GCM Grosvenor 2024 Third 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 Third 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 and good morning, everyone.

We are pleased to report another solid quarter and are on our way to a strong full year for 2024.

On a year-to-date basis our Fee-Related Earnings increased 18% and Adjusted Net Income increased 24% over the same period in 2023. Our Fee-Related Earnings margin was 41% for the quarter compared to 31% at the end of 2020, and we continue to believe that we have margin expansion opportunity.

We believe that “we succeed when our clients succeed”, and this quarter we again delivered value to our clients. Performance across our business was solid across investment verticals. Absolute Return Strategies performance has been particularly strong, with our multi-strategy composite generating a 12.5% gross rate return over the last 12 months. We similarly enjoyed portfolio appreciation year-over-year across Private Equity and Infrastructure strategies. Real Estate valuations have largely stabilized and the environment there is good with regard to investment opportunity.

Capital formation activity continues to improve across the business, and we are seeing signs of improvement in realization activity. We raised $1.4 billion of new capital in the quarter, bringing our year-to-date fundraising total to $4.8 billion, a 34% increase year-over-year. We have seen tremendous growth in late-stage pipeline opportunities, which is up over 70% today from a year ago with every investment strategy is showing incremental pipeline growth. We continue to expect fundraising in the second half of the year to exceed the $3.4 billion we raised in the first half of the year, and we see strong fundraising momentum heading into 2025.

The composition of our recent fundraising highlights the key business drivers we’ve discussed on recent calls – the shift to private markets, the shift to direct oriented investment strategies, the power of our separate account model, and the particularly strong tailwinds behind infrastructure and private credit.

Over the last three years, 89% of the $20 billion capital we have raised was for private markets strategies, and nearly 50% was for direct oriented strategies. Today, 71% of our AUM is in private markets strategies and 40% in direct oriented strategies. Both of those numbers will continue to increase based on recent fundraising trendlines. Notably, the financial performance of our Absolute Returns Strategies has stabilized as expected.

Earlier this year Jon discussed the stability and growth embedded in our separate account business. The re-up cycle of separate accounts is a powerful foundation of our growth. 42% of our year-to-date fundraising has been in Private Equity, largely driven by separate account re-ups. Our separate accounts are programmatic in nature and are core exposures inside of our clients’ portfolios. We have a considerable re-up pipeline looking out over the next year.

Investors continue to increase allocations to Infrastructure and Private Credit, and we are well positioned to be part of the solution for them. You may have seen analyst reports about a sell-side event we hosted last quarter spotlighting the competitive advantages of our infrastructure platform – we are experienced, we are global, our track record is good, we can implement all different types of investments, and our sourcing engine is powerful. These differentiators have led to success with our Infrastructure AUM doubling over the last 4 years. We see further growth in the future.

In the case of Private Credit, we are positioned to provide holistic solutions for client portfolios. That includes serving as a single point of entry for the entirety of a client’s private credit allocation and providing complementary credit co-investment and secondaries exposures. Investors continue to grow and evolve their private credit allocations, so the growth potential to scale with them is significant. Credit was our fastest growing vertical by AUM over the last year, and we expect continued momentum there.

We remain confident in our 5-year growth target of doubling 2023 Fee-Related Earnings by 2028, and this year is on pace to achieve that goal. At the same time, we see significant latent earnings power in our incentive fee opportunity which will benefit growth in Adjusted EBITDA and Adjusted Net Income to an even greater degree.

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

Jon Levin: Great, thank you, Michael.

The individual investor channel, for good reason, is quite topical in our industry these days. And we have a lot going on in this area at GCM. So that will be the focus of my comments today.

Individual investors account for roughly half of the total global AUM, so approximately $150 trillion. And this AUM is significantly under allocated to alternatives. Even if individual investors just get to a 15% allocation, which is around half of a typical institutional target, that is still trillions of dollars, so the opportunity is massive.

The individual investor channel is not a singular, homogenous group. It's a broad spectrum of individuals in terms of asset and accreditation levels, who are reached through a broad spectrum of distribution channels. Success requires a sophisticated and multi-faceted approach to delivering solutions to these individuals.

For the past several years, we've focused on strengthening our presence on wirehouse distribution platforms. We've raised capital via a range of vehicles, including registered funds, qualified purchaser specialized funds and custom solutions for single individual investors as well as for advisors who may use a single tailored solutions for multiple clients. We've raised capital in the US, Europe, and Australia across absolute return strategies as well as private market strategies. We've raised $3.1 billion since 2020 from individual investors, comprising nearly 10% of our fundraising over that time period.

The next stage of our growth plan is centered around launching a suite of interval fund private market products for both accredited and non-accredited individual investors. It will be sold through a broader range of distribution partners, including RIAs, independent broker dealers, and the wirehouses. Success in this market hinges on a strong investment strategy, a well-designed product, and robust distribution resources.

This quarter, we reached two significant milestones in our growth strategy, both centered on forming new partnerships around new registered products. First, we announced that we will serve as a core independent manager to the Axxes Private Markets Fund. We will be Axxes' investment partner, focused on sourcing and executing a diversified portfolio of private equity co-investments and secondaries.

Second, we announced a new strategic partnership with CION Investments focused on infrastructure. CION has a long track record of successfully raising capital from the individual investor channel, and we're excited to partner with them to distribute a product to a broader audience. As you may recall from our second quarter call, we secured a $300 million anchor commitment for this effort. Such an anchor commitment is a great advantage in this market, as it provides immediate scale at launch.

While both of these partnerships are in their early stages, we're very excited for their potential growth over the coming years. We also look forward to expanding our suite of products and distribution capabilities. We are excited to update you on future calls about our achievements in this area.

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

Pam Bentley: Thanks, Jon.

We are pleased with our strong results in the third quarter, which built on the momentum we enjoyed over the first half of the year. Year-to-date Fee-Related Earnings grew 18%, Adjusted EBITDA grew 21%, and Adjusted Net Income grew 24% over the same period in 2023.

Assets under management were at a record high of $80 billion as of quarter-end, a 5% increase from a year ago, and Fee-Paying AUM also increased 5% year over year, ending the quarter at a record $64 billion. Contracted-Not-Yet-Fee-Paying AUM ended the quarter at $7.9 billion, an 11% increase from a year ago due to stronger fundraising. As a reminder, our Contracted-Not-Yet-Fee-Paying AUM typically converts to Fee-Paying AUM over the next few years and provides a tailwind to our top-line growth.

Private markets was once again a key growth driver in the quarter, with private markets Fee-Paying AUM growing by 7% year-over-year. Our private markets business now represents 71% of total AUM and 66% of our Fee-Paying AUM.

Private markets management fees grew 6% for the quarter and 8% year-to-date compared to the prior year. For the full year '24, we expect total private markets management fee growth to be 9-11% over the prior year. Where we fall in this range will depend on the exact timing and amount of specialized fund closings in the fourth quarter.

At the beginning of the year, we spoke about our expectation that our Absolute Return Strategies management fees would stabilize in '24, and we are on track to meet that goal. Third quarter ARS management fees increased 2% year-over-year, and consistent with our prior guidance we expect full year '24 ARS management fees to be stable relative to last year.

Turning to our expenses, our compensation philosophy is to align and incentivize our greatest asset, our talent, through a combination of annual and long-term awards, including FRE-related compensation, incentive fee-related compensation, and equity awards. We remain disciplined in managing compensation expenses, and third quarter FRE-related compensation with $37 million. Stock-based compensation was $4 million in the quarter, and consistent with last year we expect a seasonal uptick in the fourth quarter relative to Q3. We plan to continue to use our buyback program to manage dilution from our equity compensation awards.

Non-GAAP General and Administrative and other expenses were $19 million in the quarter, and due to some seasonality, were down slightly on a sequential basis. We do expect those levels to increase next quarter.

Pulling together these factors, on a year-over-year basis Fee-Related Earnings grew a healthy 9% in the quarter and 18% year-to-date. As Michael noted, consistent with our long-term guidance, we expect to enjoy FRE growth this year consistent with our 5-year guidance to double FRE from 2023-2028.

Turning to incentive fees, we realized $23 million in the quarter, comprised of nearly $3 million of ARS performance fees, and more than $20 million of carried interest. As Michael noted, ARS investment performance has been very strong, positioning us to generate meaningful performance fees this year. As of quarter end we had $26 million of accrued, unrealized annual performance fees, which are incremental to the $13 million of annual performance fees we've realized year-to-date.

ARS investment performance has continued to be strong thus far in Q4. Our gross unrealized carried interest grew approximately 5% year-over-year to $816 million as of quarter end. We believe our incentive fees provide significant, embedded earnings potential, which we look forward to being unlocked as the capital markets strengthen and M&A activity accelerates.

Our balance sheet is strong, and we are maintaining a healthy, quarterly dividend of 11 cents per share. There is room for future dividend growth as we enjoy positive momentum in our earnings. We also continue to repurchase shares under our buyback program, and year-to-date we've repurchased $33 million of stock, leaving $32 million in our share repurchase program as of quarter end.

To close, we have confidence in our 2024 and long-term financial objectives and 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.