with respect to how GPs are delivering liquidity and built this strategy specifically to address the growing need for this type of capital. Over time, we believe GP Solutions can scale similarly to our other well-established private equity strategies, with attractive operating leverage.
- In the third quarter we held an additional close for our sixth Growth fund. We have now surpassed the halfway mark for this campaign, raising more than $2.1 billion toward our $4 billion target.
- We also continue to steadily raise capital in our credit platform. In total, we raised nearly $3 billion in the third quarter and $9.5 billion year-to-date. We raised an incremental $780 million in the quarter for Credit Solutions Three, and the balance of the capital raised was spread across Middle Market Direct Lending, Structured Credit, and CLOs.
- And finally, we are off to a very strong start with our inaugural Rise Climate

Transition Infrastructure fund. Since quarter end, prior to the fund's formal launch, we received aggregate commitments from three significant anchor clients totaling $2 billion, of which we have closed on $1.3 billion. In addition to Hassana Investment Company, these anchor clients include an Asian sovereign wealth fund and a large U.S. public pension, which highlights the meaningful global demand for this strategy.

We've also made substantial progress on several of the revenue synergies we identified in connection with the Angelo Gordon acquisition.

- We launched our Hybrid Solutions strategy earlier this year, which we stood up as a collaboration between our Private Equity and Credit Solutions teams to capture attractive middle-of-the-capital-structure opportunities that sit between the two existing strategies. Since quarter end, we held a first close for the fund and the strategy is off to a great start with 4 investments already signed or closed.
- And I want to circle back to the DirecTV and DISH transactions I mentioned earlier, which collectively provide the best example to date of the kinds of synergies we can achieve given the seamless integration of our core franchise strength in private equity, credit solutions, and capital markets. In many respects, this represents the best of TPG: cross-platform collaboration, thematic approach, carve-out expertise, and focus on providing highly creative and customized solutions. These are critical capabilities that allow us to access opportunities others can't.

To wrap up, we've held annual meetings across many of our strategies over the last 6 weeks, which has driven significant engagement and dialogue with our clients around the world. It's clear our clients share our vision for how we are building our franchise, and they value the integration we are continuing to develop between our investment platforms and strategies. Most importantly, investment performance is fundamental to everything we do. Our clients recognize and appreciate the strong returns we continue to deliver and the consistency of this performance across our strategies.

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.

As you heard from Jon, momentum continues to be strong across the firm. Our financial performance reflects our increased breadth and expanded capabilities as we continue to successfully execute our growth strategy. I'll begin with a discussion of our financial results for the quarter before moving into our outlook for next year as well as an update on our fundraising expectations.

We ended the third quarter with $239 billion of total assets under management, up 76% year-over-year. This was driven by $75 billion of acquired AUM, $30 billion of capital raised, and $18 billion of value creation, partially offset by $19 billion of realizations over the last twelve months. Fee-earning AUM increased 80% year-over-year and we ended the quarter with more than $58 billion of dry powder, which represents 41% of fee-earning AUM. AUM subject to fee earning growth was $26

billion at the end of the quarter, which included $17 billion of AUM not yet earning fees, and represents a revenue opportunity of approximately $144 million on an annualized basis.

Our fee related revenue in the third quarter was $460 million, up 43% year-over-year. As expected, management fees were relatively flat versus last quarter due to a decrease in catch-up fees, while we saw continued strong transaction fees of $43 million. We've discussed previously the revenue synergy opportunity of integrating our broker-dealer capabilities into our credit platform, and we began to see the benefits this quarter. As Jon mentioned, we announced the DirecTV and DISH transactions in September, which included a highly bespoke financing led by our Credit Solutions team to address a near-term maturity for DISH. This is the first transaction within our credit platform where TPG's broker-dealer served as arranger, and it demonstrates how our cross-firm collaboration can drive meaningful incremental value. While capital markets revenue will vary quarter-to-quarter, we continue to expect long-term growth in the business as we expand our capabilities across platforms and regions, including in our credit platform.

We reported fee-related earnings of $191 million for the third quarter, up 22% year-over-year. Our FRE margin of 41% in the quarter benefited from the strong transaction fees I just mentioned, and we expect a similar margin in the fourth quarter. This would result in our full year 2024 FRE margin exceeding 40%, consistent with our previous guidance.

After-tax distributable earnings for the third quarter totaled $189 million, or $0.45 per share of Class A common stock, which included $32 million of realized performance allocations. During the quarter we selectively drove monetizations across our portfolios, including:

- Selling down a portion of our remaining ownership in Viking in a $1.1 billion marketed follow-on offering after a successful IPO earlier this year and strong share price performance, and
- The full sale of CLEAResult out of our Growth and Rise portfolios.

As we think about our financial performance this year and our outlook for next year, we feel great about the opportunities ahead of us. This year, we have been working hard to put the building blocks in place for our next phase of growth, including: completing the integration of Angelo Gordon, scaling the capital base of our credit platforms, raising our next series of climate and other private equity funds, and investing in organic growth in areas such as transition infrastructure, real estate credit, and secondaries, among others. Most of these building blocks will begin driving meaningful fee-related revenue next year. With this in mind, I would note the following:

- On management fees, in the fourth quarter we expect the revenue growth from new fee-earning AUM to be offset by a reduction in catch-up fees in addition to fee step-downs for our Capital funds and our Rise Climate fund. We then expect to see significant growth from the building blocks I just discussed to flow through

beginning in 2025. As we progress through the year, our management fees should benefit from the full year impact of our new Climate funds, additional broad-based fundraising, and increasing credit deployment.

- As I mentioned earlier, we expect continued strength in capital markets revenue, driven by both healthy transaction volumes and the broadening and deepening of our team.
- Given the growth drivers I highlighted, we expect a general increase next year in our compensation and benefits expense as we continue to invest in our teams to drive this growth, including our distribution capabilities. We also expect to see a seasonal step-up for the quarter in Q1 driven by expenses associated with our annual RSU vesting.
- As a result, our FRE margin should expand in the back half of next year as we realize additional operating leverage, and we expect to exit 2025 with an FRE margin approaching the mid-40s.
- Moving below FRE to performance-related earnings, based only on our current pipeline of signed monetizations that have not yet closed, we expect to generate realized performance revenue of approximately $100 million for public shareholders over the next couple of quarters. As long as the market environment remains accommodating, we believe we will continue to see increased monetization activity in 2025.
- Lastly, I want to point out that we expect to incur additional non-core expenses in connection with two integration-related matters:
    - First, we expect to incur approximately $25 million of spend related to the consolidation and integration of our IT platforms.
    - And second, we recently signed a lease for 300,000 square feet of space in The Spiral building in Hudson Yards. It is a strategic priority for us to bring together our New York-based employees into one consolidated office space to drive even further collaboration among our teams. The new space will also provide us with important additional room to grow as we continue to expand our business. This will result in overlapping lease expense during the transition, which we will recognize roughly evenly in 2025 and 2026. We currently expect associated non-core expenses of approximately $40-50 million per year in advance of taking occupancy of the new building in late 2026.
    - Like other non-core items, these will be included in our "Realized Investment Income and Other" line item.

Turning to our portfolio, we have continued to drive strong investment performance, with positive value creation across all our platforms for the third quarter and over the last twelve months.

- In private equity, the fundamentals across our portfolios remain strong and we continue to see robust growth that is outpacing the broader market. The portfolio

companies within our Capital, Growth, and Impact platforms grew revenue by approximately 18% over the last twelve months, with expanding EBITDA margins. Our PE portfolio in aggregate appreciated over 2% in the third quarter and 10% over the last twelve months.

- In credit, our portfolio appreciated over 3% in the quarter and approximately 14% over the last twelve months.
  - In Middle Market Direct Lending, all our funds remain at or above their target return ranges as of quarter-end. During the quarter, we closed on more than 35 new platform financings which brings the portfolio to more than 270 companies. Our portfolio continues to perform well, and leverage and loan-to-value metrics remain within target ranges and historical norms.
  - Our Credit Solutions platform also had a strong quarter. Our Credit Solutions funds generated net returns ranging from 3% to over 4.5% during the third quarter, and from 4.5% to 8.5% year-to-date through September. We remain very active with continued market demand for creative, flexible, and bespoke capital from a range of diversified public, private, and sponsor-backed companies.
  - In addition, our second Essential Housing fund generated a net return of 3.5% during the third quarter, and 9.6% year-to-date through September.
  - Lastly, our Structured Credit strategies continue to perform well. Our first private Asset Based Credit fund's net IRR since inception was above its target range at nearly 14% at the end of the third quarter.
- TPG's real estate portfolio appreciated approximately 2% in the third quarter and 5% over the last twelve months, and TPG AG's real estate portfolio appreciated over 1% in the third quarter and 2% over the last twelve months.

As a result of the continued strength in our portfolio, our net accrued performance balance stepped up to $975 million at the end of the third quarter, driven by $78 million of value creation offset by the $32 million of realized gains I mentioned earlier. Our performance eligible AUM totaled $205 billion, or 86% of our total AUM, of which $161 billion is currently generating performance fees.

Turning to fundraising, we raised more than $10 billion during the third quarter, driven by strong first closes across our Climate private equity strategies, the final close for our inaugural GP Solutions fund, and continued broad-based credit fundraising.

- We have raised $9.5 billion in credit through the third quarter, which is nearing the $10 billion target that we had set for this year. Given the additional progress we have made across our campaigns so far this quarter, we believe we now have line-of-sight to raising more than $12 billion across our credit strategies for the full year in 2024.
- Additionally, we have raised $9.4 billion year-to-date through Q3 across our private equity strategies, and we continue to expect our total private equity and infrastructure fundraising in 2024 to exceed the $12.8 billion we raised in 2023.

This will include the $1.3 billion in closed anchor commitments from three strategic clients for our inaugural Rise Climate Transition Infrastructure fund that Jon discussed, and additional progress in our climate private equity campaigns.

- Finally, we remain on track to launch our semi-liquid private equity vehicle, which we call TPG Private Equity Opportunities, or T-POP, early next year. Private wealth continues to be a strategic priority for us, and as we expand our presence in the channel, we believe it will become a meaningful contributor to our capital raising.

Overall, our fundraising momentum is quite strong despite continuing market headwinds. Next year, we expect to be in the market with approximately 25 different products spanning most of our platforms. We expect aggregate capital raising to increase significantly next year, driven by the following:

1. Continued scaling of our credit platforms, where we are seeing increasing engagement from our largest LP relationships;
2. Additional closes for our Climate private equity and infrastructure campaigns;
3. The completion of our TPG Growth campaign;
4. Initial closes for our next flagship buyout funds, TPG Capital and Healthcare Partners;
5. Initial closes for our next generation funds in TGS, our GP-led secondaries platform, TTAD, our tech adjacency strategy, and Rise, our broad-based impact PE fund; and
6. Increasing penetration of the high-net-worth market generally, where we are building new products like T-POP and investing in our distribution team.

As you can see, there is broad-based momentum across our firm driven by our expanded and integrated suite of strategies, and the culture of collaboration we have established throughout the firm. The pace of activity across the key drivers of our business — fundraising, deployment, and realizations — continues to accelerate, and we look forward to driving additional value for all our stakeholders.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We'll go first to Alex Blostein with Goldman Sachs.

Alexander Blostein^ So maybe just starting with management fees -- just starting with management fees, I heard your guidance for Q4. Obviously there's a couple of things that are happening with the catch-ups and the step down in the funds. But as you look out into 2025 and Jack, at the end of there, you kind of mentioned a host of different funds that you guys are going to be launching in fundraising for. How do you think about the management fee growth outlook into 2025, knowing what you guys know about the business so far?

Jack Weingart^ Yes. That's a good question, Alex.

I mean I tried to give a little bit of picture for that with my comments that this year was really setting the building blocks in place for next year, and we do expect significant management fee growth next year, driven by those building blocks. We're not providing specific FRR growth guidance, but we do expect significant growth kicking in really in Q1 after we have the step downs that I referred to in Q4.

Operator^ We'll go next to Glenn Schorr with Evercore.

Glenn Schorr^ And sorry if this is kind of the same question in a different way. So lots of growth drivers in there. So I wanted to see if you could provide bigger than a breadbox type of guidance on what you think the 2025 over the next two or three years of FRE growth could be in the range up. And with that, I'm just curious on the expenses on, you called out two noncore expenses. They seem kind of regular cost of doing business.

So if you could help us think through the why and the impact on FRE.

Jack Weingart^ Yes.

I think on the latter question, the noncore expenses, I don't think they're really ordinary course business in terms of kind of recurring expenses every year. This move for us into Hudson Yards is a really important strategic move for us, both to consolidate the office space and neither of our current office spaces, the legacy AG space or legacy TPG space had enough room for us to combine our teams and also to create additional room for growth in the business.

So we consider that to be a onetime move into this new important space. And then the investment in the unified IT platform is really related to bringing both businesses together onto one platform. Again, we do expect that to generate FRE benefits as it ends up being implemented.

And the other question was longer term. FRE growth If you assume a significant pickup in FRR growth next year, which should continue because again, one of those building blocks is, as we mentioned on the last call, the launch of TPG 10 and Healthcare Partners III, our big flagship buyout fund. That will be in the market through '26 as well.

So you'll start to see the benefit of that fund scaling and catch-up fees kicking in as we raise the rest of that. So you should expect reasonable FRR growth next year and the year after.

And if you layer on top of that, the FRE margin guidance I gave approaching mid-40s by the end of next year with more upside beyond that. I think you get a reasonably strong picture of FRE growth.

Operator^ We'll go next to Craig Siegenthaler with Bank of America.

Craig Siegenthaler^ So I have an AUMreconciliation question.

So if I look at the AUM rollforward, I see credit inflows were very strong at $2.9 billion but in the Fee AUM rollforward, they were only $100 million. Now I know the credit business is very sensitive to deployments, but credit deployments were also very strong at $3.9 billion. So my question is, why is this fee earning AUM inflow in the quarter so small relative to the AUM inflow and also the actual credit deployments.

Jack Weingart^ So the FAUM roll, Craig, is -- and actually, in credit, it's more like $1 billion increase versus the number you talked about. But it's always complicated to do the FAUM roll in credit. There's lots of puts and takes. The way I would summarize it is obviously capital raising flows into FAUM as we deploy it.

But if you look at invested capital of $3.9 billion during the quarter, which was healthy, minus realizations in credit of $1.9 billion, you get kind of net increase of $2 billion. Now within that $2 billion, about $1 billion was not immediately management fee earnings. About $500 million of it was TPG managed co-investment for LPs. Now that's obviously very strategically important for us. It's what our LPs want to see. It tends to feed into future fund commitments, and we earned capital markets fees in connection with the placement of some of that co-investment. And then the remainder, call it, $400 million or so was leverage-driven deployment, and we -- in some of our funds, we don't earn fees on leverage, we earn it on net asset value.

But net-net, we do believe we'll continue to see increased deployment in credit throughout the course of the year next year and continue to drive good FAUM growth in that business.

Craig Siegenthaler^ Jack. So I guess in the fee earning rollforward, you focus on both the net change in investment activity and the fee earning capital raised, although that isn't exactly related to what we're seeing in the AUM roll. Is that right?

Jack Weingart^ Well the net change in investment activity captures what I talked about, right. We deployed $3.9 billion. So most capital raised in credit doesn't immediately flow in to AUM. It flows in as you deploy it. So we focus more on -- when we think about FAUM rolling credit, we focus more on deployed capital minus realizations. And then those other points and takes that I talked about.

Jon Winkelried^ But -- just to add, that capital raise, is very important because I think as we've been talking about since we acquired Angelo Gordon, it's been important for us in terms of out originating our capital base. It's been important for us to build those pools of capital that give us the dry powder to allow us to engage in the transactions that we

are able to source in the market. And as Jack said, that builds on the flow and cadence of the investment activity and then builds on itself in terms of our ability to go out and raise additional capital because of the size of the opportunities that we're seeing.

And we're seeing that real time now across the whole credit platform. So there is a very important relationship between capital raise that may not yet be fee paying and deploying that capital, satisfying co-invest interest from our LPs and then going out and then continuing to raise additional commitments from the market in order to steadily size up the capital base. That answer the question, Craig? When you see the $2.9 billion of capital raised in the AUM role, it’s just not in the FAUM roll because most of it doesn't earn fees right away.

Operator^ We'll go next to Ken Worthington with JPMorgan.

Kenneth Worthington^ On the DISH transaction, can you talk about the impact of the transaction on fee-related revenue sort of next quarter and coming quarters. And I know this is a clearly unusual, very bespoke transaction. But you have now the capabilities with Angelo Gordon. You've demonstrated the expertise and we're in an improving sort of market for transactions and deals. What is sort of reasonable to expect in terms of more similar type of deals looking forward? Is it reasonable to expect like one type of this type transaction a year? Is that outside the realm of reason? What are your thoughts there?

Jack Weingart^ Yes. Let me start on that, and Jon will give you more kind of qualitative outlook of additional transactions. It was obviously highly unusual to bring together all these transactions involving an existing portfolio company of ours, but it's not unusual to see complicated transactions like this requiring bespoke capital, and we see a very large pipeline of that.

On the FRR impact, the deal actually closed, the DISH loan closed on September 30. So what that led to was the only FRR impact in Q3 was the capital markets fees associated with us acting as agent on that loan.

It also means that, that deployed credit capital drove no management fees from the credit business in Q3, but will drive management fees in Q4 since it was completed on the last day of the quarter. So we do see a pickup in management fees from the credit business, in part driven by that Credit Solutions deployment late in the quarter in Q3.

Jon Winkelried^ On the broader question with respect to kind of flow of these types of opportunities. These bespoke financing opportunities represent the bulk of our pipeline in terms of where we're focused. The backdrop, I think, as you're aware, is that from a valuation perspective in the market, we're probably at the tightest spreads that we've seen in high yield and leveraged loans since the GFC. I think high-yield spreads are now

at like 325 and the differential between CCC and BB is probably as tight as it's been since the GFC.

So we are very focused on these types of opportunities that we're creating across our credit solutions business and from also our private equity franchise. But just to give you an idea, I mean we sort of track this based on opportunity flow that we're seeing, which is essentially at an all-time high for us. We signed many NDAs with sponsors and companies in terms of working through bespoke transactions. And just to put some numbers on it, we've deployed about $2.5 billion over the last three months in nine different deals and to put the DIRECTV DISH deal in perspective, of that amount of capital, about $750 million of it is what we kept internally in our own pools of capital of the $2.5 billion Dish deal. And the remainder of it, we syndicated out to some combination of LPs that were interested in joining us in that transaction and a couple of other funds that were also brought into the deal.

So if you look at what's happening, there's a significant pipeline. Sponsors are in a position right now as you know where it's harder to monetize. Many capital structures are somewhat over-levered as a result of coming through the pre-interest rate increasing period. And I think that we're in an environment where we expect to continue to see these kinds of opportunities. Maybe the way I should describe it is we don't think this is a 6-month or 9-month opportunity. We see this as a 3- to 4-year opportunity in front of us. That's quite substantial.

So I think this will continue to be a core part of our focus from the on the credit side of the house. And I guess the last thing I would say is that it's translating over into this hybrid opportunity that we are raising capital for right now because some of the opportunities are leading to top of the capital structure, senior secured low LTV types of opportunities and some of the opportunities are more middle of the capital structure.

Todd Sisitsky^ Just one thing I'd add at the highest level, which is that TPG is a place where we celebrate these type of collaborations more than most. You hear that, as Jon described, with the DIRECTV deal. And so we also spend a lot of time both in credit solutions in the credit platform and on the private equity side, really trying to think about, based on the theme work that we're doing, the sectors that we spend our time in and what are the types of things that should happen, not necessarily what's for sale, but what might be interesting. And a lot of those involve thinking across the capital structure.

So it's very hard to predict how often these things come up because, again, you're trying to pitch and create ideas that are not necessarily actionable but that we think are really interesting. But I think this is a really -- this is an environment, and we -- and it's even more exciting in the context of now with the combined TPG and legacy AG businesses in which we're spending a lot of time as investment teams just thinking about what we can do together.

Operator^ We'll go next to Michael Cyprus with Morgan Stanley.

Michael Cyprys^ I was hoping you could elaborate a bit on your initiatives to expand reach in the private wealth channel maybe where does the Twin Brook offering stand today just in terms of placements on the platform? How do you see that evolving over the next 12 months? And then you alluded to the new private equity product coming into the retail private wealth channel. So if you could elaborate on that as well as other potential products you may have in the pipeline to bring out to the marketplace? And maybe talk about a bit how these products you expect it to differentiate from others that are already in the marketplace.

Jack Weingart^ Mike, I'll start that and others may have comments as well.

Look -- our efforts to expand in private wealth involve, basically two primary factors, one of which is new product creation and the other is expanding distribution. And on expanding distribution that we probably hired, I don't know half a dozen or a dozen people in the past few months as we continue to build out that team.

So we're actively investing in building out the feet on the street to enhance distribution and then equally importantly, creating new products that people want to buy in the channel. The first, obviously you referred to TCAP and that continues to go well. We have continuing flows into that product. That really feeds, as you know into Twin Brook in particular.

The next product we intend to launch is the PE fund I mentioned, which is called "TPOP", the private equity semi-liquid vehicle. And we continue to get very strong positive feedback from our channel partners about that product. You can see pretty clearly that our private equity returns have been differentiated in the industry. And all the channel partners are already aware of that because we've been placing one fund at a time as a commingled fund with the channel partners and their clients have had good experience with us in that regard.

Now what we're doing is taking that differentiated return investing in all those strategies and putting them together into the product that they want to buy or much of the channel wants to buy. So we'll be launching that in Q1. We have been seeding that business over time, and we expect to have a really nicely diversified ceded portfolio in place to launch by Q1.

Beyond that, there are several additional products that we are considering as next steps. One would be potentially working with our climate funds to offer a more dedicated climate-driven investment product to the channel. Another would be a more broad-based yield-oriented strategy, tapping into more of our investing platform in credit than just Twin Brook and a few other things beyond that.

So basically, investing in distribution and investing in new product development.

Jon Winkelried^ Yes. I would just add that this remains a very, very important focus for us. The engagement that we're having with the major channel partners has been very substantial. The good news is that I think there is a high level of demand for products from the TPG franchise in the channel, and we're really participating and being invited to the various events with advisers from the various platforms.

Since we last spoke, Michael, we were at a Morgan Stanley event. We were at a Merrill Lynch event. Todd participated in a broader industry conference of private wealth advisers. So this is very top of mind for us and continuing to build our brand into the channel. We feel like we have a global brand and it's differentiated with respect to our products and our capabilities.

So this will be growing -- we're confident that our penetration into the channel will continue to grow. And obviously products like TPOP that are purpose-built for that channel give us the ability to continue to expand our breadth.

Operator^ We'll go next to Brennan Hawken with UBS.

Brennan Hawken^ Just wanted to confirm when we think about the near term, is it right that fourth quarter would be a seasonally larger one for fee-related performance revenues? And then one tactically, could you remind us of the rate sensitivity in those FRPR base rates?

Jack Weingart^ The Fourth quarter is always a seasonal increase in FRPR. So that's correct. I don't see a lot of rate sensitivity to that number.

Obviously there's some flowing through primarily the Twin book business, but it is accurate to think of that as being a seasonally high quarter -- in the fourth quarter.

Jon Winkelried^ I wouldn't expect a lot of rate sensitivity based upon where we see kind of base rates having settled to as impacting that number. Now if we have more substantial further moves in rates, we'll see. But I think based upon the Twin Brook business and how our loans are priced, I think that I wouldn't expect to see that as a big impact in the fourth quarter.

Jack Weingart^ So you should expect some pickup in Q4. And obviously about half of that goes against FRPR compensation expense but still an increase in kind of net FRE effectively coming through that line item.

Brennan Hawken^ Yes. Got it. To be clear, I probably worried it poorly. The fourth quarter question was around the seasonality. The rate sensitivity wasn't really truly

around the 50 basis points -- I was more thinking about next year. And if we continue to see rates coming down, how should we be modeling out the puts and takes there?

Jack Weingart^ Yes. I wouldn't model much sensitivity there.

Operator^ We'll go next to Kyle Voight with KBW.

Kyle Voight^ Maybe just a question on your insurance strategy. You've been evaluating the best path forward there and potential for strategic partnerships. Just wondering if you could update us on your thoughts on control versus capital-light insurance partnerships. And when you're evaluating potential insurance partners, can you just remind us of some of the most important aspects of those potential partnerships to TPG, whether that's a certain size partner or specific underlying growth characteristics that you're looking for?

Jon Winkelried^ Yes. Sure. First of all, I think the insurance strategy here is multipronged because it's not only about a strategic transaction. One of the things that we've done very proactively since we actually closed the Angelo Gordon transaction -- is we have a collaboration in the coverage of the insurance industry and are trying to continue to expand our relationships more broadly as a result of being able to service the insurance company needs on the asset side more holistically, and we've seen good progress on that if you look across commitments that we've gotten to both our structured credit business as well as our Twin Book franchise. We continue to expand those partnerships with insurance companies. And, as you would expect, it is primarily sort of life and annuity businesses as well as, by the way, more broadly even kind of the P&C part of the world. So those relationships continue to expand, and we're feeling very good about the momentum that we have there, and we're going to continue to build that.

On the strategic side, we talk about this a lot. We continue to be interested and focused on how to find the right strategic relationship. And I would say that we're very mindful of a couple of things. One is the quality of the platform that we engage with. The key underlying kind of fundamental thesis is that the quality of the platform, its ability to grow, particularly its ability to grow organically, given how expensive it is, how expensive it's become to do things like block acquisitions in the market, which has gotten a lot more competitive.

So organic growth capability, I think, is really important. The strength of the underlying platform, their position in the market, how they are positioned with respect to growing their book of business as opposed to just competing on price and so that the quality of the platform is really important, and that's been very front and center for us as we've looked at a number of opportunities. The other thing I would say too is size -- the size dynamic and how we go about structuring a transaction is also front and center for us because we're mindful of the fact that we feel like our positioning as a firm in terms of

being very FRE-centric and growing our fee-based revenues over time continues to be what we think will be our major source of growth.

But on the other hand, I think that having some type of strategic relationship, which will give us long dated or perpetual capital and also allow us to continue to leverage our credit franchise and give us a capital base on which we can continue to explore add-ons to our product capability on the credit side because we have an important source of capital where parts of the credit spectrum will go is really important to us as well.

So we're thinking about it from that perspective. I think anything we do – we'll be very mindful of how a transaction changes the shape of our company from the perspective of how much of our balance sheet we use. I can't tell you exactly what that will be. It will be dependent on the merits of the transaction. But we're very in tune to how we believe it's important for us to continue to grow in the future and the characteristics of where that growth is being driven from.

Operator^ We'll go next to Mike Brown with Wells Fargo Securities.

Michael Brown^ The FRE margin, it's expected to exit at the mid-40s ending in 2025. So it sounds like you'll be approaching kind of that 45% margin that you've guided to in the past. So when you think about 2026 and beyond, I assume that kind of mid-40s is not your end game or certainly not the full potential of the platform. So when you think about that FRE margin longer term, how should we think about that annual margin expansion for, call it, 2026 and beyond?

Jack Weingart^ Yes. You're definitely right, Mike. 45% was never meant to be a long-term target. It was meant to be a stop along the way as we got scale of the AG credit businesses and got back to the margin expansion we were accomplishing on a stand-alone basis for TPG.

So what I said on the call is we expect to be approaching the mid-40s by the end of next year. I would expect further scaling in 2026 and '27. And eventually, we should be getting to 50% and above 50%, but I'm not putting a timeframe on that at this point.

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 all for joining us this morning. We look forward to speaking with you again next quarter. And in the meantime, please reach out to the Investor Relations team if you have any questions.

Jon Winkelried^ Thanks, everyone.

Jack Weingart^ Thank you.

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

You may disconnect your line at this time.

And have a wonderful day.