

GCM Grosvenor 2024 First Quarter Results
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GCM Grosvenor Speakers:

- Stacie Selinger, GCM Grosvenor, Head of Investor Relations
- Michael Sacks, GCM Grosvenor, Chairman and Chief Executive Officer
- Jon Levin, GCM Grosvenor, President
- Pam Bentley, GCM Grosvenor, Chief Financial Officer

PRESENTATION

Stacie Selinger: Thank you. Good morning and welcome to GCM Grosvenor's First Quarter 2024 Earnings call. Today I am joined 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, a reminder that all statements made on this call that do not relate to matters of historical fact should be considered forward-looking statements. This includes statements regarding our current expectations for the business, our financial performance, and projections.

These statements are neither promises nor guarantees. They involve known and unknown risks, uncertainties, and other important factors that may cause our actual results to differ materially from those indicated by the forward-looking statements on this call. Please refer to the factors in the Risk Factors section of our 10-K, our other filings with the Securities and Exchange Commission and our earnings release, all of which are available on the Public Shareholders Section of our website.

We'll also refer to non-GAAP measures that we view as important in assessing the performance of our business. A reconciliation of non-GAAP metrics to the nearest GAAP metric can be found in our earnings presentation and earnings supplement, both of which are available on our website.

Our goal is to continually improve how we communicate with and engage with our shareholders and in that spirit, we look forward to your feedback.

Thank you again for joining us, and with that, I'll turn the call over to Michael.

Michael Sacks: Thanks, Stacie.

The first quarter of 2024 was strong from the perspective of both our investment performance for clients and our business performance. Our funds performed well on an absolute basis and relative to peers. With regard to business performance, the first quarter of 24 was one of the strongest we have reported with regard to year-over-year increases in fundraising, adjusted net income and fee related earnings growth, as well as FRE margin. Year-over-year, Q1 fundraising

was up 74%. Adjusted Net Income grew 39% and Fee-Related Earnings grew 26%. Our first-quarter Fee-Related Earnings margin surpassed 40% for the second consecutive quarter.

The quarter was a pleasant change from the first quarters of the last four years, which were marked by Covid, Russia's invasion of Ukraine, the meme stock debacle and, just a year ago, bank failures. While we are always conscious and prepared for the type of volatility and disruption we have seen recently, and we are focused on the possibility of continued global geopolitical volatility, particularly in an election year in the US. It feels great to have gotten off to a good start this year.

We are broadly above high water in Absolute Return Strategies and therefore enjoy increased performance fee prospects. However, the first quarter remained depressed in terms of carry revenue. Announced private transaction volume is up and we look forward to an increase in closed transactions and attendant carry distributions in the future. Generally, our prospects are good and we continue to believe in our ability to double 2023 fee related earnings by the end of 2028. We look forward to moving toward that goal throughout the year.

The \$1.6 billion of capital raised in the quarter was the largest quarter of fundraising in the last 6, and the second highest first quarter total since we started reporting earnings during the quarter. Absolute Return Strategies was the highest contributor to fundraising at nearly \$500 million, resulting in modestly positive net ARS flows. Recent performance has been solid in Absolute Return Strategies, with the GCM Grosvenor multi-strategy composite achieving gross performance of 4.8% in Q1 and 12.3% over the last 12 months. Despite the good news, we are not changing our general expectation of flat net flows over time, with growth primarily from compounding in the ARS vertical. Consequently, we do expect we will have some negative outflow periods this year while we enjoy revenue growth from performance.

In addition to Absolute Return Strategies, Private Equity and Credit were the other significant contributors to first quarter fundraising. In the case of Private Equity, where we raised almost \$500 million, re-ups were a key driver. We've spoken in the past about our high re-up rates and page 10 of our earnings presentation, which Jon will cover, makes it clear that this is a powerful feature of our business that will continue to aid growth going forward.

On last quarter's call, we discussed the general market momentum around private credit and our solution for clients in that vertical. We raised nearly \$400 million in credit this quarter across customized separate accounts and specialized funds, including an additional \$128 million of commitments to SCF II, our credit co-investment fund. During the first quarter, we hired two additional team members to bolster our direct credit investment capabilities. We believe our value as a solutions provider and our unique origination position enable us to grow private credit meaningfully from these levels.

We are always looking for both investment opportunities to help us deliver performance and the opportunity to grow our relationships with existing investors while adding new investors. The breadth of our platform is proving to be a real asset in the pursuit of those goals. We have and will continue to identify and pursue growth in adjacent investment strategies, such as our Elevate and Impact strategies, and in broader distribution channels, including individual investor channels. Looking across the platform, I'm excited for the numerous ways we have to add value to clients, win and grow the business for shareholders.

Thanks for joining us today. And with that, I'll turn the call over to Jon.

Jon Levin: Thank you. Michael.

Each quarter we drill down on a particular area of our business. In my section of the prepared remarks today, we're going to cover our customized separate account capabilities in a bit more detail. Our market leading, customized delivery model has been a cornerstone of our historical success, provides stability and predictability to our financial results, as well as significant opportunities for growth. Customized separate accounts represent 73% of our AUM as of Q1, and a similar amount of our fundraising in any given quarter.

We intentionally focused on building the separate account capabilities at our firm almost 30 years ago, long before it was a normal market practice, because we believe that offering a flexible solution was in the best interest of investors. Frankly, we probably didn't realize back then the extent to which offering that solution was also a great foundation for the firm from a business perspective. The initial client acquisition is usually the result of a fairly long, intense, and often competitive process. But the reward and victory are relationships that are often perpetual-like in their long-term nature. We do not take this privilege for granted. We work hard each and every day to collaborate with our partners to drive value in these relationships. We have been rewarded with long standing and growing partnerships, as evidenced by relationships that are almost 30 years long and a 15-year average relationship length of our largest customized clients.

To put some financial metrics around this topic, I point you to page 10 in our earnings presentation. This page depicts an illustrative program that starts out with a \$100 million commitment, with a three-year investment period. Our experience is that at the end of the three-year investment period, 90% of clients will re-up their program at a nearly 30% larger size than the original commitment.

That new program is layered onto the first-generation program, and that layering continues on a 3-year cycle. Hence, what was initially a \$100 million commitment easily becomes \$500 million of fee-paying AUM in a dozen years, creating this built in growth dynamic that we've discussed frequently with our shareholders. We have dozens of these programs across our business and different strategies and sizes, representing \$58 billion of capital.

Each relationship that underlies a separate account also embeds attractive growth opportunities. Over the last 2 years, 25% of our capital raised has been from existing clients, but into new incremental programs. Such relationship extensions are a natural feature of the customized separate account business and the nature of those relationships. More than 50% of our top clients work with us in more than one strategy.

Our customized separate accounts have also been a driving factor in our meaningful shift towards direct-oriented investment strategies over recent years. The majority of our clients have made a meaningful shift towards including co-investments, secondaries and direct investments into their programs.

We need to earn every re-up and every new client win by delivering strong investment performance and exceptional client service. But assuming we continue to deliver, our customized separate accounts will provide both stability and a meaningful tailwind to our growth. Looking forward to the remainder of 2024, we have more than \$4 billion of separate account re-ups in our pipeline, providing key support for what we expect will be a stronger fundraising and outcome in 2024 as compared to 2023.

We're truly proud of the culture and platform built over many years that enables us to offer these highly value-added specific solutions to our clients.

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

Pam Bentley: Thanks, Jon.

Our results for the quarter were consistent with our expectations and reflect a strong start to the year.

Assets under management were \$79 billion as of quarter-end, a 5% increase from a year ago, and Fee-Paying AUM increased 6% year over year. Private markets continues to be a key growth driver, with private markets Fee-Paying AUM growing 7% year-over-year. As of quarter end our private markets business represents 70% of total AUM and 65% of our Fee-Paying AUM.

Private markets management fees, excluding catch up fees in the quarter, grew 7% year over year, in line with our guidance of mid to high single digit growth. We expect a similar year over year growth rate in private markets management fees, excluding catch up fees in the second quarter. For the full year 2024, we reaffirm our expectation of double-digit private markets management fee growth, excluding catch up fees.

Absolute Return Strategies management fees were stable in Q1 as compared to last quarter, and we expect second quarter ARS management fees to rise slightly on a sequential basis. Most importantly, we are pleased with our ARS investment performance for the quarter, which builds on our strong performance last year.

Administration fees and other operating income was \$2.9 million in the quarter. The increase from the prior quarter was due to a \$1.8 million contractual fee, related to an end of a particular client program. We expect administration and other operating income in the second quarter to return to 2023 quarterly levels.

We realized \$10 million of incentive fees in the quarter, including \$6 million of ARS performance fees, the majority of which are from programs that crystallize fees annually on March 31st. We believe our incentive fees provide significant embedded earnings potential, which we look forward to being unlocked as the capital markets and M&A environment improves. While it's difficult to predict the timing of carry realizations, the high diversification of our carry makes it especially valuable given its limited single asset exposure. As of quarter end, we have \$779 million in gross unrealized carried interest, diversified across 140 programs. On top of that, our run rate annual performance fees, which are tied to ARS investment returns and typically crystallize in the fourth quarter each year are \$29 million assuming 'normalized' annual returns of 8% for multi-strategy and 10% for opportunistic investments.

Turning to our expenses, our compensation strategy is rooted in fostering alignment between our employees, clients, and shareholders. As expected, Q1 FRE compensation of \$37 million was consistent with our 2023 quarterly average. We do expect a modest uptick in FRE compensation expense in the second quarter. In Q1, we had a 40% margin on the firm's share of incentive fees, and we expect that to increase over time as our total incentive fee revenue and the firm's share of that revenue increases. Separately, our stock-based compensation was higher in the first quarter, consistent with the same period of last year. We expect stock

compensation expense to decrease significantly in the second quarter to levels just above Q2 of last year.

We remain disciplined in managing expenses, and non-GAAP General and Administrative and other expenses were \$19.7 million in the quarter. We expect similar levels next quarter, with the potential for a slight uptick from increased travel.

Pulling together these factors. On a year-over-year basis, Fee-Related Earnings grew a healthy 26% in the quarter and Adjusted Net Income grew 39% in the quarter. Our Fee-Related Earnings margin grew from 34% in the first quarter of 2023 to 40% in the first quarter of 2024. We expect our Q2 FRE margin level to be closer to that of the full year of 2023. That said, we enjoy significant operating leverage, and our overall FRE margin trajectory for the full year is expected to move upward despite any quarterly fluctuations.

Our balance sheet is strong, and we are very comfortable with our capital structure. We launched a transaction this morning to extend the tenor of our term loan two years from 2028 to 2030. For almost 20 years, we have run our business with a modest amount of leverage to enjoy the attractive cost of capital, and we have always been vigilant about managing duration. The current market provides an attractive maturity extension opportunity. If completed, subject to market conditions, the transaction will result in a modest \$50 million upside to our term loan. The incremental cash will be used for general corporate purposes, continued investments in the business, and opportunistic stock repurchases.

We are maintaining a healthy quarterly dividend of 11 cents per share, or an annual yield of 4.6% as of last Friday. There is room for future dividend growth as we enjoy positive momentum in our Fee-Related earnings. We also continue to repurchase shares under our repurchase authorization plan. Year-to-date through April, we have repurchased \$28 million of stock through cash settlement of stock-based compensation issued to employees, leaving \$37 million in our share repurchase program as of the end of April.

We continue to have confidence in our 2024 financial objectives, including double-digit growth in private markets management fees, excluding catch up fees, stabilization of ARS management fees, expanded FRE margin and significant growth potential in our incentive fee revenues. Looking further into the future, we are focused on doubling our Fee-Related earnings in the next five years, with further Fee-Related earnings margin expansion. We look forward to the opportunities ahead to deliver value to our clients and shareholders.

Thank you again for joining us. And we're now happy to take your questions.