GCM Grosvenor Third 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 Third Quarter 2022 Earnings Call. Today I'm 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 and the risk factors section of our 10-K or other filings with the Securities and Exchange Commission and our earnings release, all of which are on the public shareholder 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 gap 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. Grosvenor had a good third quarter in a tough environment. During the quarter, we raised $2.9 billion, marking one of our highest ever quarterly fundraising totals and the second-best fundraising quarter we've experienced as a public company. Importantly, after the strong fundraising quarter, our pipeline remains full. Our private markets verticals, which now comprise 61% of our fee-paying AUM, continue to grow. Private markets fee paying AUM is up 14% compared to the third quarter of 2021. Private market management fees were up 16% year to date compared to 2021. As we continue to enjoy the favorable shift toward the higher fee, higher margin secondaries, co-investment, and direct investment strategies.

It is worth noting that separate account fee rates in our CNYFPAUM Are higher than our current separate account fee rates. Importantly, we performed well in Q3, both in our absolute return strategies and private markets verticals protecting client capital in a volatile time period. As of the end of Q3, we had approximately $10 billion of dry powder across our verticals and look forward to putting that to work in an increasingly compelling investment landscape.

From a financial standpoint, we met or exceeded expectations in Q3. Our strong private market, private markets momentum successfully offset the drag from the challenging absolute return strategies environment, resulting in fee related revenue growth of 7% year to date.
Fee related earnings margins of 35% drove fee related earnings growth of 14% year to date. While the absence of absolute return strategies, performance fees will impact Q4 adjusted EBITDA and adjusted net income.

Third quarter incentive fees were $45 million, driven by carried interest and contributed to adjusted EBITDA growth of 15% and adjusted net income growth of 17% year to date. Notably, the firm's share of carry revenues was 35% in the third quarter, a higher percentage than our historic averages, reflecting the higher percentage of carry the firm has retained since 2014.

We entered the third quarter with confidence that our second half fundraising would exceed first half fundraising and that our private markets fee related revenues, excluding catch up management fees, would continue to grow at double digit rates. We remain on track in that regard. That said, despite our strong third quarter fundraising performance and our confidence with regard to continued investor demand for alternatives, the current market is challenging to a degree that is not fully reflected in our numbers year to date.

Investors are contending with continued high levels of uncertainty and volatility and significant portfolio losses from traditional long only investment strategies. 70/30 portfolios were down north of 20% as of the end of the quarter. The resulting denominator effect in combination with increasing liquidity concerns related to reduced realizations from private markets, portfolios are real factors facing investors.

While we remain confident that our broadly diversified platform enables us to continue to grow our earnings and revenues at good compound rates over time, we anticipate a continuation of this challenging fundraising environment into 2023 until there is some consensus that short term interest rates have peaked. The worst is behind us with regard to stock and bond markets and transaction activity picks up, investors will move with less urgency.

To be clear, we are out meeting with investors regularly and we see no change to the intermediate and long-term secular tailwinds supporting institutional allocations to alternatives. No change.

For the fourth quarter of 2022. Our absolute return strategies management fees should be flat to slightly lower than Q3. Absolute return strategies management fees. Q4 private markets management fees, absent catchup fees should be up 10 to 12% versus the fourth quarter of 2021, continuing their growth trajectory. In light of the fundraising environment, we do not expect to achieve the same level of catch-up management fees in Q4 2022 that we did in Q4 2021. Our fee related earnings margins for the fourth quarter should be roughly consistent with the third quarter of 2022, resulting in a modest fee related earnings margin expansion for the full year.

As we have said before, the only one of our specialized funds which will come out in December is our secondary fund, which, despite falling short of target, is already 30% larger than our last secondaries fund. We expect a pickup in specialized fundraising next year for our existing funds in market today and for new fund launches. While this year has clearly been more challenging for markets, asset managers and GCM than originally anticipated, we feel fortunate to expect mid to high teens, private markets, management fee growth and mid-teens overall fee related earnings growth in 2023.

Our board of directors increased our dividend by 10% to $0.11 a share, and our dividend yield is now in excess of 5%. Our dividend payout ratio remains very comfortable. We continue to believe our low multiple relative to peers represents value and we bought back $1.7 million shares in the third quarter. That left us with around $26 million in our share buyback program. Our board increased that program by another $25 million and we look forward to putting that money to work as we go forward.
With that, I'll turn it over to Jon.

Jon Levin: Thank you, Michael.

Our ability to raise nearly $3 billion of capital this quarter is the direct product of our client centric philosophy and the strength of the firm's client value proposition. In the past, we've discussed that the majority of our capital raising has consistently come from our existing clients. This is a fact we are proud of, and it is the best endorsement of our value proposition in a market environment such as this one. It's also a strategic advantage as investors have a higher bar for where they place their capital and certainly on entering new relationships. 85% of our capital raising has come from our existing clients on a year-to-date basis. The majority of capital we raised this year also has been in customized, separate account form. As many of you know, the history of GCM Grosvenor is largely rooted in customized separate accounts and designing flexible investment programs that meet our client's unique needs.

As of quarter end, 74% of our AUM was in customized separate accounts and that figure has been roughly similar for a number of years. So, what makes our customized, separate account value proposition so strong? When we talk about a separate account, typically the program is a minimum of $100 million, but in many cases are multi-hundred million dollars or $1 billion plus in size, these programs fall in a spectrum. In some cases, our program represents a significant portion of a client's allocation to an alternative strategy. In other cases, our program provides diversification through a niche or completion strategy. At all places on the spectrum, however, we are mission critical to our client portfolios. As a result, the barriers to entry once we have secured a client program and the incumbency advantages are very high. Our customized separate account relationships have long tenures and high re-up rates, which typically occur every few years. These relationships are highly programmatic and therefore more insulated to market dislocations and fundraising timing delays.

We also have a long history of successfully increasing commitments for subsequent programs. Over the past five years, re-ups have exceeded their predecessor programs by an average of 40% in size. In addition to managing an investment program that is uniquely tailored to our client's needs, we also serve as an extension of their staff, providing high levels of client service and advisory support.

As an example, we frequently provide leverage to our clients for their investment programs beyond that which we manage through discretionary investment accounts. Examples of these types of leverage points include training, access to our team’s due diligence and implementation and other operational support. These services enhance our connectivity with our clients and deliver significant economic benefit to our clients. There's also a close relationship between the success of customized separate accounts and the growth in higher fee strategies such as co-investments, secondaries, and direct investments, which I spoke about in detail last quarter.

The beauty of the customized separate account model combined with our one firm approach to servicing clients, is that the strength of the client relationship creates natural strategic dialogue around opportunities to grow and evolve our existing partnerships. Some clients extend to new implementation styles, for example, co-investments and secondaries. Others will move into new verticals.

For example, over 50% of our top clients are invested with us in multiple verticals. We are constantly focused on what we can do to be more valuable to our existing clients. We are proud to develop such long-standing relationships as a result.

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

Pam Bentley: Thanks, Jon.

Our continued focus on delivering for our clients, attracting and retaining exceptional talent and creating long term shareholder value led to another successful quarter. Fee related revenue increased by 2% over the third quarter of 2021 and 7% on a year-to-date basis. Private markets are our key driver of growth, with private markets paying a growing 14% over the last year and private markets management fees increasing 13% from the third quarter of 2021. Private markets. Management fees this quarter include just under $600,000 of catch-up fees from specialized fund closings, which was in line with our expectations. Given the denominator and liquidity effects that we've spoken about, the fundraising environment is slowing, resulting in later and smaller specialized fund closings and related catch up management fees in the fourth quarter of 2022.

Excluding the impact of catch-up management fees in either period, we expect organic growth in private markets management fees to be 10 to 12% over the fourth quarter of last year. In the fourth quarter of 2021, we enjoyed $4.3 million of catch-up management fees, and we estimate those fees to be $3 million lower in the fourth quarter.

Absolute return strategies management fees were $38 million in the quarter, a 9% decrease from the third quarter of 2021, but a 1% decrease on a year-to-date basis. Depending on market performance and net flows, we anticipate fourth quarter absolute return strategies. Management fees will be flat to slightly down. Incentive fees realized in the quarter were approximately $45 million, primarily from private markets carried interest the firm's share of incentives after contractual obligations with $16 million and net incentive fees after cash compensation were $9 million.

Although the near-term realization environment may be challenging, we are very optimistic about our long-term incentive fee opportunity. While our earnings power is primarily centered around our highly visible management fees, one of the underappreciated parts of our story is our significant long-term carried interest earnings power.

As of the end of the third quarter, we have $771 million in gross unrealized carried interest across 135 programs, the firm's share of which is $351 million. The decrease in unrealized carry from last quarter is primarily from the strong realizations this quarter and includes less than a 2% decline due to changes in investment valuations. In addition to our accrued carry, our firm share of investments in our funds increased by 4% from the second quarter to $153 million. Given that our accrued carry and balance sheet investments are marked on a one quarter lag in the near term, these balances could face headwinds.

Turning to expenses, fee related earnings compensation in the quarter was $39 million, effectively flat compared to the first and second quarters of the year. We expect fee related earnings compensation to be relatively stable in the company in the coming quarters, and we continue to balance managing expenses with making investments necessary to sustainably grow the business over the long term.

Non-gaap general and administrative and other expenses were $18 million in the quarter. This is, again, relatively consistent with the first and second quarters, and we anticipate similar levels in the fourth quarter this year. Our embedded operating leverage drove fee related earnings margin expansion to 35% on a year-to-date basis, up from 33% a year ago. For the full year, we expect slightly growing free margins relative to 2021. Given the operational scalability embedded in our business, we anticipate continued long term fee related earnings margin expansion.

Lastly, the board authorized a $0.01 increase in our dividend to $0.11 per share, as well as an increase in our buyback authorization from $65 million to $90 million in addition to using the buyback to purchase shares at what we believe are highly attractive levels consistent with our peers and the industry. We plan to target minimal dilution to shareholders from any existing or future stock-based compensation grants.

While we are not immune to the impact of the current market environment, our track records of strong performance, the breadth and diversification of our platform combined with the strength of our team and culture, provide us with great confidence. We remain focused on delivering long term value to our clients and our shareholders.

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

Operator: Thank you. And if you would like to ask a question at this time, please press star one on your telephone keypad. If you are using a speakerphone, please ensure your mute function is turned off. Again, that function is star one. Our first question comes from Bill Katz with Credit Suisse.

Bill Katz: Okay. Thank you very much for the update and taking the question this morning. Maybe, Michael, thanks so much for your your your perspective. Can you talk a little bit about within the conversations of things being sort of put on hold, which is certainly a theme we've heard from some of your peers who have reported quarter to date results so far, how the conversations might be evolving within the alternative, you know, in terms of where you're seeing the incremental demand and how you might be positioned for that opportunity?

Michael Sacks: Sure. I think the most important point is that we truly see no change in the secular tailwinds. If anything, we think that investors are pleased with the performance of their alternatives portfolios and that intermediate term and long term demand for alternatives across the strategy, certainly across all of the private market strategies, infrastructure, real estate, private equity is strong and if anything will be stronger, will continue to grow. What you're really just seeing is, I think, a very natural, very sound, very reasonable and appropriate slowdown, just because of the market conditions and the economic conditions and even the global geopolitical conditions that we've all witnessed since January. I do want to mention that while we're being conservative in the way that we're talking about Q4, we remain very confident with regard to '23, and we did have a very good fundraising quarter. We -- it wasn't like we weren't able to raise what for us is a lot of money, but there is a denominator effect. There are liquidity concerns and there's a general caution because of the environment. And I think it makes sense to be conservative in expectation in the short term because of that.

Jon Levin: And Bill, maybe -- this is Jon. I would just maybe add one point to what Michael said, which is I think that where the maybe incremental demand might be or where there might be modest shifts is looking at places where you can generate maybe attractive returns above the what is a new risk free rate with maybe less risk. So we see certainly opportunities to take credit-like risk and generate equity-like returns. I still think there's an incredible amount of interest in infrastructure strategies given the long duration inflation protected cash flows with good counterparty risk kind of ensuring those cash flows. And certainly I would say the more kind of opportunistic strategies that enable us to -- and other managers to -- potentially take advantage of market dislocation that we're seeing right now.

Bill Katz: Okay. Thank you. Just to follow up, I didn't listen to the rule, so if I'm asking an extra question, I apologize. But in terms of just thinking through your glide path on FRE margins into '23 and beyond, where do you think the model can settle out over time? And then as you think about counterbalancing between sort of things you're trying to build out, whether it be technology or third party distribution or just distribution more broadly, how do you balance that to the extent the revenue environment remains a little bit more protracted versus something stabilizing, perhaps? Thank you.

Jon Levin: Well, as Pam said, we do see a margin increase this year. We see margin increase next year. And frankly, we think we've got operating leverage and the ability to continue to drive that FRE margin. And I think we've got a ways to go there before we need to talk to you about whether we're anywhere near peak margin. So we think -- we've always maintained that we have operating leverage from the time we came public. We've delivered on that operating leverage and that margin expansion at the FRE level. And I think that we will continue to do that. Retail for us or non-institutional for us is an opportunity for accelerated growth. We've done well there since coming public, putting more product on, more platform at the warehouses. We've got real opportunity in the RIA and independent broker dealer channels that we're not yet tapping. I think that whole space has slowed down some, and the fact that we're less dependent on it is probably short term, not the worst thing for us, but the opportunity to really drive growth and the type of growth that we're talking about and to drive margin from those channels we think is very real and we look forward to achieving growth there in the future.

Bill Katz: Thanks so much.

Operator: Well, now take our next question from Samantha Platt with Bank of America.

Samantha Platt: Good morning. Thanks for taking my question. So I want to touch on insurance. So the traction is looking pretty strong with 14% of your last 12-month flows coming from this channel. Can you remind us of your strategy and how it's different from your peers in terms of the type of insurance companies you're targeting and the types of solutions you're providing for them?

Michael Sacks: Sure. Thanks, Samantha. So first, I think you're right. And it is something that we're very we've been enthusiastic about. We've invested in and we've generated results from over the last 12 months, and we remain very enthusiastic about where that can go. I think that the comments that Pam made with regard to the breadth of our platform are really the core of the answer there. So we are engaged with all manner of insurers, you know, from midsize to the very largest. And because of the breadth of our platform from a strategy perspective and the open architecture nature of our platform and our sophistication with regard to insurance through the team that we've assembled and with regard to structuring from our internal capabilities, we think we have the ability to help insurers with pretty much anything they want to do in the OP[?] space, and we feel this was a very we feel that was a very smart thing for us to make the commitment to the space that we made a year ago. And we really do think it's going to be something that contributes to our growth in '23 and beyond for quite some time. And you're seeing -- you're seeing others start to talk about it now.

Samantha Platt: Great. And just as a quick follow up, what is the pipeline look like for insurance today versus, you know, six months or a year ago?

Michael Sacks: Our pipeline generally is bigger than it was and it's bigger than it was a quarter ago, even though we had a terrific fundraising quarter. And insurance is a healthy part of that pipeline and there is a lot that we think that we can do in that space, again, across various verticals and utilizing kind of the full capability of our flexible and open architecture platform. So I would say that there's a very healthy insurance pipeline and it's healthy for a range of engagement or relationship types with insurers of different sizes.

Samantha Platt: Thank you so much.

Operator: We'll now take our next question from Ken Worthington with JP Morgan.

Ken Worthington: Hi. Good morning. Thanks for taking the question. In private market contributions not from committed, but not yet fee paying, I believe it was like $18 million. I think you were supposed to have one fund close for 3Q but it looks like three had contributions. So why was the 18 million so low versus what we've seen in prior quarters? And then you mentioned that customized fund fundraising should be better in '23 than '22. You did have some of your biggest funds in market in '22. So maybe walk through what gives you conviction that '23 should be a better year.

Michael Sacks: Sure. So let me just take the first question. We actually, I think, can on the last call said we weren't really expecting anything significant in Q3 in terms of specialized fund close. We probably had a teeny bit more than we thought. As you know, some of the specialized funds are pay on -- are pay on committed. So any clothes would show up in that FCOM[?] number. And then others are pay our pay on as invested. So you have some closes for specialized funds that don't show up in FPAUM in the quarter, but show up in CNYFPAUM and then come into FPAUM. In general, we had a terrific fundraising quarter. It was heavily weighted towards fund raising to pay on invested or ramp in, which is our CNYFPAUM category. That is -- we obviously always -- you know, we try to price so that we're indifferent, frankly, so that our effective fee rates over time are the same, but we certainly are not, you know, never -- we don't mind when things turn on right away. That said, we have had quarters in the past, I believe, since coming public, even where the fundraising is tilted one way or the other. CNYFPAUM or direct to FPAUM. And that's, I think, just part of the nature of the business and the nature of what's closing when. In terms of our confidence for next year, on pickup in in the specialized fundraising, the funds that are in market are good funds that have good competitive position. And we think that a slowdown in '22 is not anything, it's not a result of our offering, but it's just a result of market and environment. And those -- and we do think that that will loosen up into next year. And then we have new funds coming in to market next year, our direct infrastructure fund, which you're aware of and which we talked about and is scheduled to begin its fundraising next year. And then we think it's likely we have additional specialized fund, probably something in the ESG and Impact space that will launch next year as well. So in general, it's really knowing what our pipeline is there, understanding where and why there was a slowdown in '22 and understanding from constant engagement with the market where we think things will go.

Ken Worthington: Okay, great. And then just maybe turning to absolute return. We've been in the market for basically a year with higher volatility, lots of uncertainty. It would seem like this sort of macro environment would be the one that makes absolute return strategies more attractive to investors. And yet, as we look at sort of the gross sales, there would seem to be very, very limited interest. So what do you attribute the lack of interest from investors? Is it your performance? Is it the performance of absolute return more broadly? And if we're just focused on the macro, if this is not the macro environment that gets people interested in absolute return, what is that macro environment that sort of stimulates demand?

Michael Sacks: Well. So first I would tell you, I think that it is largely macro in terms of our flow results. I don't think you're going to see very different sort of net -- very different results anyplace else that you look. I think that is the market -- I think that from the good news is from a performance perspective, certainly since April 1st, the sort of beta and the risk in the ARS space has come down significantly; and in general ARS returns are not, you know, the performance is kind of in line with what investor expectations would be through 930 given markets through 930. And I think that clearly ARS returns broadly, Grosvenor, but for everybody, are just not the source of focus or concern for clients at this time. And I think you're not -- you need to see the environment generally become a bit more stable before you might see increases in general macro demand. And you know, in this environment where people don't have a problem, they are pleased to not have a problem, but nobody is really rushing forward with much in the way of new investment anywhere in the Alts space right now. And I think we need that macro environment to settle down a little bit as I had said in my comments, you know, to see the flows pick up again. Whether when they do, there will be a shift to ARS, we don't know. I don't think anybody can really tell you that with any certainty. But to your point, it's clearly been, you know -- there's been value added through 9/30 from that approach. I would make one comment which just I think is worth making because we talk a lot about how ARS is valued inside our kind of aggregate valuation. And clearly we're trading at a pretty significant discount to peers that are pure and private markets peers. And I think even if you sort of isolated our private markets, FRR, and put a margin on it, you conclude that the ARS business is kind of not seeing much at all in the way of valuation is extraordinarily cheaply valued. And I think that when you think about the valuations that are implicit on ARS, if you think about the performance of ARS and then you think about traditional asset management firms where revenues are down dramatically because of markets and where there's not a positive inflow environment and hasn't been for quite some time, I just think you've got a real mismatch on the way people see the value of that vertical.

Ken Worthington: Great. Thank you very much.

Operator: Again, if you have any question, please press star and then the one key on your telephone keypad. We'll now take our next question from Chris Kotowski with Oppenheimer.

Chris Kotowski: Yeah. Good morning. Most of mine have been asked, but I'm kind of thinking about, you know, sussing out the trends for '23. And I guess I would -- you know, I would think that the -- you know, you've attracted really good flows in the CSAs. But I think of that as kind of a longer-term process, which, you know, probably, you know, kind of benefited in this quarter from processes begun, you know, six -- six or nine months ago. And, you know -- and I guess to me that would probably argue kind of for a softer spot, you know, in, you know, the coming two or three quarters. And I guess countervailing that, I think, you know, on the other hand, you know, the fundraising scene is very crowded in '22 and then -- but maybe in 2023, there's a whole new, you know, block of of capital to be allocated. And that could argue for a stronger position. And I guess, am I right in thinking that those are kind of the two countervailing forces and how it all settles out?

Michael Sacks: I think you're right about the stronger '23 new capital being allocated. Frankly, beyond even aside from new capital being allocated, just people kind of getting back to business and starting to move forward again with a little bit more purpose and a little bit more purpose. And so we agree with you there. Those are two good factors for fundraising for '23. Where I would actually push back a little bit is on the customs separate accounts being soft. And I think it would be a mistake to think that the customs separate accounts need to slow down. Jon mentioned in his comments that our re-ups over a five year period have been 40% higher than the original or the previous, you know, contribution or the previous separate account size. And when we've re-upped these separate accounts that we're re-upping them at higher levels, materially higher levels. And our re-up rates remain very high and we constantly have reupps. So we have separate accounts that will be due to re-up next year. And so I think you're absolutely right about the promising nature of increased flows in '23. But I want to push back a bit on the idea that customs separate accounts need to slow down at all.

Chris Kotowski: Okay, fair.

Speaker: Chris, this is [inaudible]. I just add one point to that. You're right that the customs separate accounts are a longer sales cycle. But I do think, to Michael's point, you have to differentiate between re-up and new separate account. And actually in both categories, the -- Michael mentioned the re-up category, the pipeline remains strong. So that's true. You have a lot of insights into your re-ups and the timing around your re-ups because you're sitting there with your existing clients and understanding their programs and the programmatic nature of them. But we're also able to view in our pipeline around new separate accounts, new customized separate account opportunities and the timeline of those. And that activity still remains such that at each period when you look six, nine months out through that long sales cycle, we have decent visibility into the continued production out of that type of implementation.

Michael Sacks: Okay. And, Jon, that keeps rolling forward. So nine months from now, we'll have a whole block of separate accounts that will then be due to start rolling then. And so, that's, you know, something that I maybe were a little guilty of not talking about enough. But, you know, that that whole CNYFPAUM, effectively, if we keep our re-up rates high, that whole CNYFPAUM renews itself every few years while we add new separate accounts along the way.

Chris Kotowski: Okay. Thank you.

Operator: Your next question will come from Michael Cypress with Morgan Stanley.

Michael Cypress: Hey, good morning. Thanks for taking the question. Just wanted to circle back to some of your commentary around the challenges with the denominator effect and liquidity concerns that LPs are facing. So I guess the question is, which parts of the LP community do you see as most impacted? I know some folks have been pointing to the US pension community, but just curious your thoughts on that. And then which channels and geographic regions do you see as more insulated from some of these pressures? And then how do you see this evolving into 2023? In other words, is anything that, you know, could get a little bit worse in some parts of the marketplace? And then if you could speak to some of the opportunities that you see for Grosvenor and for the industry more broadly on providing some liquidity solutions to LPs as they're navigating through these challenging times. Thank you.

Michael Sacks: Good. Very good questions. I think, first of all, I would say that the liquidity is or -- is becoming kind of as big an issue as the denominator effect. So the denominator effect is something that an investment team, a board can adjust by changing their portfolio allocations. Liquidity is liquidity. It's different. And so as -- while deployment is down, realizations are down more. And so that's kind of what's leading to the liquidity impacts. I think that it's probably easiest to answer your question at the highest level by talking about the channel that's not seen that and not feeling that, which is the sovereign wealth channel and some of the sovereign pension funds in the sovereign wealth funds, where the inflow environment there is not creating liquidity issues. It may -- they will have a denominator effect and they'll choose how they want to deal with their denominator effect, but they're not necessarily seeing liquidity conversation because of the inflows that they have based on their revenue sources. And so that's the healthiest channel with regard to liquidity, I think, globally. I think that you asked a very smart question about the way that people are thinking about liquidity. And we do believe that there are approaches to dealing with liquidity that do not need to result in any -- that are smart for investors, do not need to result in any kind of slowdown of new commitments in any way. And we do see activity and are engaged in conversation around those types of ideas, some of which are structured solutions, etc. And we think you'll see more of that in '23.

Michael Cypress: Right. And just as a follow up question, maybe you could talk to how you see the demand evolving in the retail channel, how that's holding up in this environment. And maybe you can update us on your sort of new product roadmap and potential opportunities to grow further in that channel. Thank you.

Michael Sacks: Sure. So look, that channel has slowed down. That's our experience and that's our broader sort of anecdotal knowledge space and experience. Again, it makes all the sense in the world that it would slow down given the levels of traditional returns and given the uncertainty and volatility and, frankly, given how robust it had been for the last few quarters. So nothing is really surprising there. We think that will continue to be a channel over time that -- from which we raise more money than we have in our AUM today, and that our kind of relative growth, if you will, will be higher. I do think and we've said multiple times already today, we think it takes a couple of quarters and just a little bit more sort of certainty than you have in the environment today for that to ramp up again. And we do believe that we have -- while we do a reasonable job in the wirehouse channel, we think the RIA and the independent broker dealer channels have promise and opportunity for us and represent upside for us. And frankly, you know, of the various funds in market rolling into '23 and the new funds coming in market into '23, they all have appeal across a broad range of channels, including non-institutional.

Michael Cypress: Great. Thanks so much.

Operator: Well, now take a follow up from Bill Katz with Credit Suisse.

Bill Katz: Okay. Thanks so much for your question. So just going back to your commentary around the implied value for the ARS platform and the increased board authorization. Can you help me think about how quickly you might deploy the capital. Obviously, it's a pretty big buyback quarter this quarter, but how do we think about triangulating between sort of money needed for seed or GP commitments versus just regular cash flow needs, operational cash flow needs versus maybe continuing to reduce the share count relative to your views on how cheap you think the stock is? Thank you.

Michael Sacks: Sure. Well, I guess first I take a giant step back and say that we've always believed and we've always emphasized that one of the attractive features of our business is the ability to return capital to shareholders and to do it through both dividend and buybacks. We raised our dividend. Our payout ratio remains very comfortable. We had talked about the comfort in our payout ratio and our ability to raise dividend for some time. We also talked about the fact that we believe that the stock represents very good value today. We're 5.5% dividend yield as of this morning or last night. And you know, at -- while we are cognizant of our float and the idea that, you know, we don't want to shrink that float too much, we feel like, you know the value and relative -- just -- it's a very good return for us to deploy capital through buybacks. Now, we want to continue to do that. We certainly want to manage dilution relative to stock-based comp through our buybacks. And, you know, we just -- we're cognizant that we don't want to necessarily shrink that float so much that shareholders feel it's not -- there's not enough volume there. On the other hand, it's just -- you know, we think it's an awfully good use of capital today and we wanted to increase that program.

Bill Katz: Thank you.

Operator: Well, now, take a follow up from Ken Worthington with JP Morgan.

Ken Worthington: Okay. Yeah. Thank you also for taking my follow up. Thinking about performance fees for absolute return, so this year, return to performance in that business is is reasonably negative. And it looks like if 2023 is sort of a normal year, assuming nothing happens in 4Q that you would be sort of break even. Just remind us what happens with resets and high watermarks or hurdle rates. Is the 2023 outlook for performance fees kind of at some sort of risk given returns this year? And then I know that you guys sort of rejiggered compensation around Mosaic to have performance fees and carry be a bigger part of your employee comp. Would a second year of limited returns or limited performance fees in absolute return sort of change your views on on compensation more broadly? Thanks.

Michael Sacks: Right. Let me unpack that. One, we do have hurdle rates in many of the performance fees on the ARS side. And to some extent, those hurdle rates have risen. But most of them, if not all of them, have caps. And they're probably near or at those caps now. So the earnings power from any further interest rate increases, any diminution in earnings power from future interest rate increases is pretty muted, I think extremely muted. Second, we do have a loss carryforwards or high watermarks. And so we have to get back to high water before we start to generate performance fees. Again, we -- if we have returns in the high single digits, which is kind of how we typically budget or think about it as a base case between now and the end of the year and for next year, we will generate some performance fees next year and we'll be in very strong position with regard to performance fees on a presumably higher AUM base for '24. And we're managing all of our compensation tools, our FRE comp, our incentive fee, discretionary incentive comp, our allocation to carry, and our stock based comp, I think, intelligently in a way to be able to drive the business forward without sort of seeing any of that break apart. And that's something we've talked about before. And we've talked about it before when we've talked about kind of our FRE margins, some of the free margins that you see out in the marketplace. And I think I've said several times that we are -- we want to manage -- we want to manage our comp and we want to manage our tools so that we aren't -- so that we're going to be able to withstand that type of pressure if it occurs.

Ken Worthington: Great. Thank you very much.

Operator: And it appears there are no further telephone questions. I'd like to turn the conference back over to our presenters for any additional or closing comments.

Stacie Selinger: Thank you. Thank you all again for joining us today. It was wonderful to connect with you. If there are any follow up questions, please don't hesitate to reach out. And we look forward to speaking with you again next quarter.

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.