GCM Grosvenor Third Quarter 2026 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. Welcome to GCM Grosvenor's Third Quarter Call. Today I am joined by GCM Grosvenor's Chairman and CEO Michael Sacks; President Jon Levin; and Chief Financial Officer Pam Bentley.

As a reminder, 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 and involve risks and uncertainties that may cause actual results to differ materially. Please refer to the Risk Factors section in our filings for additional information.

We will also refer to non-GAAP measures that are important in assessing our business. Reconciliations to the nearest GAAP measures are available in our earnings presentation and supplement on our website.

With that, I will turn the call over to Michael.

Michael Sacks

Thanks Stacie.

We are pleased to report another strong quarter for GCM Grosvenor. Our Assets Under Management of $98 billion is up 13% year-over-year, and our Fee-Paying Assets Under Management of $78 billion is up 11% year-over-year. Compared to the third quarter of last year, Fee-Related Revenue grew 10%, Fee-Related Earnings grew 15%, and Adjusted Net Income grew 20%.

We raised $2.7 billion this quarter and $10 billion over the last twelve months. Our fundraising was supported by two complementary growth engines. The first is our customized separate account business, where high client retention, recurring re-ups and expansion into new strategies provide a consistent source of fundraising. The second is our growing specialized fund franchises, where we typically have 5 to 10 funds in market at any given time. We held several fund closings this quarter, and looking ahead to 2027, we see meaningful fundraising opportunities across both separate accounts and specialized funds.

Importantly, 30% of our year-to-date fundraising has come from new clients. As we illustrated at our Investor Day, our investor relationships are sticky and grow over time. That dynamic, combined with our Contracted Not Yet Fee Paying AUM balance of $10.6 billion, bodes well for future growth.

Our fundraising pipeline is full, with our near-term pipeline 20% larger than it was a year ago. We remain confident that second half fundraising will exceed first half fundraising and believe full year fundraising for 2026 will rival full year fundraising for 2025.

With regard to investment performance, we believe we are well positioned to navigate an unsettled market environment, which is notable for high volatility, interest rate fluctuation and technological disruption. Our fundamental diversification across investment strategies, and within those investment strategies by asset class, geography, industry and investment style, benefits our clients and provides a stable, growing firm for shareholders.

Our Absolute Return Strategies business is a good illustration of this. Our multi-strategy composite was down 2% in the third quarter on a gross basis, influenced in part by the movement in SpaceX. However, ARS has enjoyed excellent year-to-date and recent results with composite gross returns of 13% year-to-date, nearly 19% over the past year and 15% annualized over three years through September. Despite a tough October for hedge funds, our highly diversified approach continues to add value for clients and our ARS vertical continues to experience net capital inflows.

ARS Fee-Paying AUM was $28 billion at quarter-end, up 18% year-over-year and an 11% compound annual growth rate since the end of 2023. ARS net flows have been positive for the last four consecutive quarters, and we expect positive inflows in the fourth quarter of this year. Our ARS pipeline is the strongest it has been in recent memory. Our accrued unrealized performance fees from ARS portfolios stood at $49 million at the end of October.

In Private Markets, we've delivered for our clients, with positive performance for every strategy and sub-strategy over the last year. We have talked about how Infrastructure and Credit are firing on all cylinders, and that continues to play out. In Private Equity, which generally has been the slowest of private market strategies across the industry, we see some promise as private equity represented approximately a quarter of our fundraising over the last year. Private equity co-investment realizations are up approximately 50% by number of transactions and are also up nicely on a dollar basis in 2026.

Within Private Markets broadly, we remain pleased with the quality of our investment activity and the opportunity set.

Grosvenor continues to enjoy significant upside from incentive fees, particularly our unrealized carried interest balance. Unrealized carry at net asset value reached a new high of approximately $1.1 billion at quarter-end. Firm share of unrealized carry at net asset value was $592 million, an increase of approximately $100 million from June 30th. While realization timing cannot be predicted with accuracy, that balance represents strong embedded future earnings.

The rapid pace of technological change is creating both opportunities and concerns across the market, particularly with regard to AI, and the AI data center and power related capital cycle. We've spoken for several quarters about why we believe our platform is well positioned in this environment and we continue to hold that belief.

We spoke last quarter about our investment in SpaceX, which is a good example of our origination capabilities that resulted in the largest single investment gain in the history of the firm. We successfully monetized more than $500 million of that investment in the third quarter, and firmwide exposure was just north of $3 billion at the end of the quarter.

Our emphasis on diversification in our infrastructure vertical, one of the fastest growing areas of the firm, has enabled us to make good investments in digital infrastructure and power without taking lopsided risks in any particular sector. As an example, when we look at our firmwide AUM, data centers represent around 1% of our total AUM and 5% of infrastructure AUM. The substantial majority of that exposure relates to investments made more than four years ago.

We remain confident in our Investor Day guidance including with regard to 2028 Adjusted Net Income and believe we have more upside than downside relative to that guidance. Our margins continue to grow and free cash flow generation can support stock buybacks or dividend increases in the future. We will continue to focus on delivering quality returns and service for our clients and growth in profits for shareholders. And with that I'll turn the call over to Jon.

Jon Levin

Thank you, Michael.

This quarter, I'm going to focus on investments we've made to create new sources of growth. We target opportunities where our investment capabilities and client relationships provide an advantage, while maintaining financial discipline. There are several investments we've made over the past several years that highlight this approach.

First, direct infrastructure. In 2018, we leveraged our established infrastructure platform and deep relationships in the multi-employer pension community to launch a direct investment strategy, leveraging our labor and government expertise to create a competitive advantage for infrastructure investing. Today, that strategy manages approximately $3 billion, contributing to our broader $20 billion infrastructure business, which has grown at a 24% annual rate since 2020. It's a great example of building on existing strengths to create new growth opportunities, and we believe there's significant runway ahead for that business.

Second, we've invested in credit for decades, but our recent growth reflects strategic decisions that we've made over the past several years. We integrated our public and private credit teams to leverage our full sourcing capabilities, expanded into small and emerging managers, and strengthened our co-investment and secondaries expertise. In doing so, we positioned ourselves ahead of growing client demand for direct-oriented private credit strategies and greater portfolio diversification.

The results speak for themselves. We've raised approximately $4 billion for credit over the last two years, nearly half in direct-oriented strategies. We now manage approximately $2 billion in credit co-investments and recently closed our inaugural credit secondaries fund at $1.2 billion, including related vehicles. We believe these strategies are still in the early stages, with meaningful growth potential ahead.

We've taken a similar approach to expanding our distribution capabilities. In 2021, we launched a dedicated Insurance Solutions team and have since raised more than $4 billion through that channel. Insurance has contributed approximately 12% of our fundraising over the last two years, despite representing just 5% of AUM. Today, we manage approximately $5 billion for 50 insurance clients, offering customized solutions through separate accounts, specialized funds and structured products, including two collateralized fund obligations. Our ability to combine investment expertise with flexible structuring and delivery is a key differentiator, and again we believe this is an area with significant opportunity for growth.

Our individual investor channel provides another example of investing ahead of what we think is a long-term secular growth opportunity. While we've had success with wirehouses for over a decade, in recent years we've invested in distribution, such as with the launch of our Grove Lane joint venture, and in product. Since the start of 2020, we have raised nearly $5 billion from individual investors, split evenly between ARS and private markets. Approximately $2 billion has come through wirehouses, where we've built partnerships with most major platforms. Our success has also been highly global. 41% of that capital was raised in the U.S., 36% in Europe and 23% in APAC.

This channel will take time to scale, but momentum is building. We've raised approximately $1.5 billion from individual investors so far this year, or 23% of our fundraising, and individual investor AUM has grown approximately 40% year-over-year to $5.3 billion. We're also investing deliberately in registered products and distribution, and we believe the opportunity remains very large relative to our current position.

Combined with our recurring revenue base and scalable platform, our growth investments provide significant future upside and multiple paths to achieving our long-term objectives.

With that, I'll turn it over to Pam.

Pam Bentley

Thanks, Jon.

We are pleased with our third-quarter results, which demonstrate continuing growth in recurring revenues and earnings across the platform.

Private Markets management fees were $66 million in the quarter, up 7% year-over-year. We continue to benefit from fundraising and the deployment of previously committed capital. Looking ahead, we expect fourth-quarter Private Markets management fees to increase 7 to 9%, as compared with the fourth quarter of '25.

Absolute Return Strategies management fees were $47 million, up 19% year-over-year, driven by investment performance and positive flows. For the fourth quarter, we expect ARS management fees to increase in the mid-teens year-over-year.

Taking these factors together, total Fee-Related Revenue was $115 million for the quarter, up 10% year-over-year.

Turning to expenses, we continue to invest thoughtfully while remaining focused on efficiency and operating leverage, and we are definitely seeing the benefits of optimizing technology. Third quarter FRE compensation and benefits remained relatively consistent from the prior quarter at $39 million. We expect fourth quarter FRE compensation and benefits to be approximately $1 million higher than the fourth quarter of 2025.

Non-GAAP General, Administrative and Other expenses were $22 million in the third quarter, and we expect a consistent level of G&A expenses in the fourth quarter.

Putting these elements together, Fee-Related Earnings were approximately $54 million for the quarter, up 15% year-over-year, and our FRE margin expanded to 47% from 45% a year ago. Adjusted Net Income was $45 million, up 20%, and Adjusted Net Income per Share was 22 cents, up 16% year-over-year.

Turning to incentive fees, we realized approximately $25 million of gross incentive fees in the quarter, consisting of $23 million of carried interest and $2 million of performance fees. As of September 30th, our gross unrealized carried interest balance was approximately $1.1 billion, with $592 million representing the firm's share. As a reminder, private market valuations, including those relevant to this balance, are generally reflected on a one-quarter lag.

The majority of annual performance fees typically crystallize in the fourth quarter, and as of the end of October, we had $49 million of accrued unrealized performance fees, driven by strong year-to-date performance in ARS. Actual fees will depend on investment performance and applicable fund terms through the relevant crystallization dates.

Moving to capital allocation, our balance sheet remains strong, and we continue to invest for growth while returning capital to shareholders. Our Board has approved a quarterly dividend of $0.12 per share, and we ended the quarter with approximately $54 million remaining under our share repurchase authorization.

We are pleased with the momentum in our business and our ability to deliver strong results while continuing to invest in the platform.

We are now happy to take your questions.

Operator

Thank you.

If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow the signal to reach our equipment. Again, press star one if you would like to

ask a question. We'll pause for just a moment to assemble the queue. We will take our first question from Crispin Love with Piper Sandler.

Crispin Love

Thank you. Appreciate you taking the questions. Just first on ARS. Definitely a standout year so far, but just plenty of volatility the last few weeks. Rates, data center financing fears, the midterms. You did call out a tough October for hedge funds, and we've all seen the headlines. But just curious on your latest thoughts there and if you would expect a significant impact, whether it's from flows or performance. Near term looks pretty good based on your comments, but then further, as you look out into '27.

Michael Sacks

Yeah, I think – thanks, Crispin. It's Michael. I think that the picture today is a very good one. And I think you can look at our statements on ARS and almost view them as the most constructive statements that we've made. We are in a net inflow environment. We've experienced net inflows the last several quarters. And we were clear on the call we'll have net inflows in Q4. In markets like this, hedge funds are a pretty good option. They have a lot of – a diversified hedge fund portfolio has a lot of features that naturally manage the volatility, naturally provide diversification.

And so there's a lot of good there in markets like this. And I think the sophisticated institutional investor base, that we have, sees that, appreciates that, likes that. And the performance over any reasonable time period has been quite good for a while. There's been a lot of alpha there. And so we think we're in a constructive environment. And most importantly, we mentioned our pipeline, which is where we have the most short, intermediate term volatility. Our pipeline is up a lot. So we're constructive there. Even though we like our three-year number of 19% CAGR better than our one-year number.

Crispin Love

Perfect. Thank you, Michael. Appreciate that. And then your comments on fundraising on the call seem very positive, kind of looking out. But drilling into that a little bit deeper, just specifically on the individual investor channel. Can you just drill into that on fundraising and individual investor, the outlook over the near to intermediate term? It's definitely a growth area for you guys, so just curious on the outlook there.

Michael Sacks

Yeah, our outlook there remains – so first, your interpretation of our comments on fundraising generally and our outlook is correct. For us to say that we think the full year '26 can rival full year '25 is not an insignificant thing in terms of what that implies for Q4. It doesn't mean we get all the way there, but that's a pretty strong statement with regard to our expectations for Q4.

The individual investor offers a tremendous amount of opportunity and growth for Grosvenor, for the whole industry. We've talked about that a lot. We continue to raise there at a rate well in excess of what the individual investor represents in our total AUM.

The rest of the firm is growing. So it's hard to flip those numbers, so to speak. But we continue to raise there at a very significant rate. So I think it was 23% of our fundraising

year-to-date. It's up 40% year-over-year. The AUM of the individual investor is up 40% year-over-year. And so we just think that space is going to continue to grow. And as we've talked about in the past, it grows through a number of different efforts, meaning product on shelf, but also meaning private label partnership, also meaning firm-level partnership. So we have a lot of ways to win there, and we just look forward to continuing to build that out.

Crispin Love

Great. Thank you, Michael. Appreciate you taking my questions.

Michael Sacks

Thank you.

Operator

We will take our next question from Bill Katz with TD Cowen.

Ryan Zollo

Good morning, team. This is Ryan, on for Bill. I was just wondering if we could expand on the commentary on the ARS pipeline. So, is what's driving the growth current clients increasing their allocations, or is it also new clients signing on board? I know you called out that you're seeing good momentum there on the wealth channel as well.

Michael Sacks

Yeah. So it's all of the above. We're winning new mandates from new clients, we're winning hedge fund mandates from existing clients, and we're seeing clients add capital – existing clients add capital. And that's not surprising. Typically, when these things happen, it's not like isolated particular channel. That's possible, but usually, there's just a market movement and hedge funds have delivered for a while. And again, the attraction is, to some significant degree, just the inherent diversification, the inherent shock absorbers inside portfolios like these. And that, combined with the recent performances, makes it interesting.

Ryan Zollo

Great. Thank you. And also, if you could just stick on fundraising. On specialized funds, which funds drove the inflows in the quarter, and what's going to be – what funds should we expect to be in the market next quarter for next year and across which asset classes? Thank you.

Michael Sacks

So we mentioned in the script that we have 5 or 10 funds in market pretty much at all times. And so it's hard to do each fund has raised this much money in this period of time and is open until this period of time. I think that the growth of that business makes that a little more challenging to report out on and track and model. We do have, as we mentioned, a number of funds. From the beginning of the year, we've been saying low catch-up fees this year. The funds in market are freshly in market and/or don't have catch-up fees.

So don't expect that this year. But next year we will have funds in market that have been in market a little longer that have catch-up fees or that are newly in market. So I think that next year a lot of funds in market where the momentum has started, we've had first closes and we're now moving on towards second closes, final closes, things like that. So we're anticipating, as we said, a good year for specialized fundraising next year.

Jon Levin

Just to give you a sense of it, to put some further detail around it. For our private market, specialized funds, if you look at it on a year-to-date basis, just to give you a little more sense than just one quarter, there was probably about seven funds that contributed to the specialized fundraising. Some of the bigger ones I would call out to be our MAC fund. We are still in market with both some direct infrastructure product as well as diverse infrastructure product. We're in market with secondaries product. And obviously, you have your evergreen funds like your interval fund for infrastructure and then, at all times, you have various evergreen products available in the ARS business as well.

So it's pretty broadly diversified, to Michael's point. I would expect, as Michael said, that will kind of be the story going forward as well, where there will be many different drivers of that number. And what we will always endeavor to do is to make sure that you all understand which of those funds are relevant from a catch-up fee perspective and the timing around that, so that we can make sure people can understand that from a modeling perspective.

Ryan Zollo

All right. Thank you for taking the questions.

Operator

As a reminder, if you would like to ask a question, please press star one. We will take our next question from Ken Worthington with J.P. Morgan.

Ken Worthington

Hi. Good morning, and thanks for taking the question. When we look at CNYFPAUM, $8.7 billion will become fee-paying as invested. Over what period is that $8.7 billion likely to be invested? And is that investment likely to be even over the term or more front-end or back-end loaded?

Michael Sacks

I think, Ken, a conservative way – it's Michael, by the way. Thanks for the question. I think a conservative way for you to think about it is three years, maybe at equal weighted. The reality is, I think it probably is a little bit more front-end weighted. But I just think if you're modeling it that that's a conservative way to think about it. It doesn't mean it couldn't stretch a little longer than that. But I think that's how I would suggest you model it on a base case.

Ken Worthington

Great. And then you mentioned catch-up fees earlier and highlighted that we still shouldn't expect much for catch-up fees in 4Q. As we're thinking about these funds

being more tenured in 2027, is there a past year that 2027 might look like from a catch-up fee perspective, that we can get a rough idea of what to expect for next year?

Michael Sacks

I think it's hard to pick out a particular year. And we are not prepared today to give guidance on that, but we will keep our eye on that and probably talk about that a little bit more next quarter.

Ken Worthington

Great. Thank you.

Michael Sacks

Thank you.

Operator

We will take our next question from Jeff Schmitt with William Blair.

Jeff Schmitt

Hi. Good morning. On the SpaceX realizations, how much occurred in private markets funds that were already in a positive carry position? And can you help us think about how those realizations should translate into carried interest in Q4 and then the outlook for additional realizations from here?

Michael Sacks

Yeah, I think the best way to answer that is, and Jon, Pam can jump in and help me, but I think the best way to answer that is that the carry revenue that we've seen thus far is in private markets, is not significantly attributable to SpaceX. When you start talking about in carry position, you start to – and, by the way, first, it's hard to ever say anything's directly attributable to something unless you are both in carry position, which a lot of our funds are, but you're also through your waterfall on DPI, where you're sharing in the carry.

So there's being in carry position and, obviously, with a close to $600 million firm share of carry at NAV, which is the amount of money that would come to the firm if everything were liquidated as of the last quarter. We're clearly in carry position in a lot of places, and that grew by $100 million in the quarter. And some of that is the SpaceX mark, and it's great, but you have to look at the fund level. So you're in carry position, but where are you in the waterfall? And that's an equally important question as to being in carry position.

And so I think we still have our very best days ahead of us in terms of revenue, realized revenue from carry. And I think that $600 million, $590 million firm share of carry is your biggest and best indicator there. We have sold, as we mentioned, SpaceX in Q3. We're continuing to sell SpaceX in Q4. And that has contributed to carry. It has or will contribute to performance fees based on marks. And it's obviously just overall positive for the firm.

Jeff Schmitt

Okay. Great. And then insurance continues to be a strong fundraising channel for you. And just given the scrutiny around private credit right now, have you seen any change in insurance company demand, or a shift in their allocations toward infrastructure, secondaries, or other strategies?

Jon Levin

No, I think – this is Jon, thanks for the question. I think in general, we view the insurance opportunity in a similar manner to the individual investor opportunity in which you'll have, I'm sure, bumps along the road, whether it's private credit or whatever the concerns of the day might be. But you have a secular trend of a current asset allocation towards alternatives that is lower than what the target asset allocation towards alternatives is. And I think that that will be a very strong driver of opportunity for us for a while.

And what I would say about the specific question on private credit, and we've talked about this on some of our previous calls. Our goal with everything that we do, and I think it's particularly important in credit investing generally, is to provide diversified open architecture, broad solutions. That's diversified on every metric in terms of the different food groups within private credit: sponsor lending, asset finance, geography, size, all of those metrics that are very, very important. Also, diversification with respect to implementation: fund investing, co-investing, secondary investing.

And so when we closed our inaugural private credit secondaries fund, one of the big drivers of capital formation for that fund was insurance companies looking to create a diversified solution with some J-curve mitigation, with some return options, optionality to the upside relative to a traditional implementation style. So, will everything always be linear? No. Will there be different challenges that come along the way? Sure. But for us, we see that it's still a great growth opportunity. And importantly, I think we see the way in which we can provide solutions to insurance companies gives us an advantage when you have dislocations or concerns, whatever the word might be in the market environment.

Jeff Schmitt

Okay, great. Thank you.

Operator

We will take our next question from Chris Kotowski with Oppenheimer.

Chris Kotowski

Yeah. Good morning, and thank you for taking the question. I just noticed your customized separate accounts were still growing nicely, double digits, like 11% or more. And a number of your peers that has slowed down, in some cases, down to the low single digits, as they say more institutions are going for the evergreen fund structure. And I know you have a couple in the market, but I'm wondering, do you see that demand on the institutional side for the evergreen fund structures? And maybe is the demand there, and is it less of a heavy lift than doing the retail route for the evergreen fund structures?

Michael Sacks

I was going to take it, Jon, and then ask you to finish up. What I would say is the wealth channel, the individual investor channels dominated by evergreen or open-end structures. The institutional channel is not. There has always been, and it is a constant conversation, some debate between closed-end structure or evergreen structure. And the market has historically been dominated by closed-end. Solutions and custom separate accounts are a bit of a hybrid, and the clients are coming around very clearly to liking those custom separate accounts and liking a solutions approach.

It seems a lot of providers that – everybody wants to be a solutions provider these days. And so our pipeline is full with no shift in the mix of what we provide, which is both evergreen and closed-end and custom separate account solutions. The pipeline is full, there is demand, and we see plenty of growth as we pointed to in our comments. So, I don't think there's a real preference there or anything that I would call a market shift or materially easier to raise money institutionally in one place or the other or any change in that. I think that has been a conversation for a while, and it almost comes down to preference of a particular investor or preference of a particular consultant.

Chris Kotowski

Okay. Thank you. That's it for me.

Operator

There are no further questions at this time. I will now turn the conference back to Ms. Selinger for any additional or closing remarks.

Stacie Selinger

Thank you very much for everyone who joined us this morning. We appreciate the questions and the engagement. If you do have follow-ups, very happy to take them offline, and otherwise, we look forward to seeing you 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.