GCM Grosvenor 2023 Fourth Quarter and Full Year 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 Fourth Quarter and Full Year 2023 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: Thank you, Stacie, and thank you all for joining us.

We are pleased to report solid results for the fourth quarter and full year 2023 despite the challenging environment for our industry. Importantly, 2023 was another year in which we delivered value to client portfolios, strengthened, and expanded our platform, and grew our earnings power and our intrinsic value for shareholders.

Our board increased our stock buyback authorization by $25 million, which we intend to use throughout the year and maintained our dividend rate at 11 cents per share per quarter, which represents a dividend yield of 5% as of Friday's close. Our dividend payments are comfortably serviced by our trailing Fee-Related Earnings.

From a financial standpoint, 2023 was a solid year and we finished the year strong. Fee-Related Earnings grew 23% over Q4 22 and 9% year-over-year. Since 2020 we have grown Fee-Related Earnings at a 14% compound annual growth rate. Our Fee-Related Earnings margin grew to 38% for the year, compared to 36% in 2022. The high FRE margin in Q4 was the result of tightly managed headcount and final compensation decisions that were reflective of the environment.

Our FRE margin has grown by 700 basis points over the last three years as our business has continued to enjoy considerable operating leverage and scalability. We continue to forecast margin expansion going forward.

One of the key drivers of our business over the past three years has been the shift towards private markets strategies, which as of year-end comprise 71% of our Assets Under Management and 65% of our Fee-Paying AUM. In 2023 private markets again experienced consistent growth, with management fees, excluding catch-up fees, increasing by double digits year-over-year in each quarter.

As we discussed throughout the year, 2023 was a tough market environment for fundraising, which was primarily the result of low levels of transaction activity in private markets strategies. As we expected, our fundraising momentum did pick up throughout the year with more capital raised in the second half of 2023. The fundraising environment is continuing to loosen up, which bodes well for 2024.

Real Assets has continued to perform well for us. Infrastructure and real estate were the top two contributors to fundraising during 2023 with $3.6 billion raised in aggregate. Taken together, Real Assets AUM has more than doubled over the past 3 years to just over $20 billion, and these strategies now represent over 25% of our total AUM.

Capital raising from sources outside of the U.S. was strong, comprising 51% of 2023 fundraising, compared to 40% of our AUM. As you know, we've invested in business development in geographies outside of the U.S. over the last few years, opening offices in Germany, Canada and Australia. While expanding in new channels takes time, it is nice to see some early signs of our business development investments working.

In 2024, we expect continued strong client reups and solid specialized funds fundraising inside of our traditional institutional channels. We are also focused on expanding our efforts in the individual investor channels generally. We see a strong pipeline everywhere and are particularly optimistic with regard to the infrastructure and credit verticals. Jon will talk a bit more about credit in a moment.

I mentioned investment performance earlier, and we were pleased with performance across our strategies this past year.

In particular, we were pleased that our Absolute Return Strategies investment performance exceeded our base case assumptions, beating benchmarks and peers. As a result, a significant portion of ARS portfolios are now in a position to earn full performance fees in 2024, delivering more revenue in 2024 than we received in 2023 for the same level of performance.

While it's too soon to predict a material shift in ARS flows, we are seeing increased demand from current and perspective clients, with fewer currently scheduled future redemptions than we have seen at this time in recent years.

Our private markets strategies' performance was also constructive and our significant dry powder, which exceeds $9 billion at year end, continues to put us in a good position to deploy capital into an increasingly attractive environment.

Importantly, we enter 2024 with strong private markets incentive fee earnings power, which is positioned to deliver significant revenue growth over the coming years as transaction activity returns. This is clearly presented on slide 12. As you can see, in both 2020 and 2021 we realized revenue from carry of more than 15% of our beginning year unrealized carried interest balance, with $59 million and $122 million of gross carry revenue, respectively. Since then, while realizations and therefore gross carry revenue have been muted, our carried earnings power has grown substantially.

You'll see our unrealized carried interest has approximately doubled during the last three years. In addition, we've raised $11.6 billion of capital for direct-oriented private markets strategies over the last three years. Nearly all of that capital is either recently deployed or dry powder yet to be deployed, meaning it is not yet in our unrealized carry balance. We believe the inflection of this revenue line is a when, not an if, and we look forward to that revenue line returning to more normal levels in the future.

With the capital markets and M&A environment slowly improving, sponsors seem to be committed to driving to a higher degree of realizations this year. This should lead to more carry revenue and to positive

developments with regard to fundraising. Current and prospective client activity has already picked up and, based on our current pipeline, we expect 2024 fundraising to exceed 2023.

We continue to believe that we are well set up for continued growth into the future. With regard to management fees and Fee-Related Earnings, our platform breadth provides us with a lot of ways to win, it's strong as it's ever been and getting stronger.

We have continued operating leverage and a solid compound growth rate in our FRE over the next several years and based on our trajectory, we're confident in our ability to double our Fee-Related Earnings over the next 5 years. When combined with the built-in growth in our incentive fee line that I discussed, we feel good about our adjusted EBITDA and adjusted net income growth as well.

And with that, I will turn the call over to Jon.

Jon Levin: Thank you. As Michael noted, our confidence in our long-term trajectory is rooted in the strength of our platform, the significant opportunity from new but adjacent initiatives, and embedded operating leverage in the business.

The programmatic nature of our private markets client relationships, which experience re-ups every 3-4 years at approximately 90% re-up rates, often at larger sizes than predecessor programs, sets a foundation for growth and stability in the business. Beyond re-ups, we have a proven track record of expanding our client relationships into new areas – as of year-end 50% of our top 50 clients work with us in multiple verticals and 60% of our top clients work with us in both separate account and specialized fund form.

We believe key macro trends and our associated positioning will drive business growth over the next 3-5 years. Those trends include the high demand for infrastructure, the persistent proliferation of sustainable and impact investing, the continued growth of the alternative credit category, and the democratization of alternatives through the emergence of the individual investor.

We have addressed infrastructure and impact investing on our recent earnings calls and believe both of these areas have the potential to grow substantially in size and revenue over the coming years. Today, I will dive a bit deeper into the private credit category.

Private credit has already grown tremendously as an asset class, more than doubling in the past 5 years from approximately $720 billion to an estimated $1.6 trillion as of the end of 2023. Non-bank lenders now account for three quarters of the market, and there have been over 500 funds dedicated to private credit that have raised capital in the past two years. Disruptions in the banking sector last year, some of which continue today, created more urgent need for more sources of capital, further accelerating the sector's momentum.

Against this backdrop, limited partners are rapidly evolving their approach to investing in private credit. While historically, LPs have invested in private credit as part of a fixed income or private equity or a broader private markets allocation, increasingly, investors of all sizes are creating a discreet private credit allocation. Accordingly, we believe the future of credit will be similar to how we've seen the evolution in private equity and, more recently, in infrastructure.

As investors grow and evolve their allocation to the asset class, solution providers like GCM Grosvenor are well suited partners. We are able to build a single point of access that is diversified across implementation type - funds, co-investments, secondaries, and direct investments - as well as across areas of focus – type of credit, market cap size, sector, and region.

Even for investors that started their allocation by investing directly in some of the large, well-known funds, solution providers serve as a diversifier through our broader network of primary funds and execution of co-investments and secondary investments.

Our open architecture sourcing engine is a key differentiator when it comes to private credit, and we see more than 500 credit investment opportunities annually. Our presence in liquid and illiquid alternatives offer a massive funnel for the origination of credit investment opportunities. And we benefit from being able to offer these capabilities through both custom accounts as well as comingled funds.

Our opportunistic credit fund SCF II, had its first close during the fourth quarter. As of year-end we have $13bn of credit assets under management and we look forward to providing you with further updates on our success in this area as we move forward.

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

Pam Bentley: Thanks, Jon.

Our results for the quarter and year were consistent with our expectations and once again demonstrated our earnings quality and scalability of the platform.

Assets under management were $77 billion as of year-end, a 4% increase from a year ago, and Fee-Paying AUM increased 5% year over year. Private markets continues to be a key growth driver, with private markets AUM and Fee-Paying AUM growing by 7% and 9% year-over-year, respectively. As of year-end our private markets business represents 71% of total AUM and 65% of our Fee-Paying AUM.

Private markets management fees excluding catch-up fees in the quarter grew by 11% year-over-year, achieving a double-digit growth rate once again, in line with our expectations. We have enjoyed a 13% compound annual growth rate in private markets management fees since 2020. Turning to 24, in the first quarter we anticipate private markets management fees excluding catch-up fees will grow in the mid to high single digits over the prior year. For the full year 24 we once again expect double-digit private markets management fee growth excluding catch-up fees.

Absolute Return Strategies management fees were relatively stable in Q4 as compared to last quarter and we expect first quarter ARS management fees to again be stable on a sequential basis. Most importantly, we are pleased with our ARS investment performance for the year, which is expected to have positive ramifications in 24 and beyond.

We realized $20 million of incentive fees in the quarter and $65 million in the year. Michael spoke earlier about our significant earnings potential from carried interest. While it's difficult to predict timing of carry realizations, the high diversification of our carry makes it especially valuable given its limited single asset exposure. As of year-end we have $776 million in gross unrealized carried interest across 137 programs, the firm's share of which is $373 million. Our share of carry has nearly tripled in the last three years.

Our annual performance fees are tied to ARS investment returns and typically crystalize in the fourth quarter each year. Entering 24, our run-rate annual performance fees are $28 million assuming 'normalized' 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. FRE compensation was $33 million in the quarter and $149 million in the year. Importantly, we look at FRE compensation on a full-year basis, and consequently the amount of compensation on a quarter-to-quarter basis can fluctuate. As a result, it is most appropriate to look at the 23 average quarterly FRE compensation as a baseline for the first quarter of 24.

Non-GAAP General and Administrative and other expenses were $19.5 million in the quarter. We continue to be disciplined around expenses and expect this figure to remain stable in the first quarter.

Pulling together these factors, on a year-over-year basis Fee-Related Earnings grew a healthy 23% in the quarter and 9% for the year. Adjusted Net Income grew 48% and 9% in the quarter and year, respectively. Our FRE margin grew from 36% in 22 to 38% in 23, and we expect further FRE margin expansion in 24 as we continue to harness the scalability of our business.

We are maintaining a healthy, quarterly dividend of 11 cents per share or a yield of 5% as of last Friday, and there is room for future dividend growth.

In the case of share buybacks, we repurchased nearly 4 million shares in 23, and we ended the year with 187 million shares outstanding. We continue to believe that our current stock price is at an attractive level relative to market value, and our board has recently authorized an additional $25 million for share buybacks, leaving us with $65 million remaining in our share buyback authorization as of today.

Reiterating our view on 24, we feel confident in our plans to achieve continued double-digit growth in private markets management 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 5 years, with continued 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.

Operator: Thank you. If you would like to ask a question at this time, please press star one on your telephone keypad. If you're using a speakerphone, please ensure that your mute function is turned off. Again, that is star one to ask a question.

Our first question is coming from Crispin Love with Piper Sandler.

Crispin Love: Thanks. Good morning, everyone. I appreciate you taking my questions.

Just first on fundraising, you saw a stronger second half of the year than the first as you expected. But can you just drill a little bit deeper into your expectations for 2024? Do you expect the momentum from the fourth quarter to continue?

And what are the areas that you're most excited about for fundraising? And is there anything to call out as it relates to cadence for the year based on what you know today?

Michael Sacks: Sure. Thanks for the question, Crispin. It's Michael.

So, we're actually feeling good about fundraising. Our pipeline is very full. It's full on re-ups, it's full on separate accounts, it is full on specialized funds, actually stronger than it's been in a while on ARS. And so, we are encouraged that some of the progress that we saw throughout the year last year from the first quarter of 2023 through the end of the year will continue.

As I mentioned in my remarks, we think Infrastructure and Credit will see healthy fund flows during the year. And we're enthusiastic about that. We're focused on doing a bit more in the individual investor space this year, which we're encouraged by. And that's frankly a longer-term opportunity for us. And just generally, I think the environment has improved on flows, pipeline has built and is larger.

And we hope to see that momentum continue. And I think, we said in the comments, we think fundraising in 2024 will exceed 2023 levels for the full year. Like always, we will build a little bit as we go through the year. And we'll expect the back half to have, in a constructive environment, more fundraising than the front half.

Crispin Love: Thank you, Michael. I appreciate the color there.

And then just on FRE margins, you had a really nice acceleration in the quarter. I think, it was a record level for you. But just looking at 2024 from margins and if there was anything one time in the fourth quarter that drove the cash-based employee comp cost to be lower than your initial guide for the quarter?

Just curious, what changed between your last call and through the quarter? You did mention, the tightening headcount. But just curious, what that means for 2024 as you move through the year for FRE margins?

Michael Sacks: Yeah, we mentioned tightly-managed headcount and also, just final comp decisions reflective of the environment. And I think Pam mentioned in her comments that looking at the average FRE, quarterly FRE for 2023 is the right way to think about FRE comp expense. The average FRE comp expense for 2023 is the right way to think about the FRE comp expense for the first quarter of 2024.

I think the important point on our FRE comp and our FRE in general is that we believe and we've been consistent in mentioning this for a while, that we continue to have operating leverage in our FRE line with growth. And that, we can continue to drive our FRE margins up with growth, putting aside, doing anything like we've seen some of the peers do with their carry.

And so, we think we've got operating leverage still remaining in our FRE line. We believe we're going to be able to drive FRE margins in 2024. And I think we gave a pretty good picture of how you should be thinking about first quarter FRE comp for your models.

Crispin Love: Thanks, Michael. That's it for me. I appreciate you taking my questions.

Michael Sacks: Thank you.

Operator: Again, if you have a question, press star one on your telephone keypad. Our next question is coming from Bill Katz with TD Cowen.

Bill Katz: Okay. Thank you very much for the commentary and the guidance. Maybe, a couple of big-picture questions for today.

Jon, thank you so much for the update on the credit platform. What product specifically do you see the opportunity set into 2024?

And then maybe, even a bigger picture discussion. You mentioned that the emergence of the allocation, where is that coming from? Does it come from private equity and real estate or does it come from public market, equity, fixed income, just a sense what are your clients telling you in terms of where they're reallocating from?

Jon Levin: Sure, Bill. Happy to take that.

Yeah, I'll start with the second part of the question first. I think it just totally depends on the client. I think, for a lot of folks, the origin of the private credit allocation comes out of the fixed income bucket. For a lot of them, it might come out of a more liquid alternatives bucket. For some of them, it might come out of a private equity bucket.

Or in some cases, all of the above. I think just generally speaking, the idea that private credit is a distinct allocation and therefore needs to be a program that is built for persistence and for continuity over time is the real theme. I think for us, I would probably focus less, Bill, on like a specific product. I think that the way I would think about it is similar to how we've built the other alternative verticals at the firm is that it's a holistic solution that can be offered either through commingled fund form or through a separate account form.

And inside that holistic solution is the ability to help clients access certain funds as a primary fund investor that they might not otherwise be doing on their own. A lot of folks have built, reasonably developed sponsor-backed direct lending businesses in the middle market and the large end of the market. But there may be other types of credit on the smaller end or other types of credit like asset backed credit, or securitized credit or different types of things that they might need help with in terms of finding funds.

But I think, one of the most exciting opportunities though is as the market in credit develops and evolves similar to what you've seen in private equity and infrastructure and other asset classes, the ability to also help build out co-investment programs, secondary allocations. And so, really thinking of it as that same open architecture approach with flexible implementation, flexible delivery models for the clients that you'll see evolve in private credit similar to what you've seen in some of the other asset classes.

Bill Katz: All right. Thank you for that. And just as a follow up, I'm going to cheat and ask a two-part unrelated question. So, I apologize in advance. But when you mentioned that you think you can have better asset gathering in 2024 versus 2023, I was just wondering looking at page 9 of your slide deck, does the year look like 2022? Do you get back to something that's a little more elevated like 2021?

And then unrelated, but just in terms of capital allocation, you mentioned that you got the board authorization, which I think is about 4% of your market cap now, a new number. How do you think about that pacing of buyback and trying to balance what you see as the value of the stock versus the liquidity dynamic? Thank you.

Michael Sacks: It's Michael. On the first question, I think our internal bottoms up goal, working with our BD team and looking at our pipeline, it has a year for us that's frankly significantly better than 2023 on fundraising. So, not 2021, it's maybe in line with the other bar charts you cite on page nine. But important is the composition of fundraising inside those lines. And what it is that you're raising funds for, what those fee levels are, and when those fees turn on.

And we do think with reasonable amounts of fundraising certainly consistent with our budget, with pipeline, for a couple of the funds where the fees turn on right away and we have some catch-up fees, we have a lot of leverage if you will in frankly a similar level of fundraising to that which we've seen in the past. So, with that all, we've got a long way to go. But that momentum that we saw in the back half and in the fourth quarter, we think that will continue.

And we're pretty enthusiastic with regard to that. In terms of capital allocation, we are aware that our limited float is not one of our great assets. And so, we are conscious of that. At the same time, we like the value of our stock. And so, the approach that we've taken is to just try to minimize the impact of dilution from stock-based compensation and have that as a goal. And the pacing of that is driven as much by the vesting dates on stock-based compensation as anything else.

Obviously opportunistically, when we see periods of time that we think represent particularly strong value, we ramp that up. But in general, we do not want to shrink the float too much. We think that's part of what holds us back. And so, we've settled on this idea of we're going to manage such that we're not diluting our ourselves too much. And we're putting that money to work in buying back shares.

Bill Katz: Thanks so much.

Operator: Our next question is coming from Chris Kotowski with Oppenheimer & Co.

Chris Kotowski: Yeah. Good morning. Thank you.

You've touched on this already. And I heard Pam's guidance about looking at the FRE comp and the carry comp or incentive comp on a full-year basis. But I just want to make sure I understand because it does come on the heels of announcements by Carlyle and KKR that they are changing their compensation model to throw more of the comp burden against carry and incentive rather than base management fees.

And did I hear you say that that's not what's going on? This is just normal or should we expect a movement – in that direction.

Michael Sacks: Correct. No, you heard that correctly. And we were careful to try to say that we think we have expanded FRE margin from growth without doing that.

And then, we are cognizant of the opportunity associated with that. But what we've talked about does not rely on us seizing that opportunity at all. And at this time, we have no plan to do that. We think we can drive our FRE margins without that.

I think if I can shamelessly flatter you, I think the way you wrote that up was similar to the way that we view it, which is not entirely clear how it pencils out on a trade. But when you factor in the multiple differentials between the two different revenue lines, it works out well for the shareholders. And I think, we view it the same way. And we probably own a larger percentage of the company than most.

So, we're going to obviously look at all of those alternatives and options over time. But our views on FRE margin and the guidance Pam gave on FRE comp expense does assume that we do something major like that.

Chris Kotowski: Okay, great. Just wanted to clarify that. That's it for me. Thank you.

Operator: Our next question is coming from Ken Worthington with JP Morgan.

Ken Worthington: Hi. Good morning. Thanks for taking the question.

So, I may be crazy here, and I hate to do this on a public call. But I thought the guidance was for private market fundraising to be greater in the second half than the first. And that 3Q was lighter and we were expecting a bigger pop in 4Q. It looks to me and maybe my numbers are wrong, but that to get there, you needed about $1.2 billion of additional fundraising than you got in 4Q to hit that guidance. Am I completely off base here or did fundraising get pushed from 4Q to 1Q?

Michael Sacks: I think that we have always talked, Ken about raising more money in the second half than in the first half. And we did that.

And we'd also talked about the growth rates of private market's management fees and we were pleased with the growth there, and how that's gone over the last several years. And so, I think we did do what we said we would do in terms of second half fundraising exceeding first half fundraising.

That said, always your fundraising total comes down to whether a couple of things that you're trying to get closed by the end of the quarter get closed or slip. And I do think, we came into the first quarter with a few things that could have closed in the fourth quarter. And that's probably part of where our confidence comes from that our momentum's going to continue that in our pipeline.

Jon Levin: And Ken, just to add onto what Michael said. And Michael did say this and we can certainly follow up with you after the call. It's total fundraising.

So, if you take the total amount of fundraising in the third quarter and the fourth quarter as compared to the total amount of fundraising in the first quarter and the second quarter, the third and fourth quarter were higher in aggregate.

Michael Sacks: And that was what we had in Q2 and Q3 on our calls. We were confident that would be the case.

Ken Worthington: Okay, great.

And then, 2023 was a much better year for the absolute return business. It underperformed equity markets as you would expect. But yields on cash remained elevated. How do you see the yield environment and the strong equity environment impacting demand?

So, you sort of called out that absolute return performance was good. It seems to me like the risk-free returns are also quite good and the equity markets were substantially better. Is that weighing on how your investors are looking at absolute return and their willingness to contribute new dollars here or not?

Michael Sacks: Yeah, I think when we talk about good performance, we really talk about two things. And I think, I mentioned them both. One is relative to peers. So, how are we doing relative to other providers? And we did well last year. And then, how are we doing relative to benchmarks, which are really client expectations and things like that and we did well there also.

So, from a performance perspective with regard to recent 2023 performance, we have a client base that generally is constructive in light of the 2023 returns.

I mentioned two other facts that are relevant. And said them both against the backdrop of we're not changing our base case budgeting. But one is that the currently scheduled redemptions for the rest of the year that we're aware of is lower today than it has been at this point in time in previous years. And that's a good thing.

And then, our pipeline is significantly larger than it was a year ago. So, in general, we're sitting here today coming off a good year of performance with less scheduled redemptions that we know of today and a much greater pipeline then as compared to a year ago, where the performance wasn't as good. We had more scheduled redemptions on a smaller pipeline. So, it's a better place than it was a year ago on many factors.

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

Operator: Our next question is coming from Adam Beatty with UBS.

Adam Beatty: Thank you and good morning.

Just another one on fundraising. I appreciate the schedule of the specialized funds out in market with the vintages. Just wondering if you could help us size or get a handle on how far along those fundraisers are either individually or maybe collectively as a group?

And also, how the size or expected size of those funds compares with the prior vintage? Thanks very much.

Jon Levin: Sure, Adam. This is Jon. And you could get most of this information, I think, on page 17 of the earnings presentation.

But when you look at the funds that are currently in market, they're listed actually in order of where they are on the bottom half of the page. They're listed and where they are in their evolution. So, as we note on the MAC III Fund, the main fund had its final close. Although, we are in discussions with some investors about that missed that due to their own timing budgeting constraints about potentially adding some capital in a parallel vehicle. So, that's more towards the end.

Co-invest, middle late innings, Elevate middle innings, Infrastructure middle innings, Credit and Advance early innings. And for the most part, across the board, frankly with the exception of MAC, any fund that's had its final close has been bigger than its predecessor fund.

And we still feel as Michael said that it's going to be a productive year for fundraising, following what was a more difficult year. And that's inclusive of the various specialized funds in market.

Adam Beatty: Excellent. I appreciate you hitting all those points, Jon. Thanks very much.

And then just one more, just around you talk about the opportunity in private credit. And one of the dynamics that some folks are talking about is the idea of GPs entering that market just because there's a lot of demand and what have you.

So, just wondering, what you are seeing out there in terms of GP selection? And how you might correct or calibrate for a bit of a gold rush environment, to the extent that you perceive it in that sector? Thank you.

Jon Levin: Yeah, look. There's certainly a lot of discussion and a lot of demand for private credit right now. I think, some of that is secular. And it's been going on for a long time frankly since the Great Financial Crisis, where more of the credit capital formation generally in all markets is coming in the form of private credit as opposed to bank led or traded credit.

I think, some of it is a little bit cyclical in the sense that when absolute interest rates are higher. Obviously, the absolute returns you can generate from credit instruments become more attractive relative to liability or other types of assumptions that you're making. But the secular trend is real.

And sure, anytime, you have strong secular trends for an industry, you have a lot of new business formation, a lot of new capital formation. I don't view that honestly for a firm like ours to be a huge risk, right. We have the opportunity to look at hundreds of investment opportunities and select the investment opportunities that make their way through our very rigorous funnel.

And does that mean, you'll have some mistakes here and there? Sure, like anyone. But I don't view it as us being very susceptible to the risk that you note. I think, the most important thing for our platform is the open architecture, one-stop shop to providing a very interesting and complementary credit solution.

And that could be offered to some of the most sophisticated investors in the world who have great programs they're building on their own, and they still may find a need for us to provide something that's complementary. Or for people that are trying to just build their credit allocation in one place, where we can offer that from a diversification standpoint and an implementation standpoint in a way that's super attractive relative to building that program on your own.

When you step back and think about it, which kind of comes back a little bit back to your question is what's the real value, and then what's the real asset that we have. It's origination, right.

You see all of the new funds that come to market. And that is very helpful to obviously building the fund portion of any solution. But you also see a tremendous amount of direct credit deal flow, whether that's a co-investment or a real direct deal or a secondary opportunity because we operate in all the alternative markets and those are the users of private credit, real estate firms, infrastructure firms, private equity firms.

And so, our ability to harness that origination network, harness that funnel, and create thoughtful solutions depending on what the particular client needs is we think a pretty powerful mousetrap to help people in this area as that market evolves.

Adam Beatty: Yeah, that makes sense. You've highlighted the direct capability in the past. Cool. Thanks very much, Jon. I appreciate it.

Operator: And our next question is coming from Michael Cyprys with Morgan Stanley.

Michael Cyprys: Oh, hi. Good morning. Thanks for taking the question.

I just wanted to ask about new clients, you guys continue to have high re-up rates with existing. But just on the new clients, maybe you could talk a little bit about the environment for bringing new clients to GCMG today versus six or 12 months ago?

And how you expect that to trend in 2024? I hear you on the fundraising backdrop to be better. But just on new customers, maybe talk about some of the steps you're taking to broaden out the client footprint as well? Thank you.

Michael. Sacks: So, hey, Michael.

First, I would say that we are adding new clients, both, large separate account new clients, and new clients that are writing tickets for the first time for commingled funds. And we're doing that, most of the commingled fund new client growth is coming from North America. Not all of it, but most of it. And the separate accounts are coming from all over the world, globally.

And we are seeing growth with regard to new clients in both of those arenas. And it's across strategies. Obviously with real assets gathering the most capital, that's where we've seen the most growth. And a bunch of that has been separate account. Although, our specialized infrastructure fund has brought in new clients and will continue to throughout this year as well.

So, the backdrop for us and if you look at our pipeline across all the categories, it's good. And it's strong and it's full and it's got the re-ups that we mentioned. But it also very clearly has new client growth.

The other thing that isn't quite an apple or an orange in terms of what your question is we did have a pretty good chunk of capital last year that we raised that was existing clients that wasn't a re-up. They were working with us at a new strategy.

And that might have been a fifth of the capital we raised last year was existing clients moving into a different part of Grosvenor with us. And that's obviously a very good thing as well. And it's something we want to continue to drive.

Michael Cyprys: Great. And just a follow up on that point, with the new client growth for separate accounts.

How much would you say is new customers that are moving into the privates for the first time versus share gains from competitors versus moving from an insource to an outsource solution? And just how do you think about the sizing of the broader market opportunity for separate accounts?

Jon Levin: I was just going to say, we've said this on prior calls. And I think, it's an important one.

None of our business models, not ours or our peers relied in any material way on any share gains. We wouldn't have 90% plus re-up rates nor would our peers if that was a huge part of the story. But that doesn't mean that you're not coming into a client that might work with a peer of yours in some other way to help them in a different vertical. Maybe, they work with someone in private equity or helping them in infrastructure or things that we might see stories like that.

I think, the reality is, is that when you look across the world today, maybe with a little bit of an exception around the individual investor, most people have some allocation to private markets. But everyone's in a different stage of that journey.

Maybe, it's not all the asset classes yet. Maybe, it's only funds and not yet co-investments. Maybe, it's not yet secondaries, whatever it might be. And so, I think each story is obviously a pretty different story when you get into the details of it. But you're helping them, you're entering the picture to help them along that journey with a part of that private markets program that is either not yet developed or in some form of a stage or transformation.

And when you look at our pipeline or our capital raising historically, it's hard to put a number on that. You know that the size of the private markets is just a massive, massive size. It would be a ridiculous number. And we don't see that macro trend changing at all in terms of people's dedication to and commitment to continuing to build out their alternatives and specifically their private markets programs.

Michael Sacks: Yeah. And the one thing, I would add is just that I think at this stage, you don't have too many huge balance sheets that have no alts. But you definitely have big balance sheets that don't have a full suite of alternative strategies or don't have a full suite of implementation approaches within an alternative. And those are that speaks to the adoption of new strategies with us from existing clients.

It speaks to the mix shift we've talked about a lot, where people are utilizing co-invest and secondaries in conjunction with their primary private equity allocations. And that is to some degree at the core of what Jon talked about with regard to the credit opportunity. And so, all of that is still very favorable as a backdrop with we think a lot of legs for the whole of the industry.

It was a slow fundraising year last year. And it was significantly impacted by transaction levels, which are easy to see in the carry line. And as that starts to -- that we think that flywheel is starting to loosen up. We hear more commitment to transactions on the part of sponsors and things like that. So, there's plenty of good solid fundamental backdrop here. And that hasn't changed at all. And as the flywheel loosens up and transactions activity pick up, I think the fund flows pick up as well. And we see it today in our pipeline.

Michael Cyprys: Great. Thank you.

Operator: I am not showing any further questions. I will now turn it back to Stacie Selinger for our closing remarks.

Stacie Selinger: We just want to say thank you again to everyone for joining us today. We appreciate the interest. And feel free to reach out if you have any other questions. If not, we look forward to speaking with you next quarter. And have a wonderful day.

Operator: 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.