GCM Grosvenor First Quarter 2022 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 2022 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 facts 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 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 the public shareholder section of 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: Thank you, Stacie. From the perspective of business performance, the first quarter of '22 was a good one with regard to fundraising, revenue growth and profitability. During the quarter, we grew fee related revenue by 10%, fee related earnings by 26%, adjusted EBITDA by 23% and adjusted net income by 26% all compared to the first quarter of '21. Notably, our board again increased our stock and warrant buyback program by an additional $20 million to $65 million in total, both Jon and I will spend more time on that topic.

The strength of our business performance in the first quarter was largely the result of our success in 2021, combined with current period fundraising and good expense management, despite the inflationary environment, we raised $1.3 billion of which approximately 80% was for private markets and 20% was for absolute return strategies. Fundraising was again well diversified across vertical, geography, client channel, and account structure with infrastructure again representing the largest share at 55%.

Our first quarter fundraising included modest specialized fund closes that we did not anticipate at the time of our last call. As with last year, we expect to see larger capital raising totals in the back half of the year. You can see on slide nine from the first quarter of 2021, our firm's share of carry at net asset value grew by $234 million or 129%. And our investments also, grew, increasing by $56 million or 61%. We, again, captured a significant share of the increase in unrealized carry, a trend we think will continue. It's important to note that consistent with industry practice for solutions providers, most of our private markets portfolios are marked on a one quarter lag. Consequently, carry at net asset value and investment values could face headwinds as we roll forward.

During the quarter, our private markets verticals continue to show significant growth and management fees compared to one year ago. Our fundraising pipeline remains robust and our reup rates remain high at around 90%. Absolute return strategies investment performance was down around 5 to 6% through April against equity markets down 13% to 20% plus. First quarter performance was disappointing, but April performance was particularly strong with portfolios generally flat to down 1% against the down 9% S&P 500. The first four months of the year had exhibited strong capital preservation in tough markets. Over reasonable time periods, our returns remain competitive with peers and consistent with client objectives. Historically, this type of environment has provided opportunity to deploy capital and generate return and periods like this can also see increased investor interest.

Despite our confidence, ARS investment performance directly impacts absolute return strategies, management fees, and results in the loss of performance fees. With the extreme levels of volatility today, it's hard to project short term ARS business or investment results, but with flat returns and some modest outflows from May through December '22, our ARS management fees this year would end up roughly in line with fees in 2021. With regard to private market strategies, people have spoken of a crowded PE fundraising landscape. We see that, but we also, think the "denominator effect" and a general caution related to the level of volatility and geopolitical and economic uncertainty are in play and can slowdown the timing of new commitments. We agree with the view that investors remain committed to the alternative strategies and their programs.

Accounting for this dynamic, we believe that our '22 private markets management fees are likely to grow by 15 to 20% over '21. The combination of these factors means we now anticipate '22 fee related revenue growth of 7% to 10% over '21. At that rate of growth, we continue to anticipate fee related earnings margin expansion from last year and believe '22 fee related earnings will grow by 13% to 18% as compared to '21. Importantly, we continue to anticipate double digit fee related earnings growth rates for '23. We believe that geographic expansion, investments in the insurance and non-institutional channels, as well as our ESG and impact capabilities give us the ability to similarly grow fee related revenue and fee related earnings beyond 2023.

It's pretty clear the economic and market environment have changed considerably since we last reported. Equity markets have been hurt badly while volatility and interest rates are up significantly. There's a brutal war in Europe. China is still grappling with COVID lockdowns and supply chain stress and high inflation persists. The Federal Reserve has moved and seems committed to continuing to doing so. In light of those developments and the events of the first quarter, I think the most important thing you can take from this call is that we are growing, generating cash and returning cash to shareholders through dividends and stock repurchases.

Our broad diversified platform is well built to perform for shareholders and investors in turbulent markets and to capitalize on opportunities arising from such environments. We believe repurchasing our shares here is an attractive use of our capital. As of Friday's close, after backing out carry at NAV from our total enterprise value, we trade at 10.6x last 12 months FRE with a 4.7% dividend yield.

With that, I will turn it over to Jon.

Jon Levin: Building on Michael's comments, notwithstanding the more difficult market backdrop, the big picture still represents a generally active capital formation and deployment environment. As a reminder, much of our capital raising is a function of our role running some part of an institution's alternatives program. The exact size and specific timing of those programs may ebb and flow with market conditions, but in general, those programs are vibrant and growing.

One notable fundraising dynamic I'll highlight this quarter is the overall mix shift towards capital raised for secondaries, co-investments and direct investments. This quarter, such activities represented 72% of our private markets fundraising and have been more than 60% over the past few years. This compares to such strategies representing less than half of our AUM.

Our platform delivers a strong value proposition to clients across these investment implementation types. And importantly, these flows are accretive to revenues and fee rates over time. As we expected, specialized funds were a less meaningful contributor to fundraising this quarter, although we did close on capital for our infrastructure and secondaries funds, which were not expected to occur. We still anticipate that specialized fundraising activity and the associated run rate and catchup revenue to be heavily weighted towards the back half of the year.

Shifting to investment activity, our central focus is delivering strong risk adjusted returns for our clients over cycles, both on an absolute and relative basis. One of the benefits of our platform's breadth and diversification is its ability to pivot quickly and deploy capital towards the unique opportunities that emerge in a rapidly changing market. All of our investment teams, maybe most notably our Strategic Investments Group, leverage our broad and deep platform of knowledge and relationships to deploy capital, especially in dislocated markets. Because we see so much deal flow in origination, we can be highly selective and thoughtfully curate portfolios. This strength of the firm is particularly relevant for the more opportunistic strategies I discussed earlier when talking about our fundraising, like secondaries, co-investments and direct investments.

Our investment performance is a strong group point. Our net IRR for our secondaries fund GSF II, the predecessor to GSF III, is 30%. Our net IRR for our co-investment fund, GCF II, the predecessor to GCF III, is 52%. And our net IRR for opportunistic fund, MAC II, the predecessor to MAC III, is 31%. We also, have numerous separate accounts focused all or in part on secondary's co-investments and direct investments, which benefit similarly from our strong sourcing and execution engine.

To close my comments, I will address capital allocation. One of the many attractive features of our business is its consistent cash generation. First and foremost, we have a stable and growing stream of cash generation from our fee related earnings. Our quarterly dividend, which we've increased by more than 50% since we went public, is at a very comfortable level relative to fee related earnings. And as we have discussed in the past has upside alongside our continued growth. Today, our dividend represents approximately 70% of our last 12 months FRE less cost of debt. And as Michael mentioned, we expect FRE to grow by approximately 13% to 18% in 2022, giving us room to grow the dividend in the future.

We also generate cash from incentive fees, which are the combination of ARS performance fees, which are typically annual, and private markets carry, which is typically longer dated. While more variable in nature, our earnings power from incentive fees is strong and growing. This incremental cash generation gives us flexibility to reinvest the business, repay debt or return capital to shareholders. Anytime we have an opportunity to reinvest in the business at a high rate of return, we will pursue that path to add value to our clients and shareholders. However, aside from such opportunities, we will return value to shareholders through repurchases.

We generated $105 million of net incentive fees across 2020 and 2021 and have approved $65 million of share repurchases. We have repurchased $1.2 million shares and $1.2 million warrants to date. And we believe that further repurchases at these levels represent good value. We believe that this approach to capital allocation will result in largely offsetting dilution from employees' stock awards and will create value and alignment with and for shareholders over time.

Now I'll turn the call over to Pam.

Pam Bentley: Thanks, Jon.

The first quarter of '22 was a solid one for the firm. Fee related revenue increased by 10% over the first quarter of '21, driven by the fundraising success that we've enjoyed over the past year. Our assets under management grew 10% and fee-paying assets under management grew 8% from a year ago. Private markets continue to be the key driver of growth with private markets fee paying AUM growing 17% over the last year. Private markets management fees were $46.8 million in the quarter, an increase of 16% from the first quarter of 2021 inclusive of $1 million of catchup management fees. Importantly, adjusting for the impact of catchup management fees in the fourth quarter, private markets management fees grew by $1 million or 2% on a sequential quarter basis, reflecting the continued strength in that business.

One of the other notable aspects of our private market business is its stability. Private markets fee paying assets under management comprised 58% of our fee-paying AUM and are generally not impacted by valuation changes. Additionally, the capital is long duration. As of quarter end, more than 65% of private markets AUM had a remaining program life of more than seven years. Private markets fee rates have been stable over recent time periods. And we also, continue to experience a mix shift towards higher fee activities, including co-investments, direct investments and secondaries.

Absolute return strategies management fees were $42.7 million in the quarter, an increase of 7% from the first quarter of '21. ARS performance in the first quarter resulted in a sequential quarter decline in ARS fee paying AUM. Given our quarterly ARS management fees are generally charged on fee paying AUM as of the first day of each quarter, the decline in ARS fee paying AUM will drive a sequential decrease in second quarter ARS management fees.

Incentive fees in the first quarter were $12 million, the majority of which was from realizations of carried interest. Gross carried interest was $11 million in the quarter, which was lower than recent levels as the uncertain market backdrop muted realizations. Given ARS performance in the first quarter, unless there is a rebound in the market over the balance of this year, we are unlikely to realize significant additional performance fees in '22.

Despite market conditions and the potential for slower near-term realizations, our long-term earnings power from incentive fee revenue is strong. Our run rate annual ARS performance fee earnings power remains at $39 million. And we have realized performance fees of more than $50 million in each of the past two years. More significantly, the firm's future carried interest earnings power is steadily increasing with the firm's share of unrealized carried interest up 129% from a year ago to $415 million.

Turning to expenses, fee related earnings compensation in the quarter was $40.9 million, slightly higher than the fourth quarter as we anticipated, but relatively flat compared to the first quarter of last year. We expect fee related earnings compensation to be relatively stable in the coming quarters. Non-gaap general and administrative and other expenses were $18 million in the quarter, slightly higher than the fourth quarter as travel activity began to partially resume relating to higher in person client engagement.

We've spoken before about the operating leverage inherent in our business, which once again, drove earnings growth and margin expansion this quarter. Our fee related earnings increased 26% to $31.7 million, and our fee related earnings margin expanded from 30% to 35% compared to a year ago. We still expect to see growth in our fee related earnings margin this year with room to expand our margin even further in 2023.

Finally, we continue to enjoy consistent cash generation, as Jon discussed. We are comfortable with our current debt level and enjoy its term and duration. Notably the majority of our outstanding debt is hedged, limiting our exposure to a rising interest rate environment.

Looking across the firm, despite the broader market and geopolitical disruption, we are proud of the platform's ability to deliver a strong client value proposition and excited by the earnings power of our business.

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

Operator: Thank you. If you would like to ask a question at this time…[Q&A instructions]. And our first question will come from Ken Worthington with JP Morgan.

Ken Worthington: Hi, sorry about that. Some technical difficulties here. Okay. First, in terms of the absolute return business, performance this quarter, Grosvenor underperformed - actually essentially almost wiping out a year's worth of return. So, you mentioned that April was really good. What happened in 1Q that didn't happen in April? And I guess, how were you managing your portfolio of absolute return managers, given this under performance in 1Q?

Michael Sacks: Hey, Ken. It's Michael. Thank you for the question. As we said, we were disappointed in the first quarter. The first quarter's results were driven by a small number of managers that were operating in the equity space. Those managers were managers that have contributed to outperformance over the last three years where we've competed very well with peers and beaten the indices. And they had a tough first quarter. And when I say outperformance that's through the first quarter. Hedge fund managers, as you know, move quickly, and have degrees of freedom in terms of their exposure, how they manage their book and their risk. They had moved pretty significantly to reduce exposure and to change orientation by the end of Q1. You saw that in April with modest negative result in a very broad down market.

And our feeling is these are the types of markets that yield good opportunity for hedge funds. It's a type of market where hedge funds can add a lot of value. You can see investor interest increase and while we were disappointed by the first quarter, you know sitting at the end of April where our portfolio sat against markets down, as significantly as they were, having had the volatility come out of the book in April the way it did, coming into the first period of time here in May. Our confidence with regard to that strategy and its ability to add value going forward remains very high.

Ken Worthington: Okay. And then maybe just on expenses, cash compensation, if I get this correct, I think it was down year-over-year. I thought previously you were guiding to up sort of high single digits, but it doesn't look like we're on pace for that right now. How should we - or maybe what's contributing to the lack of growth? And I think it was mentioned in the prepared remarks that this was a good run rate, maybe to build off for the end of the year, should we expect cash comp to be rising to get to a high single digit growth or is flat actually a possibility here?

Michael Sacks: Pam, you want to take that.

Pamela Bentley: Sure. Thanks, Ken. Yes, as I said in my remarks, we really expect the FRE comp line to be relatively stable in the coming quarters, which does imply a level that's in line with - a line or just slightly up to the prior actuals that is lower than what we anticipated at the time of our fourth quarter earnings call. A portion of our compensation is variable and we're certainly planning to manage compensation and headcount growth through the balance of the year to achieve that flat result.

Ken Worthington: Okay. Okay, great. Thank you very much.

Operator: And our next question will come from Jeff Schmitt with William Blair.

Jeff Schmitt: Hi. Good morning, everyone. The average fee rate for absolute return strategies actually ticked up a little bit. I think it was 0.69% in the quarter up from 0.67% last quarter. And after, I guess, sliding really for several years, could you speak to what is going on there? And is 0.69% a better run rate going forward?

Michael Sacks:Thank you. So, our fees have been stable for quite a while now. And as we've talked about and alluded to on the call in all the verticals including our absolute return vertical, we've had a little bit of mix shift towards direct activities, co-invest activities, etc. and that's good for average fee rates. And then in addition in the absolute return strategies, you'll have some reduction for fee with size. And so as you're adding new investors at lower size, you're doing well by your average fee rates there. And so those fees for the last several quarters have been stable and we - our view is they will remain stable going forward.

Jeff Schmitt: Okay. That makes sense. The - and then on the catch-up management fees, how much were they in the quarter? I didn't see that anywhere. And then how much do you expect that to ramp up over the next few quarters? I think you're supposed to have a much stronger second half.

Pamela Bentley: Great. Yes. As I mentioned in my remarks, catch up management fees in the quarter were about a $1 million, and relative to Q1 of ‘21, which was $1.5 (million) and Q4, which is at $4.3 (million). So, if you want to normalize our revenue growth excluding those that gives you the numbers to do that. We're up - our private markets fees are up about 2% this quarter over the fourth quarter, excluding the impact of catch-up management fees. Yes, we do expect those catch-up management fees to be higher in the back half of the year, as Jon mentioned in his remarks. We expect more specialized fund fundraising in the back half of the year, very similar to last year. So last year is probably a good proxy for that.

Jeff Schmitt: Got it. Okay. Thank you.

Operator: And our next question will come from Adam Beatty with you UBS.

Adam Beatty: Thank you, and good morning. I just wanted to ask about the potential fundraising opportunity for absolute return. Michael, I think you mentioned that in periods of volatility and market destruction like this, often investors will gravitate toward capital preservation type strategy. So, just wanted to get your sense, number one of what you've seen in the past in terms of, first of all, how long that takes to kind of roll on and maybe around the magnitude. And then what you're seeing and hearing from clients right now as we speak. Thank you.

Michael Sacks: So thanks, Adam. Look the - with the levels of volatility that - I said this in my remarks, the levels of volatility that we're seeing day-to-day in the market it's hard to pretend to have tremendous visibility. What I can say is if you have periods of time where you have, frankly, the type of outperformance you've seen year-to-date relative to equities, let alone what you saw in April, that can attract, and it has in the past attracted a significant amount of investor interest. We’re - we've been kind of committed to saying, and we continue to say that our FPAUM our fee-paying AUM in ARS is going to be driven by performance, not by flows, and we continue to have that as our base case. But if you get a period of time where the markets kind of keep grinding the way they have been, and hedge funds have turned around and changed their performance profile, start to transfer some money, you could see investor interest increase. Still think the best thing to assume is that the actual rate of return will be what drives the AUM and flows will be modestly positive and modestly negative.

Adam Beatty: Got it. That's clear. Thanks, Michael. And then turning to kind of the other part of expenses and margin, you talked, Pam, I think about G&A being driven a little bit upwards and resumed travel type activity, etc. Assuming kind of the COVID backdrop remains modestly - positively trending, I guess, what have you baked in terms of increases in either travel-related G&A or other types of non-comp expenses for the year and what might be the main sources of flex in that, if any? Thank you.

Pamela Bentley: Sure. Thanks for the question. I think through the balance of the year we are planning to see or have built in assumptions around continued increases in travel, obviously that's manageable depending on the environment. And we've, of course, learned to work well in a virtual world. So, certainly, a manageable expense, but our guidance that Michael spoke to in his remarks of 13% to 18% of FRE growth for the year, assume a modest increase in that G&A line through the balance of the year.

Adam Beatty: Super. Thank you, Pam. Much appreciate it.

Operator: And our next question will come from Kevin Tripp with Oppenheimer & Company.

Kevin Tripp: Hey, good morning. Thanks for taking the question. This quarter and post-Mosaic, it seems that there was a decent contribution from realized investment income. And I was just wondering, is this predominantly from your stakes in the underlying funds, or are there any additional contributing factors here? And I guess on an ongoing basis, are we to expect this to say, be a bit lumpy in nature due to timing for the underlying investments?

Michael Sacks: Yeah. So thanks for the question. I think it's - that line is always a bit lumpy in nature and due to the timing, it is mostly driven by carry as opposed to stakes like traditional carry, and it will continue to, be driven by carry for the remainder of this year. And then we will get to a place where performance fees will also be an important component of that line.

Kevin Tripp: Okay. Excellent -

Pamela Bentley: And just to add to Michael's comments, that's right. It is mostly stakes in our underlying investment funds on that line item. And as Michael mentioned, it's the private - it's on the private market funds and typically reflect realizations a quarter in arrears. And so that's coming from really fourth quarter activity and a strong market backdrop.

Kevin Tripp: Okay. Perfect. Thank you so much.

Pamela Bentley: Uh -huh.

Operator: And next will be Michael Cyprys with Morgan Stanley.

Michael Cyprys: Great. Thanks so much for taking the question. Michael, I was hoping you could expand upon some of your earlier comments around the fundraising backdrop. It sounds like what you're seeing is just more of an impact of the denominator if I heard you're right, as opposed to more of the crowding itself, the denominator effect. And is this more evident in the US pension fund community or which part of the marketplace are you seeing this have more of an impact? And then could you also just expand upon how this is impacting your outlook, understanding you adjusted your guidance, but if you could maybe just flush out kind of the key drivers there? Is this more of a delay to later in the year in 2023, and how much of this could ultimately impact the sizing of what's raised.

Michael Sacks: Right. So first, Michael, thank you for that, and nice to talk to you. It is not impacting fundraising, or it hasn't, I guess I should say, impacted fundraising yet. Our first quarter fundraising was actually in line with what we expected it to be. And it - and we actually had a couple of commingled fund closes we weren't anticipating. We - our pipeline is very strong. It's actually up from a year ago in the most probabilistic categories of pipeline when we track it in different categories. So it hasn't impacted fundraising yet. It - our pipeline is really strong. We have a real belief people are committed to programs and committed to going ahead. There's been talk about crowded fundraising environment. I think that's legit. And but that's been the case for a while. Sponsors have been coming back faster for a period of time. That's not something that's new over the course of the last quarter.

What is new over the course of the last quarter is the denominator effect, and this impacts every institution globally, just period. You know, the denominator effect with down equity markets, tough credit markets, and with private markets valuations that haven't moved much, people are more heavily weighted towards the private markets at the end of the quarter than they were a quarter ago. And then you've had a tremendous amount of just general change in environment over - since the last time we reported. So our view is it is prudent to think that that can result in a slowdown. It can result in pushing the timing of commitments. Our belief is that that is a 2022/2023 phenomenon. That's not a 'do I continue with the program, do I invest or don't I invest' phenomenon. It's a 2022/2023 phenomenon.

And it felt prudent to us to make some assumptions with regard to that. But what actually happens and whether the growth rate of the private markets business is kind of within the range that we talked about or closer to our original ranges, we'll see, and it should be - it should come through and you should hear loud and clear that it remains a very good fundraising environment with demand. There's just been a fair bit of shock over the last quarter.

Michael Cyprys: Great. And just maybe as a follow-up, if you could maybe help flush out which products you have in the market that you are raising here and expect to raise over the next couple of quarters? Any sort of amounts you're able to maybe help remind us on with respect to hard -

Michael: Well, we - yep, sorry, go ahead.

Michael Cyprys: And then I'm just going to ask just about any update on retail initiatives on the fundraising front. Thank you.

Michael Sacks: Sure. Okay. So with regard to the specialized funds, we've got some information we now include in our deck in terms of the target size, what we raised in the quarter that just closed, what we're - and kind of where we have to go. We've generally had good success marching towards our goal with regard to all of our specialized funds. We still have secondaries, co-invest, infrastructure. and multi-asset class in the market. And the - and several of those multi-asset class and co-invest, for example, are relatively early in their fundraising cycles, and will continue on in the next year. And so we do anticipate incremental closes throughout the year. We anticipate some second quarter closes. We are marching towards our goals there. We're pleased with our progress towards our goals there now. And just wanted to note the denominator effect because it's some - it's out there. Note the sort of general response to global events, and acknowledge that, that could push some fundraising into 2023 from 2022

Jon Levin: And, Michael, maybe, I could take your second part of the question around the retail and what we're doing generally in the non-institutional or retail space. And I think a bit of history is helpful there. So when you look at what that capital, capital from that channel represents as a percentage of our current assets under management, it's about 5%. And if you look at the flows activity over recent and even medium - intermediate term period of times, historically, it's about 10%. So obviously, it's a growing segment within our business. And really the way - the form that that is taking is really representative of our business proposition generally. So we work with a number of platforms, both the large wire house type platforms, as well as some of the regional players in terms of offering our custom account capabilities to certain parts of their advisory channels, typically for some of the larger advisor teams or some of the larger clients individually.

And the other thing that we do with those platforms is, obviously, work with our commingled funds, specialized funds that Michael is just referring to. So each of our specialized funds that we're in market with have been on at least one platform. Some of them have been on several platforms. And when you look across the number of either wire house, large wire house or regional players, we work with almost a dozen platforms. So it's clearly an area where we continue to see activity and expect that to continue.

Michael Cyprys: Great. Thanks so much.

Operator: Thank you. Again, if you would like to ask a question, please press star, and then one on your telephone keypad. Again, that is star one if you would like to ask questions. And our next question will come from Ken Worthington with JP Morgan. Mr. Worthington, again, your line is open. Please proceed.

Ken Worthington: Yeah. Okay. That time, I muted. Okay. in terms of buyback, buyback was - stock was down a bunch of this quarter, why not buyback more? And then maybe digging further into the cash compensation, I think you said in the prepared remarks somewhere that the incentive fees that you're expecting for ARS are going to be zero or modest for the year. You've kind of restructured compensation, I think, to pay your employees maybe more out of the performance fee so they get the upside and the downside and shareholders get sort of a more stable FRE. If ARS incentive fees really are, let's say, low or zero for the year, are employees and you prepared to actually pay employees down, or are they going to take that downside risk, or does that downside risk make its way back to shareholders and cash compensation comes up? So just sort of the commitment there to protecting shareholders.

Michael Sacks: Right. So you're right, Ken, that we've moved to further align the interest of the team with not only shareholders, but importantly with the limited partners, with the investors, and we like that alignment what's. And clearly, when you have performance fees that move around significantly based on ARS performance, you have a performance fee bonus pool that moves around as well. What's important, I think, to understand is that the people who have material compensation that is related to the performance fee bonus pool are our most senior people who in good years enjoy the - that, and in lean years feel that more than the rest of the firm. Everybody, I think, from the principal level down below is really largely protected from that variability where they receive most of their comp through the FRE line.

And then further, what is important to remember is that in a kind of a base case year, the performance fees, as compared to the firm's share of carried interest inside that incentive fee line, I'm - are - there's a split as well. So performances are not all that's there in that bonus pool. And I think that gives us a very nice ability for people to have upside, have downside protection, have alignment with shareholders, alignment with limited partners, and for us to manage and hold our FRE margins. And that's what we have talked in the past about. We believe is important to be able to do when talking about sustainable FRE margin.

Ken Worthington: Great. And just buyback.

Michael Sacks: Well, I think the point is that, Ken, we have periods of time where we have a programmatic buyback in place and you're in a window and you are - wherever you had set that programmatic buyback, that's where you are per your plan. And then you have periods of time where you have more flexibility. And obviously, coming for the last period of time here, you're - all companies leading up to reporting like this were in a period where it's our 10B or programmatic buyback without ability to move that based on stock price performance. So we've increased the amount of capital available for buyback. We'll come off that program at some time, we'll figure out what the right pace of buybacks are. But that I think is the answer to your question and what you were actually asking.

Ken Worthington: Great. Thank you.

Operator: And I'm not showing any further questions at this time. Ms. Selinger, I'll now turn the conference back over to you.

Stacie Selinger: Thank you. Thank you, again, to everyone for joining us today and for the questions. We appreciate the time and the continued engagement. Have a very nice day, and we look forward to speaking with you again next quarter.

Operator: Thank you. Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. We hope everyone has a great day. You may all disconnect**.**