GCM Grosvenor Fourth Quarter Full Year 2020 Earnings Call
February 24, 2021 10:30am ET

Stacie Selinger: Thank you. Good morning and welcome to GCM Grosvenor's Fourth Quarter 2020 Earnings call. I'm joined today by GCM Grosvenor's Chairman and Chief Executive Officer Michael Sacks; President Jon Levin; and Chief Financial Officer Pam Bentley.

Before we discuss this quarter's results, we want to remind you that all statements made on this call that do not relate to matters of historical fact should be considered forward-looking statements, including statements regarding our current expectations for the business and our financial performance.

These statements are neither promises nor guarantees that involve known and unknown risks, uncertainties, and the other important factors that may cause our actual results, performance or achievements to be materially different from any future results. Factors discussed in the Risk Factor section of our final prospectus filed with the SEC on December 15, 2020 and our other filings with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward-looking statements on this call.

We'll also refer to non-GAAP measures that we view as important in assessing the performance of our business. A reconciliation of those non-GAAP metrics to the nearest GAAP metrics can be found in the earnings presentation material made available on the Public Shareholder Section of the GCM Grosvenor website at www.gcmgrosvenor.com/publicshareholders. We also reference our August 2020 merger presentation which is again available on the Public Shareholder Section of the GCM Grosvenor website.

We are client service-oriented firm and our goal is to try and bring the same ease and transparency to communications with our shareholders that we have brought for five decades to our asset management clients. In that spirit, we look forward to your feedback and will endeavor to continually improve communications and shareholder relations.

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

Michael Sacks: Thank you, Stacie, and thank you to all of you listening to this call. Today, we will focus on our fourth quarter and full year 2020 performance and our 2021 trajectory.

For those of you who want to learn more about the fundamentals of our business, we've included a number of slides in our presentation to provide a general overview of GCM

Grosvenor. We will not spend time of those slides today other than to emphasize that we believe that by offering the full complement of alternative investment strategies to clients from private equity and alternative credit to infrastructure, to real estate, to absolute return strategies, we are best able to drive a superior value proposition for our clients and to drive growth in the value of our company for shareholders.

GCM Grosvenor had a strong fourth quarter and a good year in 2020. On Slide 4, you will note that we did well across every metric presented. We outperformed the goals we set for ourselves in our merger presentation dated August 3, 2020 as well as the goals contained in the revised guidance we provided on October 22, 2020.

Importantly, we significantly increased the earnings power of the firm, setting us up nicely to achieve our objectives for 2021. This can be seen through the growth in fee-paying AUM, and in particular, the growth in contracted not yet fee-paying AUM.

Fee-paying AUM grew 4%. Contracted not yet fee-paying AUM grew 37% in 2020. Our $7.1 billion of contracted not yet fee-paying AUM now represents more than $34 million of incremental management fees that will turn on over the next few years. And our contracted not yet fee-paying AUM and its attendant revenue number continue to grow at a good rate in the first quarter of 2021.

At this time, our base case assumptions regarding the distribution of investment realization to clients, the timing of revenue realization associated with our fourth quarter ending CNYFPAUM plus the additional contract we have signed this year represent base case private markets management fee growth of approximately 7% 2021 over 2020 before any additional 2021 fundraising.

In light of our robust pipeline and numerous specialized fund products in market today and the natural acceleration of growth from commingled fund closings in the back half of the year, we sit in a very comfortable place two months into the new year.

Moving to Slide 5, we raised $7 billion of capital in 2020, of which more than 75% was raised for our private market strategies. Private market strategies now represent 59% of our total AUM. 85% of 2020 fundraising came from our existing clients, with the remaining 15% coming from clients new to the firm.

Historically, 50% to 80% of the capital we raise each year comes from existing clients and we attribute the high 2020 percentage to COVID where the familiarity of pre-existing relationships were beneficial for those like us that have large pre-COVID client base. We expect those percentages to fall back into the typical range this year.

A bright spot in the fourth quarter of 2020 was our absolute return strategies vertical where multi-strategy bonds as measured by our multi-strategy composite earned an approximately 8% net return for the quarter, and a 15% net return for the full year

2020. That performance helped drive double digit growth in adjusted EBITDA and adjusted net income 2020 over 2019.

In 2020, we were pleased with our absolute return strategies investment performance each quarter of the year relative to the market and relative to peers. That said, while relative performance and capital preservation was strong in the first quarter of 2020, absolute performance due to the market drawdown in the first quarter negatively impacted growth in management fee revenue and weighed upon our overall management fee growth in 2020.

Importantly, with regard to our absolute return strategies vertical, the fourth quarter of 2020, we saw a significant pick-up in demand for absolute return strategies and a significant improvement in capital flows. We went from net outflow of approximately $870 million in the third quarter 2020 to a substantially reduced net outflow of approximately $315 million in the fourth quarter of 2020, and at this time, anticipate modest net inflows in the first quarter of 2021.

In the wake of our strong 2020 fourth quarter and full year results, our board this week voted to increase our dividend to $0.08 per share beginning with our quarterly dividend to be paid on June 15, 2021 to shareholders of record as of June 1, 2021.

We have stated before that we believed one of the attractive aspects of GCM Grosvenor is our ability to distribute significant cash flow to shareholders. $0.08 per share represents a distribution of cash flow that is less than our expected fee-related earnings, and therefore we believe is a comfortable dividend that we have room to increase over time if fee-related earnings grow as we anticipate.

Finally, in addition to our strong operating performance, subsequent to coming public in November, we have paid down approximately $90 million of debt, and have amended and extended our term loan, reducing our interest cost going forward and adding three additional years of maturity.

From a profitability standpoint, in 2020, we outperformed not only our original guidance from our August 2020 merger presentation, but also our updated guidance issued October 2020.

As you will see on Slide 6, we saw a significant year-over-year growth across all profitability metrics, with fee-related earnings increasing 8% and adjusted net income increasing 26% year-over-year. Year-over-year growth in these metrics was driven by a combination of continued strong management fees, significant growth in incentive fees, and reduced costs.

Continuing on Slide 7, while our adjusted revenues increased 54% in the fourth quarter of 2020 over the third quarter of 2020 due to total incentive fees more than tripling, our overall growth of adjusted revenue was impacted by the performance-related volatility of the absolute return strategies, fee-paying assets under management that I mentioned earlier, and the fact that we were in market with fewer specialized fund offerings in 2020 than we were in 2019 or are in 2021.

It is worth noting that even with the strong investment performance and resulting significant performance fees earned in 2020, our business remained highly management-fee-centric. We believe that in 2020, we built considerable momentum that we have carried into 2021.

As you can see on Slide 8, our assets under management, and importantly, our earnings power have increased. Our contracted not yet fee-paying AUM has grown at a 75% compound annual growth rate over the last three years, greatly increasing the embedded growth in the private market separate account business.

As we have we previously noted, this figure reflects binding executed agreements for primarily private market separate account capital when the fees turn on with the passage of time or as we invest the capital. A bit under half of our contracted not yet fee-paying AUM is charged on a scheduled ramp-in where we know exactly when fees will turn on. The remainder turns on as we invest the capital which we anticipate to be on a similar timing schedule.

We estimate that with no further fundraising and base case distribution assumptions or investment realizations, and base case assumptions for new investment finding, we already have approximately 7% increase in total private market management fees and a 10% increase in private markets, customized separate account management fees ’21 over ’20.

While we don't comment on specific clients, or on commingled fundraises until final close, we like where we sit today. Our incremental fundraising pipeline is robust, and we are optimistic with regard to our goals for ’21 and ’22.

Turning to Slide 10, to put a point on that, I want to simply say that we remain comfortable with our target of 15% to 20% fee-related earnings growth in ‘21 compared to 2020. We believe we have ample opportunity to achieve that goal and our enthusiasm with regard to our prospects.

We do think it is important that our shareholders understand what we expect quarter to quarter and I want to note that we do not expect and have never modeled achieving our 2021 goals with an equal distribution of quarterly financial performance.

As you know, when raising specialized or commingled funds, they charge fees on committed capital, have catch-up management fees and have closings throughout the year, growth in management fee revenue is not equally distributed. In addition, fee-paying assets under management ramp up as we win new mandates and as fees from contracted not yet fee-paying assets under management turn on and new investments are made.

Consequently, you should expect to see our management fee revenue ramp quarter to quarter and should not expect an equal distribution of fee-related revenue throughout the year.

Finally, there is some modest seasonality to some G&A expenses that we experience in the first quarter. Consequently, we expect first quarter fee-related revenue growth relative to the fourth quarter of 2020, but we do not expect first quarter '21 fee-related earnings growth relative to the fourth quarter of 2020. And we wanted to note that such a result is consistent with us achieving our full year 2021 target of 15% to 20% fee-related earnings growth over 2020.

And with that, Jon, I will turn it over to you.

Jon Levin: Thank you, Michael. As Michael mentioned, our flexible platform across the full range of alternatives, deep bench of talents, and focus on creating value for our clients continues to propel our success.

Our core philosophy is that we succeed when our clients succeed. And our secret sauce is our flexibility to create creative solutions for our clients regardless of their needs and to do so in a scalable fashion. This strong value proposition drives long-lasting relationships with our more than 500 institutional clients.

We have a track record of growing and evolving with our clients over years and decades both within and across investment strategies. Nearly 40% of our clients currently work with us across multiple verticals and we see potential for this number to continue to grow.

As Michael noted, we have experienced consistent growth across revenue and profitability over the last three years, including double-digit compound annual growth rates for our adjusted EBITDA and adjusted net income.

In general, we are seeing a tremendously active environment which is providing a lot of momentum for our business, all while working remotely due to COVID. As we discussed during our August merger presentation, we have invested heavily in the business over recent years at the temporary detriment of our margins, to build out extensions of our platform that we believe drive a strong value proposition to clients and will have a high return on incentive for our business.

In particular, these investments relate to growth in higher fee areas such as secondaries, co-investments, direct investments, and ESG and impact investments. As these strategies continue to scale, we expect to see continued margin expansion.

We also continue to focus on additional product, channel, and geographic growth opportunities. And as we've talked about in the past, the breadth of our platform gives us tremendous optionality in how we grow.

Slide 11 breaks down our 2020 fundraising in more detail. We've historically raised significant capital from existing clients and this year was no different with more than 85%. The fact that our clients consistently choose to grow their relationships with us is the best endorsement of our value proposition.

As Michael said, I'd expect our ratio to come down as we come out of COVID and we're in the midst of marketing, a number of specialized funds this coming year. To that point, the primary driver of our fundraising flows in 2020 were separate accounts primarily within private markets strategies.

While specialized funds represented a minority of total capital raised in 2020, we reached the final close on two specialized funds; our second co-investment fund GCF II, which closed at $540 million, and our first of Labor Impact Infrastructure Fund, which closed at $893 million. While we continue to see strong environmental-raising customized separate accounts, our expectation is that specialized funds will represent a more significant dollar value of our fundraising in 2021 and also in 2022.

As we've spoken about the past, we forecast raising approximately $7.5 billion across six funds over the next few years, which equates to $68 million in annual revenue by the end of 2022. In 2021, we will be in the market with four of those funds, Advance I, GSF III, CIS III, and MAC III.

As Michael noted, while we don't disclose fundraising numbers by fund until a fund has had its final close, we continue to feel good about the fundraising environment generally. Due to the timing of these raises over 18 to 24 months and the ramp-up in specialized fund management fees and subsequent closings, we anticipate that management fee growth will be weighted towards the back half of 2021. In comparison, our catch-up management fees in Q4 of 2020 were relatively small at $400,000.

It is important to note that while we want to drive each strategy forward and so we desire a certain amount of fundraising for all that do we are largely agnostic as to whether we raised capital for Fund A versus Fund B, or for a specialized fund as compared to a customized separate account within a particular strategy.

To be direct if we propel our conversation around a $100 million investment into one of our specialized funds into a $100 million-dollar customized separate account that has the potential to grow and add more capital in the future or vice versa, we win and that is, in effect, one of the real strengths of the breadth and flexibility of our platform.

Finally, as you see, we raised significantly more capital for private markets in 2020 compared to absolute return strategies. If you asked us a year ago, we would have said investors are very positive around private strategies and neutral around absolute return strategies. We expected that net outflow for absolute return strategies in 2020 and it was.

However, as Michael noted earlier, absolute return strategies provided significant alpha generation and performed very well in 2020 and we've experienced a shift in investor sentiment on the heels of that and now anticipate modest positive return strategies flows in the first quarter.

Now, I'll let Pam walk you through our earnings in more detail.

Pam Bentley: Thanks, Jon. I'm thrilled to be a part of the GCM Grosvenor team and help the firm build on its five-decade legacy of excellence.

As Michael and Jon both mentioned, 2020 was a strong year on a standalone basis and also from a momentum-building basis for the business, placing us on strong footing heading into 2021. Specifically, as Michael mentioned and you can see on Slide 14, in 2020, we experienced year-over-year increases for fee-related earnings, adjusted EBITDA and adjusted net income.

Notably, our adjusted net income reflects the 25% blended federal and state effective tax rate. And for compatibility, we also applied this rate to pretax adjusted net income for periods prior to the incorporation of the public company.

As Michael also mentioned, one of the most significant drivers of our overall performance this year was the strong investment returns in our absolute return strategies business on both an absolute and a relative basis to our peers, which provide significant tailwinds for that vertical.

So that you can easily see the revenues and expenses associated with incentive fees, we have presented our private market's carried interest as well as our annual performance fees on our growth basis and I will talk a bit more about that in a moment.

Despite our growth and incentive fee revenues for the quarter and the year, we continue to be highly management-fee-centric with over 85% of our net fees coming from management and administration fees. Our management fees increased quarter-over-quarter, and as we have noted, we have a strong trajectory of significant embedded management fee growth going into 2021.

Although we have performed well relative to the market and our peers across absolute return strategies, the challenging first quarter of 2020 did affect our total annual management fees.

With regard to private markets, it's important to recognize the impact of catch-up management fees and we had $4.7 million left in catch-up management fees in 2020 as compared to 2019 based on the timing of when our specialized funds were in the market.

Our fee rates across strategies were relatively consistent over the course of the year although we have continued to see a significant mix shift in absolute return strategies fees towards fixed plus performance fees.

I touched on incentive fees a moment ago and want to go a bit deeper here in terms of our incentive fee-related compensation. We have two forms of incentive fees, carried interest which is largely from private markets; and annual performance fees, which are largely from absolute return strategies. Employees share in this stream in two ways, by formula and by discretion.

For carried interest, we contractually allocate approximately 50% to employees. The firm received its share of carried interest, net of fees contractual obligations, and then also nets out carried interest owned by non-controlling interest.

Given our strong total incentive fees in 2020, we then determined the amount of net incentive fees available for discretionary incentive fees-related bonuses. While we pay approximately 50% of our carried interest to employees, the incremental margin on performance fee revenues, net of incentive fee-related compensation is quite high and we expect that to be north 70% in the future.

The net impact of this approach is such that we expect the firm to have an attractive and accretive margin on total incentive fees north of 50% in the aggregate. We hope providing greater transparency on these various line items helps to more clearly illustrate how we manage the business and we will continue to provide this transparency going forward.

More broadly, operating expenses were 10% lower year-over-year due to a combination of lower travel and lower office-related G&A expenses. While some expenses have declined as a result of COVID will return, there will be some cost savings that we expect to remain permanent and we are carefully evaluating how we manage our office space and travel cost in the future.

We are also consistently focused on how we manage our headcount and compensation which are the most significant drivers of our expenses. 2021 will be a building year both as we add to the infrastructure needed as a new public company, and more importantly, through making strategic investments in adding key business development personnel to fuel our future growth.

Turning to Slide 15, as a part of the going public transaction, we plan to award 4.8 million restricted stock units to our employees that for the most part will vest in three annual installments starting March 1st of this year. We expect any additional awards made in the ordinary course over the next several years will be much lower than these initial transaction-related grants and in line with market levels.

Our disciplined approach to expense management also extends to our capital structure. And as Michael mentioned earlier, consistent with what we told the market at the time of our transaction to go public, we intended to use proceeds to pay down debt. We have done that over the course of the last few months, starting with $42 million outstanding on our revolver in November, and this week, we paid $50 million of our term loan.

Simultaneously with this payment, we extended our debt by three years and reduced our cost of debt, which combined with the paydown, translates into run rate quarterly interest expense of $3 million starting in the second quarter of this year compared to almost $6 million in the fourth quarter.

In 2020, we experienced a combination of double-digit absolute return strategies performance, materially lower expenses year-over-year and strong ending fee-paying AUM and contracted not yet fee-paying AUM. The combination of these factors led to higher fee-related earnings for the year.

As Michael spoke to earlier, for 2021, we continue to believe 12% to 15% fee-related revenue growth year-over-year is well within our sight. This translates to 15% to 20% growth in fee-related earnings in 2021 over 2020.

It is worth noting that previously provided guidance for other metrics, such as adjusted net income, are not as applicable going forward as they did not reflect the 25% statutory tax rate or our final post-transaction capital structure.

During any period in which we have several specialized funds in the market, there will be quarter-to-quarter noise in our fee-related revenues, and therefore fee-related earnings due to catch-up management fees. This will be particularly relevant for 2021. While we expect to achieve 15% to 20% fee-related earnings growth for the year, it will not happen linearly through the year.

Due to higher seasonal G&A expenses in the first quarter as well as the anticipated timing of fundraising and contracted not yet fee-paying AUM conversion into fee-paying AUM, we expect fee-related earnings to decline modestly in the first quarter of 2021 as compared to the fourth quarter last year, but then ramp up over the remainder of the year with the highest increases coming in Q3 and Q4. That said, we do expect a modest increase in fee-related revenues in the first quarter compared to last quarter.

We also anticipate our fee-related earnings margin to slightly increase in '21 over '20. Given the scalability embedded in our business, we continue to target longer-term fee-related earnings margins in the mid to high 30s.

In summary, we are very pleased with our 2020 results, believe we have strong embedded growth and further growth opportunities in 2021, and expect to leverage our past investments to achieve operating scale into the future, all of which make us excited about the strong trajectory of the business.

With that, we thank you for joining the call and are happy to open it up for questions.

Operator: Our first question comes from the line of Ken Worthington from JP Morgan. Your question, please.

Ken Worthington: Hi. Good morning. Thank you for taking my question. The contracted not yet fee-paying AUM now 12% of fee-paying AUM and if we look at your bar chart, that's up quite a bit from two years ago. Can you give us maybe a little more granularity into that pipeline within the separate account private markets business and talk about why this growth outlook or why this pipeline is so much bigger relative to fee-paying AUM today than it was last year or the year before?

Michael Sacks: Sure. Ken, it's Michael Sacks. Thank you for joining the call and thank you for the question. I think simply, it represents growth for the private markets custom separate account business. It represents significant re-up activity, and it represents significant new account activity. Generally, you've seen, in the industry at large, some shift to pay on ramp and repay on – pay as invested as opposed to, "on committed", which is still more common in the commingled fund world. But for separate accounts, you've seen this industry wide and I think the only way to look at that number and the growth in that number is, in fact, as growth for our custom separate accounts business and private market space and it's a very constructive thing.

Ken Worthington: Okay. Thank you. And then maybe in January, there was significant volatility in the market, a bunch of de-grossing by hedge funds and there were some hedge funds in the market that generated significant losses. You have some disclosure on Grosvenor products that generated negative returns in January. So maybe broadly, can you tell us about January? How did Grosvenor's due diligence hold up on the funds that you're invested in, how did returns hold up in this volatility and any other color you can give us on January and any recovery sense?

Michael Sacks: Sure. From an overarching perspective, our view, January really was not a hedge fund story or about hedge funds. It was about other market factors, retail investors, [market making], liquidity, et cetera. It was a small subset of long short equity managers, which is a small – which is a subset of hedge fund managers, so a small subset of long short equity managers that were directly impacted by volatility and a couple of those highly shorted names that were squeezed.

There was – this was much less impactful for us than, say, March of 2020 was, and we believe we've experienced a near full recovery already since the end of January. Frankly, our view is that the volatility in January shows the value of working with a firm like Grosvenor to deploy a series of hedge fund investments, it shows the importance of the approach we take, which is highly diversified across strategy, across manager, across market when deploying or creating a portfolio of hedge funds.

And then finally, I would just add that we've seen this, subsequent to January, but periods of time with a lot of volatility, a lot of dispersion and high retail participation are typically pretty good periods of time from an investment perspective. For hedge funds, this is no commitment about the future, but that's been the past. In fact, we saw it last year and we've seen a pretty significant recovery already. So that's kind of generally our view on that and feeling very constructive about the business with modest, positive net inflows of capital expected for the first quarter here.

Ken Worthington: Yes. And then just one final, I guess technical one. If a client did put in a redemption – got freaked out on what happened in January and put in a redemption request during the month of January, would that redemption request be honored and represented in 1Q flows or would that generally not be honored until 2Q or later and therefore impact forward sales rather than 1Q sales?

Michael Sacks: That's actually a really good question because – so first, we didn't see that type of freak-out at all and we didn't see that type of activity and as I said, we're expecting modest, positive inflows in Q1, which is a very significant change from where we were in Q3, Q4 got even – got better compared to Q3 pretty materially and then Q1 is modest, positive inflows, which is great.

But unlike last year, 2020, when you had a lot of volatility in the last month of a quarter, you had it here in the first month of the quarter and if a client really did freak out and want to move quickly, they could make an adjustment for that quarter end still from a timing perspective, but where if you had it at the end of March, you missed some time. The bottom line is we didn't have that, and this was, as I said, much less material than March of 2020 and the recovery has been very fast.

Ken Worthington: Awesome. Thank you for taking my questions.

Operator: Thank you. Our next question comes from the line of Chris Shutler from William Blair. Your question, please.

Chris Shutler: Hey. Good morning, everybody. Michael, you just mentioned you're expecting modest inflows, net inflows, in the absolute return business in the first quarter. Can you provide any more context around what you're seeing in that business from a demand perspective, whether it's searches, RFPs or any other metrics?

Michael Sacks: Sure. I mean, in general, I think you've got now – assume we have modest inflows at the end of Q1 here. You've got a – you've got a good picture of three quarters here where you have seen a pretty significant change in direction and you're definitely just seeing more search activity, you're seeing more interest, you're seeing – you're seeing more flow and we're not getting carried away and sort of moving off base case assumptions. We're very constructive on our private markets – our private markets verticals and the opportunity that they provide us for FRR and FRE growth, but you just have, in fact, seen a shift in momentum in ARS and we'll keep carrying – we'll keep seeing how that evolves over the year.

Chris Shutler: Okay. Fair enough. And then Grosvenor, I know you take a lot of pride, have always been at the forefront of investing in diverse managers. Just given the events of the last year, I would think those capabilities are more in demand now than ever. So maybe just an update there, what you're seeing and how you expect it to play out in the – in flows over the next couple years.

Michael Sacks: Yes. There's significant demand for diverse managers, which is an area within the alternative investment universe that we are a leader in. And net demand, for better or for worse, may have been spurred by the events of last year. But the returns, frankly, that diverse managers have provided for as long as we've been invested there have been fantastic and the diverse managers, MWBE-owned alts firm should be attracting a lot more capital than they do. Purely on the quality of the return that they provide and so we think that's a business that grows – that's a vertical that grows for us over time.

Chris Shutler: Okay. Then lastly just in the – in the – in the private markets business, we've seen a few of your competitors introduce evergreen products. So maybe just highlight for us what Grosvenor does in that area today and what your aspirations are.

Michael Sacks: Sure. We do have some evergreen funds, commingled and we have some evergreen custom separate account relationships, and they have kind of grown relative to the total over the last couple of years. I think that before you get to talking about the particular mechanism, in general, institutional investors in particular have a lot of capital to deploy in the private markets alternatives and market conditions globally reinforce that and we've seen significant growth and we believe that growth will continue.

So there's kind of, in general, less interest in seeing money returned and then recycled. Many institutional investors have a hard enough time keeping up their level of investments without recycling and so things like evergreen funds or continuation funds from private equity general partners, are growing in sort of adoption and market share and we suspect that, too, will continue.

Jon Levin: And one point I'd add, because I think it's relevant to all three of the questions you asked, which is the optionality that we see from the open architecture platform that has the ability to invest across the alternative spectrum and has the ability to work with clients in commingled form and custom form is really the key kind of message in all that.

So, we don't have to necessarily predict is the mood in hedge funds that we have seen going to continue to change? What is the mood going to be around diverse managers? What we really like about the platform is the ability to be responsive to client needs based on the changing marketplace and then being able to structure the relationship with the clients in a way that makes the most sense for them.

Chris Shutler: Yes. Makes sense. Okay. Thanks very much.

Operator: Our next question comes from the line of Michael Cyprys from Morgan Stanley. Your question, please.

Michael Cyprys: Hey. Good morning. Thanks for taking the question. I just wanted to come back to your fee-related earnings expectations. So, we understand you have 15% to 20% target in 2021, and you outline the visibility on those six funds you expect to raise through 2023. I guess how would you characterize this sort of growth period through 2023?

Is this now a super cycle of raising funds, in your view, that likely decelerates post 2023 or how do you think about the growth rates that can be sustained post 2023? As I think about the long-term sustainable growth of the business, what would be the key drivers once these sort of six funds are raised?

Michael Sacks: Right. So, first, I would say that there are other verticals where there are not funds in market today that will have their successor funds coming into market in 2022 and 2023. So, we think that we will, on the commingled fund side, continue to have product in market and continue to raise capital, and we think that's important to understand.

We just sort of gave a picture of the next couple of years, but you can logically look at the other commingled activities that we have, and you can kind of see when you think the next fund would come. So, it's not like that ends and it goes dark for a period of years.

Separately, I think turning to the separate account business and the significant growth you've seen in our CNYFPAUM that then turns into FPAUM, we think that there is strong demand for alts, period. We think there's strong demand for private market alts. We think there's strong demand for co-invest, and that's growing, and we think that will continue. We have said earlier on the call, 50% to 80% annually of our new capital comes from existing clients and then we add new clients to round that out. There's considerable growth that we believe exists in the existing client base that will sustain that growth in the private markets business.

Jon Levin: And Michael, one way to see that quantitatively, which was a little bit related to the question we received from Ken earlier. If you look in the earnings presentation where you can see the AUM roll forwards and CNYFPAUM roll forwards on page 31. In 2020, is an example where it was not a significant year with respect to specialized fund raising. You saw $2.3 billion of fee-paying AUM contribution coming from CNYFPAUM and at the same time, you saw $2 billion of growth in CNYFPAUM through the course of the year. So, if you think about the earnings power that comes from that type of dynamic, that's a pretty powerful metric to be looking at as well.

Michael Cyprys: Great. And just maybe turning to incentive fees, was hoping maybe you could elaborate a bit on how much came in the quarter from absolute return strategies versus private markets, in terms of the performance fees that came through? And maybe just a little bit of color around the vehicles or strategies that it came from. And how would you characterize – I think it was roughly $70 million or so of incentive and performance fees. How would you characterize that? Is that outsized in your view and how should we be thinking about what is achievable, sustainable run rate as we go forward from here?

Michael Sacks: Sure. Pam, maybe you can give some of the precise numbers, but I will tell you Michael, that that was kind of broad-based – that was significantly the result of broad-based, strong returns in the absolute return strategies vertical, not necessary to differentiate, frankly, within that as far as strategy. It was just a very good, strong quarter and good, strong year.

And what I would say is while a year like that is certainly within the realm of the possible, it is above our base case expectations when we, for example, modeled that vertical in our merger presentation. We assumed a lower level of return maybe and a lower level of fees. So, we want to be clear about that. It was indeed a good year.

Pam Bentley: That's right, and also just to add to that, if you look at page 14 of our presentation where we did break out the incentive fee revenues from both performance fees and carried interest, to your question. Yes, you're seeing $53 million of performance fees, the majority of that hit in the fourth quarter, and then you see our $59 million of growth carried interest. But as we've spoken about before, with the 50% contracted compensation for carried interest and then the piece that's owned by our non-controlling interest. The net incentive fee from carried interest is much lower than what you see is the net from performance fees, net of the incentive fee related compensation. So, you can see all those details now in our presentation.

Michael Cyprys: Great. And then just maybe lastly on the accrued carry receivable, I think that was $395 million that ended the quarter on slide 9. Maybe you could just give us a little bit more color on which strategies are the biggest contributors to that receivable and what your sort of expectation is on the timeframe for realizing that.

Jon Levin: I was just going to say, Michael, that I think the safest way – first of all, what I would say is we are very diversified with respect to the carried interest and that's an important to understand with us. Which is, you're talking about over 100 vehicles that would be contributing to that, given the nature of multiple specialized funds, as well as all the different separate accounts. And then you're also talking about that across private equity, real estate, infrastructure. And you're talking about it across primary investing activity, co-investing activity, secondary activity, and a lot of vintage year diversification as well.

I would say that the best way to kind of think about that number, given that broad diversification, and this is a real, I guess, simplistic way of thinking about it, but I think it's probably the best way to think about it. It's going to mirror the relative size of those businesses and verticals inside of GCM, with private equity being the largest. It's definitely the largest share of that gross unrealized carried interest. I think that's probably a fair way to think about it going forward, too, in terms of what that mix is.

Michael Sacks: And I guess the only thing I would add, is that we do think there was a little bit of a COVID-related pause in deal activity last year. It picked up a bunch in the fourth quarter, but we certainly wouldn't be surprised if you saw a higher level of activity and a higher level of realizations this year.

Michael Cyprys: Great. Thanks so much.

Operator: Thank you. Our next question is a follow-up from the line of Chris Shutler from William Blair. Your question, please.

Chris Shutler: Thanks. Just one quick one. In the 15% to 20% FRE growth that you expect in 2021, what are you expecting in terms of catch-up fees?

Michael Sacks: Pam, in our FRR growth, do we have a – you want to try to help answer that?

Pam Bentley: Yes. Relatively, the catch-up management fees will hit primarily in the back half of the year based on the timing of fundraising. Not expecting – on a year-over-year basis, most of all our funds will be in the market for the first time this year. So, when you look at 2021 versus 2020, there won't be a lot of catch-up – it'll be part of the run rate. It won't be much catch-up management fees for the year.

There aren't any funds in the market that had had their first close in 2020, is the way to think about that. So, it's really not part of the growth.

Chris Shutler: Right. Okay. Got it.

Jon Levin: For example, it's really a quarter-to-quarter point in the year versus a carryover concept from the prior year, to say it another way.

Chris Shutler: Yes. Yes. Got it.

Michael Sacks: If MAC III has a first close halfway through the year and a final close in the – at the end of the fourth quarter, you'll have some catch-up management fees intra year, but not that would impact 2021 versus 2022.

Chris Shutler: Right. Yes. That makes sense. Okay. Thank you.

Operator: Thank you and this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Stacie Selinger for any further remarks.

Stacie Selinger: Thank you. Thank you everyone who joined us today for joining the call. This concludes our call, and we hope you have a wonderful afternoon.

Operator: Thank you, ladies, and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.