TPG (Q2 2023 Earnings Call)

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Corporate Speakers:

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

Participants:

- Ken Worthington; JPMorgan Chase & Co; Analyst
- Glenn Schorr; Evercore ISI; Analyst
- Alex Blostein; Goldman Sachs; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Mike Brown; Keefe, Bruyette, & Woods, Inc.; Analyst
- Brian Bedell; Deutsche Bank AG; Analyst
- Brian Mckenna; JMP Securities LLC; Analyst
- Luke Mason; BNP Paribas Exane; Analyst

PRESENTATION

Operator^ Good morning. And welcome to the TPG Second 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.

And you may begin, sir.

Gary Stein^ Great. Thanks, Chelsea. Welcome, everyone.

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

In addition, our Executive Chairman and Co-Founder, Jim Coulter, and our President, Todd Sisitsky, are also here and will be available for the Q&A portion of this morning's call.

I'd like to remind you this call may include forward-looking statements that do not guarantee future events or performance.

Please refer to TPG's earnings release and SEC filings for factors that could cause actual results to differ materially from these statements.

TPG undertakes no obligation to revise or update any forward-looking statements, except as required by law.

Within our discussion and earnings release, we'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 second quarter.

We reported GAAP net income attributable to TPG Inc. of $27 million and after-tax distributable earnings of $96 million or $0.26 per share of Class A common stock.

We declared a dividend of $0.22 per share of Class A common stock, which will be paid on September 1 to holders of record as of August 18.

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

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

I'll begin with an update on Angelo Gordon and our ongoing work to prepare for integration and to position ourselves to maximize the opportunities for the combined platform. I'll then share my thoughts on two areas within our core business where we have seen substantial activity and progress.

The first is investment activity. Consistent with the observations I made in our previous earning calls regarding our building pipeline, it feels to us that the market has settled into an attractive period for deploying capital across primary and secondary private equity, real estate and impact investing. As I'll describe, our teams are capitalizing on the opportunity and have announced or closed a number of interesting and distinctive deals.

The second is organic growth. I've previewed several of our organic growth initiatives with you over the past few quarters, and I'm pleased to update you today on the meaningful progress we have made in fundraising, team building and investing across these opportunities.

On Angelo Gordon, we received HSR clearance in July and are anticipating additional required government approvals in time for our expected closing in the fourth quarter. Our overall integration planning effort has two objectives. The first is operational readiness and the second is business integration and revenue growth.

More than 150 people across our two firms are involved in integration planning. Well in advance of signing the transaction, we stood up 7 working groups focused on critical areas such as capital formation, people and culture and firm operations. Each group is co-led by senior TPG and Angelo Gordon leaders and includes representatives from various business units and functions. Given the complexity of integrating our service functions, including finance and accounting, IT and operations, we established a dedicated integration management office to bring project management rigor and expertise to those activities.

On the revenue synergy and growth side, we stood up a senior team that is fully dedicated to identifying opportunities to leverage the combined power of our platforms. The group, which includes more than 20 business leaders from Angelo Gordon and TPG is scoping and fleshing out a series of combined growth initiatives and building execution plans around each one.

While we are still in early innings, we believe the opportunity set is even larger than we anticipated. We're prioritizing among those opportunities and preparing to execute in the quarters after closing. Overall, our working groups have made considerable progress on their objectives. Importantly, these working groups have also become a forum for engagement and relationship development between TPG and Angelo Gordon.

From my seat as CEO, I've been encouraged to see how naturally our teams have engaged with one another and the clear compatibility of our cultures. I've grown even more confident around the scope of the opportunity for our combined firm post closing and there's a clear sense of momentum and collective enthusiasm. The connectivity and shared purpose across our firms is tangible and exciting.

At the same time that we've been working towards the closing the Angelo Gordon acquisition, we've been very active in our core business, and I want to provide you with an update on the strong progress we've made across several areas.

On our last call, we noted that our transaction pipelines have begun to pick up considerably, and that trend has continued to accelerate. From our perspective, a few key factors are driving more favorable investing conditions.

First, the bid-ask spread among buyers and sellers is now narrowed despite continued market volatility. After a prolonged period of buyers and sellers viewing the world too differently to bridge valuation gaps, sellers are increasingly showing more willingness to adjust valuation expectations in order to consummate transactions, including, in some cases, whole company take privates. We anticipate this trend will continue into the back half of the year.

Second, corporates have become significantly more active in restructuring their portfolios, pursuing acquisitions and divesting certain assets. Given the amount of time we spend working with strategics on relationship building and proactive sourcing, our activity around carve-outs and structured partnerships has picked up meaningfully.

And third, many GPs are searching for ways to appropriately return capital to their fund investors, which is helping to increase the flow of attractive investment opportunities. This dynamic has driven both new investments as well as opportunities for us to invest in our existing portfolio companies to grow and strengthen their positioning in their respective markets.

Our style of private equity investing, which focuses on transforming high-quality companies and accelerating growth, is particularly well suited for the environment in which we are operating. In particular, we have spent years building ecosystems of knowledge and relationships and developing conviction in the sectors, themes and companies into which we want to invest.

Accordingly, when actionable opportunities arise, we move nimbly and with the confidence of our full partnership to lean in. We've also established a strong track record of building high-growth, strategic businesses and structuring win-win relationships with corporate partners. Many of our unique strategic investments, such as our partnership with AmerisourceBergen to acquire OneOncology, which we closed this past quarter, are distinctive within the realm of private capital.

Recent activity in TPG Capital, our flagship buyout fund, highlights our investment style and ability to capitalize on the attractive environment. Among our recent deals are three corporate carve-outs, a proprietary partnership with a unique put call arrangement and a take private we just announced.

Last week, we signed a definitive agreement to acquire New Relic in a $6.5 billion take-private transaction. New Relic is a leading provider of cloud-based application performance management and observability software, which has been a long-running thematic focus area for our software and enterprise technology team, given its mission-critical nature and durable growth characteristics.

In June, we agreed to carve out Forcepoint's global governments and critical infrastructure business. This builds on our track record in cybersecurity and thesis on the secular tailwinds around government and commercial cyber spending.

As I mentioned earlier, we closed our acquisition of OneOncology in the second quarter, which we pursue jointly with AmerisourceBergen and the excellent management team that is currently in place. Although we only closed two months ago, we are already finding compelling opportunities to expand and grow the platform.

Similarly, in Capital Asia, transaction activity has increased across the region. During the second quarter, iNova Pharmaceuticals, which we acquired in late 2022, agreed to carve out Mundipharma's Consumer Healthcare division. This strategic -- this is highly strategic for iNova, positioning the combined business as a leading Asia consumer health care platform of scale. This is a great example of how we build strong platform companies through both organic investment and targeted acquisitions. We have several other interesting deals near the finish line that we look forward to discussing with you next quarter.

Consistent with our expectations, there has also been an uptick in secondary activity as GPs globally seek strategic liquidity solutions for their best performing assets. We are generating greater deal flow globally through NewQuest in Asia and TGP GP Solutions in Europe and North America. In the second quarter, we backed continuation vehicle funds in India, Germany and the U.S.

Notably, TPG was the lead investor in the continuation fund for IU Group, one of the largest and fastest-growing for-profit universities in Germany. We believe this is the single largest -- we believe this is the largest single asset deal in Europe so far this year. This transaction was sourced through the Rise team's multiyear thematic focus on education. It's also a great example of our successful organic growth strategy, where we build new platforms on the full chassis of TPG and create shared incentives for our investment professionals to source opportunities and collaborate across business units.

Finally, within real estate, we are seeing signs of an improving backdrop for deployment, and we are well positioned with $6 billion of dry powder at quarter end in our latest opportunistic fund. The significant market dislocation is creating unique opportunities for us to acquire high-quality assets that rarely become available for sale. Our pipeline continues to build as we source investments across numerous geographies and within attractive subsectors such as life sciences, data centers, industrials and student housing.

During the second quarter, we completed the acquisition of a portfolio of assets for Alloy Properties, which is our life sciences real estate platform in the Boston area. This transaction highlights how we can play offense in a tough market and build value in our portfolio of companies through strategic add-ons. We were able to acquire these outstanding properties in the Boston suburbs on a proprietary basis as a direct result of our deep sector expertise.

Just a few weeks ago, we closed a $1.5 billion transaction in partnership with Digital Realty Trust to recapitalize a portfolio of high-quality data center assets in Northern Virginia with more than 1 million square feet in total. The portfolio is located in one of the largest and most interconnected data center markets in the world, which also benefits from supply constraints due to structural barriers.

Taking a step back and consistent with the highlights I just shared, we are seeing a notable increase in transaction activity across our platforms, and we are well positioned to continue our momentum. We deployed $2.3 billion in the first quarter and $2.8 billion in the second quarter. And if we aggregate the investments that we have signed, but not yet closed, this represents an incremental $5.5 billion of capital that will be deployed.

In addition to our day-to-day focus on our core investment activities, we have also seen significant momentum across TPG in building new investment platforms with substantial growth potential. At the time of our IPO, we described how important organic innovation has been to our historic growth, and we also shared our expectation that it will continue to be a key driver for us going forward. Despite a challenging fundraising environment, we have already raised anchor capital in connection with several funds and have begun investing. Collectively, we have raised or have near-term visibility to raising more than $2.6 billion of capital for these first-time funds, and we believe each of these initiatives can drive significant and highly accretive growth for TPG over time.

Our inaugural European and North American GP-led secondaries fund had a closing after quarter end, bringing total committed capital to approximately $750 million and the fund is line of sight to reaching $1 billion of capital. To date, the team has completed four deals out of its inaugural fund, all within sectors where TPG has deep expertise. We believe this is a market and strategy that has potential to scale meaningfully over time.

Our inaugural life sciences fund, which targets earlier stage opportunities across therapeutics, medical devices, diagnostics and innovative services, continues to raise capital and completed two investments in the second quarter. We've raised over $250 million of capital with clear momentum toward raising a $500 million fund.

Turning to TRECO, our private real estate credit strategy. We have visibility to raising over $750 million for the first close dedicated to the strategy, including notable anchor commitments from some of our most active relationships.

And finally, we previously discussed the considerable amount of infrastructure capital required to address climate and energy transition globally. As a result of our leadership position with our Rise and Rise Climate funds, we see a significant amount of deal flow and believe a dedicated climate infrastructure fund will extend our unique position in this market. We are in the process of lining up anchor LPs and look forward to sharing more with you in the coming quarters.

As you can see, we've made meaningful progress and reached key milestones across each of these organic growth initiatives. We feel highly confident about the trajectory of our core business and with the pending acquisition of Angelo Gordon, TPG is positioned to continue delivering strong performance and diversified growth for our investors.

Now I'll turn the call over to Jack to review our financial results.

Jack Weingart^ Thank you, Jon, and thanks to all of you for joining us today.

Our second quarter financial results were in line with our expectations and reflect broader industry dynamics and the current macroeconomic environment. All the numbers I'll be discussing are for TPG on a stand-alone basis and do not include Angelo Gordon. We expect to publicly file a comprehensive information statement around the time of the transaction closing, which will include historical financials for Angelo Gordon and pro forma financials for TPG and Angelo Gordon on a combined basis.

We finished the second quarter with $139 billion of assets under management, up 9% year-over-year. This was driven by $15 billion of capital raised and value creation of $7 billion partially offset by $10 billion of realizations over the past 12 months. Fee-earning AUM was $79 billion at the end of Q2, which grew 17% from a year ago. AUM subject to fee earning growth totaled $11 billion, of which $9 billion was not yet earning fees.

Management fees totaled $257 million in the second quarter, which grew 15% year-over-year. As expected, transaction and monitoring fees rebounded to $17 million in the quarter, and we expect this will further normalize as our pace of deployment increases. Total fee-related revenue for the quarter was $286 million, up 8% sequentially and 12% compared to Q2 '22.

We reported fee-related earnings of $125 million in the second quarter, which increased 23% year-over-year. Our FRE margin for the quarter was 44%. This margin improvement from the first quarter is a result of increased management fees, higher capital markets revenue and continued strong expense discipline across the firm.

After-tax distributable earnings for the second quarter were $96 million or $0.26 per share of Class A common stock. This was impacted by a couple of items. First, our net realized performance allocations continue to reflect our moderated pace of realizations. While we will selectively monetize investments in this environment, and we have several in process, our priority continues to be driving growth across our portfolio of companies.

Second, similar to last quarter, we incurred non-core expenses related to the Angelo Gordon acquisition. These costs reduced our distributable earnings by $15 million this quarter. Excluding these expenses, our after-tax DE would have been $111 million or $0.31 per share of Class A common stock.

Turning to our non-GAAP balance sheet. We had $578 million of cash and $450 million of long-term debt as of June 30th. Our net accrued performance allocation balance was $760 million, which represents the 20% allocation to the TPG Operating Group. This increased 7% from the first quarter, driven by $58 million of value creation. This value creation was a result of our aggregate portfolio appreciating 2% in the second quarter and 9% over the last 12 months. Our companies are showing continued resilience in this period of economic uncertainty with average revenue growth over the past 12 months of 22%.

Finally, on fundraising. We raised $1.5 billion during the quarter and $15 billion over the last 12 months. As you'll recall from last quarter, we updated our targets for our flagship funds given the challenging fundraising environment. We're continuing to manage our business toward these revised targets, and we're pleased with the quality and breadth of the dialogue we're having with LPs. While we continue to make good progress in our LP discussions, there is a more pronounced barbell effect across the industry, where the middle period of campaigns has been elongated.

Therefore, we expect the remainder of our flagship fundraises to be weighted toward the end of these processes. As we work towards completing these flagship campaigns, we're also actively engaging with LPs to capitalize the organic growth initiatives that Jon described. We've made tangible progress and are now actively investing in a number of those strategies. In addition, at the end of the second quarter, we began raising our sixth Growth fund.

Looking forward, I want to reiterate the compelling growth we see ahead for TPG. Through the addition of Angelo Gordon and our various organic growth initiatives, we're entering what we believe will be the next leg of significant growth across our franchise. We're confident in our ability to generate additional fee earning assets and build long-term shareholder value.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question will come from Ken Worthington with JPMorgan.

Ken Worthington^ I wanted to focus on fundraising, probably not surprising. You talked about the flagship funds needing about $7 billion to get to your newer target last quarter and you sort of talked about that guidance again. I assume that your confidence in reaching these targets is somewhat based on LP verbal commitments that they're making to you. Are there consequences for LPs that tell you one thing on fundraising and then deliver something else? And then along the lines of fundraising, the FT reported that GPs are offering sweeteners to secure fundraising commitments and the FT included TPG in its reporting. What are the incentives that you are offering? And what are you seeing in the broader marketplace?

Jack Weingart^ Ken, it's Jack. Let me start there and others can chime in. First of all, just to make one minor correction. In the last quarter, when I talked about our revised targets, I talked about needing to raise $5 billion to $6 billion to get to those revised targets. I think you mentioned $6 billion to $7 billion. And as I mentioned on the call, we do continue to work towards those objectives and expect the remainder of that, beyond what we raised in the second quarter here, to be backloaded towards the end of the campaigns.

You asked if there are consequences to LPs who say one thing and do another, we have 20- to 30-year relationships with a lot of these LPs and when we are engaged in fundraising discussions with them, we don't generally find that to be the case.

And then on the other question around incentives, look, I think everyone in the industry is finding the largest LPs in the market to be good partners in helping build new businesses. And that comes in lots of different forms. And we believe that that's an attractive way for us to build new businesses like the ones Jon described.

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

Glenn Schorr^ This might be a little nitty-gritty, but Rise III was a little weird. It has -- I know it's early, but it has a 1.1x MOIC gross, but then there was a weird big negative net IRR. Was there a fee taken? Did something turn on or off? Was there a loss in there? I'm just curious in that, it's just an important line of business.

Jon Winkelried^ Glenn, it's Jon. I'm not sure what you're looking at, and maybe...

Glenn Schorr^ (Inaudible), we can come back. It's nitty-gritty. I'll reserve that one for later, and I'll go to another topic...

Jon Winkelried^ We'll follow up with you on that one because I'm not sure exactly what that is.

Glenn Schorr^ So you're showing a lot of things. You laid out a lot of numbers, almost too many for me to write down. What does it all add up to in terms of the line of sight commitments that you have on the combination of the new organic builds and the Fund II, Fund III, Fund IVs that you have in motion. Do you have any metrics without including Angelo Gordon, on what we could be looking at over the next 12 to 18 months on the fundraising side?

Jack Weingart^ You're talking about the new initiatives in particular, Glenn?

Jon Winkelried^ No, no, he's talking about both.

Glenn Schorr^ Aggregate.

Jon Winkelried^ Aggregate. He's trying to get a sense for aggregate.

Jack Weingart^ Well, we -- obviously, we announced that we raised $1.5 billion in Q2. Out of the $5 billion to $6 billion. Start with the flagship funds, right? We talked last quarter about the need to raise $5 billion to $6 billion to get to our revised targets. We just raised, call it, $1 billion to $1.5 billion of that. So leaving $4 billion to $5 billion. So assuming we're successful at getting to our flagship fundraising targets by early next year when most of those campaigns are completed, that would be that amount.

And then we're launching our Growth fund, as I mentioned. Just launched, haven't had a close yet. We're targeting $4 billion for that fund, which is up 10% or so from the prior fund. And then add to that, the initiatives Jon talked about where he mentioned we have line of sight to raising about $2.6 billion for those initiatives. And that's only a start to some of those initiatives. So we expect further fundraising for those beyond that. There's -- without thinking about Anglo Gordon, those are the primary fundraising levers that I would highlight.

Glenn Schorr^ And (inaudible) Angelo Gordon, on line of sight of Angelo Gordon, sorry.

Jack Weingart^ Yes, we're going to be disclosing more complete financial information about Angelo Gordon that matches what we talk about with TPG around the time of closing with a comprehensive information statement, then we'll have more to talk about.

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

Alex Blostein^ So you guys talked about a pretty meaningful pickup in deployment pipeline. You started kind of alluded to that last quarter and I think there's more evidence of that. Can you spend a couple of minutes on maybe the composition of that pipeline? What does that look like between take privates versus kind of strategic and sponsor sales? And I guess, more importantly, as you sort of settle into our higher borrowing costs for the industry, have your expectations for sort of prospective returns changed at all? Or the purchase multiples you think have adjusted low enough where you could still generate, call it, a high teen to 20% IRR.

Jon Winkelried^ Todd, why don't you take that across private equity.

Todd Sisitsky^ Sure. Alex, thanks for the question. From a composition standpoint, maybe I'll start with just a sort of overall look at some of the deals that Jon walked through quickly. I think we have seen consistent with Jon's observation of a significant pickup in corporate dialogues, which in many cases for us has resulted in a number of different carve-outs. So everything from the Forcepoint deal, Elite and then several carve-outs in connection, iNova, which is our Asia platform in consumer healthcare, acquired a really attractive asset that was also a carve-out. So we're seeing a lot more activity. And again, as we've talked about in the past, we feel like we're particularly well positioned for carve-outs by virtue of our operating skills, but also the relationships we've built with a number of the strategics that are the likely partners there.

Beyond carve-outs, we actually have also seen situations -- and this, I think, again, is some of the more unique things that TPG does relative to our competitors, that look more like corporate partnerships. Our very unusual and interesting partnership with AmerisourceBergen around OneOncology is a good example.

If you look at our pipeline, we have seen a number of transactions, and we continue to evaluate a number of transactions that fall into both of those buckets and the second bucket feels a little less like a clear seller, clear buyer and more like just two parties trying to figure out how to create value.

You mentioned take privates. We have seen a pickup in the take private opportunities as some of the valuations reset. So in software, for example, we've seen some multiples in the lower growth side reset by 20% and higher growth, even greater percentages. And that has opened the door take privates in a way that probably hasn't been as robust and interesting in the last three, four, five years. So that resulted in the New Relic take private, which we recently announced. And I think there are more of those in the pipeline that, from my standpoint, it's always early even until the end, but look pretty interesting and may result in a pretty compelling valuation proposition.

So it's an environment where we feel like the opportunity of deployment is increasing. And the short answer to your question of whether we feel like the same returns are available is yes. I feel like we're factoring in, of course, the higher cost of capital on the debt side. That's part of the model. As I said, we've been very conservative in our exit multiple assumptions relative to our entry multiple here for the whole last cycle, probably a little too early relative to the continued strength of the economy. But the net result of that is that we've been investing in very growthy businesses, secular growing businesses, and we continue to feel like the opportunities for strong returns are there, and in some cases, we feel that the opportunities are better than they were two or three years ago.

Jon Winkelried^ Yes. I think Alex also on the real estate side, as I mentioned, there are a couple of opportunities that we thought were very attractive that we've taken advantage of. And given what's going on in the real estate market where there's meaningful dislocation. Financing obviously has become much more difficult there overall. The nature of our strategy in real estate equity -- being opportunistic and having obviously a fair amount of dry powder as a result of our capital reserves -- puts us in a pretty opportunistic position to be able to do some interesting things, both with our existing portfolio as well as beyond that.

So I think we very much kind of like that opportunity. And clearly, there's been an uptick in the nature of the dialogue there, where there are, in some cases, funds or owners of assets that have to do something based upon needing to sell certain assets. Sell assets that are high-quality assets in certain cases because those are the ones they can sell.

So we feel pretty good about that opportunity that's in front of us there. And if you look at, I mean, you obviously follow the banks and follow the M&A activity that's going on in the market. If you look at what's going on in the market, there has been a very substantial uptick in corporates optimizing their mix of businesses, and that really is very much in our sweet spot. That's been a core part of our investing across the platform now whether it's Capital, whether it's our Growth franchise, whether it's our Impact franchise. And so that reach and the nature of that dialogue for us that I think is putting us in a position where we're seeing some interesting things, and it's kind of right in our power alley in terms of historically what we've done well.

Todd Sisitsky^ One last comment I forgot to mention just on the secondary front. That platform for us has been very busy. And in some ways, the fact it's been a little harder for the sponsor community to find liquidity has created, I think, even more of an opportunity there. So that platform has been busy, it's been busy in Europe, it's been busy in the U.S. and the pipeline has picked up pretty significantly, if you look over the last six to 12 months. So that's another, I think, area that we think will be fruitful in the next few quarters for certain.

James Coulter ^ Back to the question of Rise III for, this is Jim Coulter, over the many years of the private equity industry, we had something called the J-curve, which tells you that early in a fund, you get anomalies in IRRs that don't reflect the ongoing progress in the fund. I think today, we will name a new phenomenon, which is the “on the line” anomaly, which essentially as funds are set up to draw capital on the line. When they draw their first capital call essentially, during that period, if you annualize the short-term effect of that quarter's first draw, taking down expenses and as you put in the ground, the first investments the annualization of that brief quarterly moment creates anomalies in the numbers.

And that's what happened here is Rise III got to its one-year anniversary and started to call capital that had previously been called on the line, you get a near-term effect, which will ameliorate over time. So early in funds, LPs and GPs now understand that the effect of the line will create swings around the long-term J-curve phenomenon. Those are not indicative of the progress, which in the fund is quite good.

Operator^ Our next question will come from Michael Cyprus with Morgan Stanley.

Michael Cyprys^ I wanted to circle back to some of your commentary on Angelo Gordon. I think you mentioned that the opportunity set is larger than anticipated. I was hoping you could elaborate on that. What areas are larger, how you might sort of quantify that, how you came to that view? And then if you could just update us on your latest views around the cost and revenue synergies, how that's evolving.

Jon Winkelried^ Yes. Mike. I guess I'll make a couple of comments, then we'll see if anybody else has anything to add to it. But first of all, I think that we mentioned this when we obviously announced the deal, but at a simplistic high level, one of the things that we see lots of opportunity in is expanding the capital base within Angelo Gordon. They're investing and seeing opportunities, I think, that can support a meaningfully larger capital base. And so when you look at our LP relationships historically, the number of institutional LP relationships we have, I think we talked at the time about having -- on our end, we have close to 600 institutional LP relationships, Angelo Gordon has 500 institutional LP relationships, we basically overlap at about 100.

So the opportunity to really kind of leverage both of those relationship bases. And in particular, when you look at sort of the size of the LP base that TPG has and bringing some of that -- bringing their product capabilities and some of the strategies into our relationship base, we feel like there is clearly an opportunity to do that.

Number two is the opportunity to extend into channels that our product base has limited us around historically. So one of the things we've talked about in the past is obviously this insurance phenomena in our industry. In the past, before Angelo Gordon, we've had dialogue and some interaction with some of the insurance players in the market. We've been limited from a product capability perspective because of, obviously, the focus on credit product, yield product, and this gives us an opportunity coming together to really have the full product suite in terms of what we need to do to be able to be -- to partner with a number of players in the insurance industry, and pre-closing, some of that dialogue has already started. We are beginning to work together to develop a strategy there. But also, we've had a number of proactive reach outs from certain players on the insurance side, and we've picked up some of the active dialogues that we have had.

So I think we're excited about that prospect in terms of that being a real opportunity for us to source capital from a channel that we haven't historically sourced it from. And obviously, you're well familiar with the nature of those arrangements in the alternatives business. So that's another area.

A third area would be the whole kind of mass affluent retail channel, where we feel that a combined brand of TPG and Angelo Gordon together, will be a strong partner in those channels. And I think there are a number of opportunities for us to expand our partnerships with channel partners and also, to some extent, evolve some of the product capabilities at Angelo Gordon to meet sort of the kind of semi-liquid product in alternatives that has obviously been meaningful to the channel.

If you look at the various businesses, there are other interesting opportunities that we see. So just quickly ticking through them. On the direct lending side, if you look at the Twin Brook business that Angelo Gordon has built, which is a lower middle market direct lending franchise, there are clearly opportunities there for us to, number one, expand the capital base. Just if you look at the origination from that platform and what they hold versus what they syndicate, there's a basic opportunity, which is hold more of what they originate, and that's dependent on, again, growing the capital base.

And so that's one of the things that we're focused on, that we will be focused on coming out of the box. Secondly, there’s this question of as a lower middle market focused lending franchise, following their borrowers for longer. Many of their borrowers grow over time. They've been very focused on covenant structure and that style of lending, and perhaps there is a way for us to grow with some of our borrowers over time as they get larger and as the need -- as the borrowing need changes. So those are two examples in Twin Brook.

In Credit Solutions, which obviously, in this market environment, there is a – it’s a really interesting opportunity now in sort of what I would describe as kind of middle of to higher up in the capital structure opportunity, with our reach as a firm, with Angelo Gordon's reach as a firm, I think that the power of the sourcing franchise in terms of seeing really interesting opportunities is clearly going to grow. We had an off-site together between our private equity businesses and the Credit Solutions business out here on the West Coast one and a half weeks ago, and we spent time talking about what those opportunities are.

And we're very encouraged that there are going to be some really interesting ways of forming capital around what we think is kind of hybrid capital structure type opportunity. So that's another place where we feel like there's going to be some really interesting opportunity.

And then obviously, across the real estate franchises, our real estate businesses focus on different parts of the market. And again, we feel like there are going to be some really interesting opportunities there in conjunction also with what we're building on the real estate credit side. Our two firms come at it from a slightly different perspective. We're -- as I mentioned in my prepared remarks, we're raising a fund around real estate credit opportunities, what we call TRECO, and we've made good progress there. We are now in the market looking at investments. We're also focused on team build, but we have -- the cycle of raising these funds is basically -- and the cycle of raising these new strategies is find partners among our LP base that want to build these businesses with us, get in the market and invest. And then that obviously provides us with a different narrative when we go back to the market to raise additional capital.

People can see what we're doing, and they can see tangible evidence of the strategy. So the connection between real estate equity and real estate credit right now in the market is very interesting given what's going on in the market. And we see that from the side of real estate -- from TRECO, particularly as it relates to whole loan opportunities and dislocation in the market there. Angelo Gordon is seeing it from the structured credit side, where they are seeing real opportunities and dislocation in the market in CMBS and other securitized markets, et cetera.

So -- and then the last thing, I guess, I would say in Structured Credit, as you probably saw Angelo Gordon announced raising over $1 billion in what they call their asset-backed fund, they call it the ABC fund. This is a place where I think private credit is just really beginning to come into its own with respect to providing asset-based financing, specialty asset-based financing in the market, particularly given what's going on with the regional banks and contraction of availability of liquidity, et cetera. So that's an area that we're pretty excited about as well. So I would say that kind of is how we -- just a quick snapshot of how we see the opportunity.

Operator^ Our next question will come from Mike Brown with KBW.

Mike Brown^ Maybe just a narrowing on the investment income line a little bit. So the $15 million of Angelo Gordon related costs this quarter, can you just unpack those a little bit and then maybe share some thoughts how we should think about the second half here? And then I guess, underneath that, it looks like investment income would have been negative, excluding those costs. So could you just expand on maybe what's the drivers there, and how we should think about that excluding those costs for the second half as well?

Jack Weingart^ Sure. Thanks for the question, Mike. First of all, that line, as you point out, is not just the $15 million of Angelo Gordon expenses. The $23 million of kind of costs running through that line include those. They also include another $4 million or so of other non-core expenses, and there are $4 million of investment losses running through there, largely tied to a couple of legacy companies from older funds that we wrote off during the quarter.

On the Angelo Gordon expenses, most of that is related to due diligence and integration work, things like third-party spending on lawyers and consultants. We expect some of that to continue, but it will come down a fair bit in Q3. And then in Q4, when we close the transaction, we'll pay the advisory fees that that will also run through that line, but that line will be tapering off from its current run rate.

Operator^ Our next question will come from Brian Bedell with Deutsche Bank.

Brian Bedell^ If you could switch the conversation back to the Impact platform, two-part question. First on Rise Climate, it looks like that's 44% deployed as of now. Maybe just some commentary around how you're seeing the pace of deployment continue to progress there and what stage deployed would you begin to start talking to LPs about Rise Climate 2?

And then on the climate infrastructure product, I realize there’s more to come there. But should we be thinking of that broadly similar to a lot of your peers with fairly large infrastructure funds and Rise Climate itself being quite large. Should we be thinking of the potential size of that fund in that vein? So maybe not quite as big as the classic capital funds, but second largest basically.

Jim Coulter^ First of all, in terms of deployment, I think there’s a bit of on the line effect to in your number of 40%. The actual fund deployment is closer to 60% on a gross basis. And fundraising documents typically allow fundraising for the next generation to start as you get to 75% deployed. So we’re approaching a period where it would clearly make sense to launch Rise Climate 2. And generally, that would probably make sense to think about it as we begin 2024, for 24 allocations. So you note that it's getting to be that time is exactly right.

And the marketplace remains very robust, both in terms of opportunities and in terms of LP interest in this particular part of the market. In terms of the assets portion of the business, you're right that infrastructure opportunities do scale. By their nature, they require large capital pools. We are not at a position yet to announce targets for either of the funds. But you could imagine that we would want to approach the market together with them from a timing point of view. And while it takes a while to build a new product, our aspirations here would be in the range you're talking about, where it's a fund size, it should, over time, reflect what's happening in private equity.

Operator^ Our next question will come from Brian McKenna with JMP Securities.

Brian Mckenna^ So you noted that fundraising for your next Growth fund commenced right at quarter end. And if I look at Growth V, the fund has generated a net IRR of 22%.

So given this performance, coupled with the macro environment more broadly for fundraising, what's the expectation around the size of this fund? Do you think you can surpass the predecessor fund size, which totaled about $3.5 billion? And then how long do you think this one will be in the market for?

Jack Weingart^ Yes, it's Jack. I think I mentioned earlier that we have announced to LPs a target for that fund of $4 billion. The opportunity set in growth equity investing has gotten much more interesting now. And we think there's plenty of interesting investment activity to warrant that kind of fund size, and we have confidence that we'll hit that target. We're just starting. We haven't had a first close yet. We launched, as you mentioned, toward the end of the second quarter. And I think you should expect that fund to be in the market through '24 and probably into early '25 when you take into account when our first close will take place.

Operator^ Our next question will come from Luke Mason with BNP Paribas.

Luke Mason^ Just on your comments around kind of the exit pipeline I guess what needs to happen for -- in the market for that pace of realizations to return in terms of the pipeline? And then just if I look at your accrued performance fees, a larger portion of that $760 million relates to funds from 2017 and prior. So I'm just wondering, is there any conversations that are they starting to want more capital back from those kind of funds and just timeline around that, please?

Todd Sisitsky^ Sure. Let me start just with the question around the exit pace. I think the first thing to mention in the context of us in particular, is that if you look during the period of sort of 2020, 2021, we were significant net sellers. We were selling it at a multiple of the dollars we're deploying, frankly, at a pretty healthy pace as well as we continue to find some interesting opportunities. And so that was deliberate. It was sort of a view that the multiples were in a very attractive place to sell. On the capital side, we sold every software company in TPG VII and prior as an example. And so that was quite deliberate. We're now in a phase where actually the opportunity is more interesting. So we have switched – flipped a bit to net buyer.

But with that said, and we have younger companies as a result of having sold a lot of what was in our portfolio. With that said, we are working on a number of exits. And I think we've made some good progress in those dialogues, hopefully, more to report in the quarters to come. And we're always open to – at the right moment, we feel like the growth and transformational efforts that we put against our companies, and we feel like they're starting to bear fruit.

That's when we really start to focus on exits. So it's always a combination of variables as most things are on both the overall market and the activity level of strategics in particular, and where we stand in our – in the individual investments in the portfolios in terms of having things that have started to reflect the work that we put against our companies. But again, we have some interesting prospects right now. So we'll continue to selectively find exits even in an environment where we're mostly in build mode, and where we’re net investors.

Jack Weingart^ On your question, it's Jack, just to add a little bit. As Todd mentioned, we were much more aggressive than most of our peers in 2021. So that's one of the reasons you see our dry powder as a percentage of fee AUM as high as it is, we did sell a lot back in 2021. That was very intentional. If you focus on our buyout business, our 2015 vintage fund, TPG VII is about 2x capital returned to investors. So there's definitely a lot of pressure on GPs in the market who have not returned a lot of capital and have a lot of unrealized investments in their fund. And you're seeing, as I think Jon mentioned during the call, some of that play through to our secondaries business that we're building to help those GPs realize investments.

We honestly don't feel a lot of that pressure because we were so aggressive at selling back when multiples were higher. We've got a younger portfolio than average in the industry, and we're focused on building value in that portfolio, more so than selling. That being said, the market to sell is picking up a little bit. We have several in process, as Todd mentioned, but we don't feel the pressure that you're alluding to.

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, Operator. And thanks again everyone for joining us this morning.

If you have any follow-up questions, please feel free to circle back with the IR team.

And we'll look forward to speaking to you again next quarter.

Operator^ Thank you, ladies and gentlemen. This concludes today's TPG's second quarter 2023 earnings call and webcast. You may disconnect your line at this time.

And have a wonderful day.