GCM Grosvenor Second Quarter 2021 Results
August 10, 2021

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 second quarter 2021 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 consider forward-looking statements. This includes statements regarding our current expectations for the business and our financial performance. These statements are neither promises nor guarantees. They involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results.

Factors discussed in the risk-factor section of our 10-KA for the fiscal year ended December 31, 2020 and our other filings with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward-looking statements on this call. We'll also refer to non-GAAP measures that we view as important in assessing the performance of our business. A reconciliation of non-GAAP metrics to the nearest GAAP metric can be found in our earnings presentation and earnings supplement, both of which are available on the public shareholders section of our website. Our goal is to continually improve how we communicate with our shareholders. In that spirit, we look forward to your feedback and will endeavor to continually improve in this regard. 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 to all of you for participating. The second quarter marked 50 years of operations for GCM Grosvenor, a rarity in the alternative investment arena, and we are proud to celebrate that milestone. What is particularly nice is that we are as encouraged today by our ability to drive value for clients and shareholders as we have been at any time over the last 30 years that I have been at the firm.

The second quarter of 2021 was another strong quarter for GCM Grosvenor with solid investment results and growth in assets, revenue, profitability, and earnings power. The quarter's results left us solidly on track with regard to our 12% to 15% fee-related revenue and 15% to 20% fee-related earnings growth targets. We have often cited strong free cash flow generation and the ability to return capital to shareholders as attractive features of our business. In light of our results and future prospects, our board has approved a dividend increase of 12.5% to 9 cents per share from 8 cents per share. That 9 cent per share dividend is payable on September 15 to shareholders of record on September 1. Our board also authorized a $25 million stock repurchase plan, of which $6 million will be used to reduce the number of class A shares being delivered in August that are associated with prior equity awards.

Turning to slide four of our earnings presentation, from the end of the second quarter of 2020, we have seen growth in assets under management, which increased 18% to $67 billion in fee paying assets under management, which increased 11% to $55 billion, and in contracted not yet fee paying assets under management, which increased 26% to $7 billion. Our asset growth has been the product of solid fundraising, investment performance, and the conversion of contracted, not yet fee paying assets under management.

Our pipeline, including contracts in process, our co-mingled funds in market, our private market separate account re-ups, and new separate account opportunities remains robust, and we are optimistic with regard to fundraising for the remainder of the year. As Jon will discuss further, we've invested in our business development efforts, including the establishment of GCM Grosvenor Insurance Solutions, which we believe holds real promise for the firm.

During the quarter, 72% of our $1.5 billion of funds raised came from existing clients, and 28% came from new clients, a continuation of the expected return to a more normal picture following the initial COVID shock. Year-to-date, we've raised capital in all of our verticals with infrastructure seeing the largest increase among our private market strategies. Our fee-related earnings increased 9% over the second quarter of 2020 and 23% for the first half of 2021 as compared to the first half of 2020.

Our second quarter FRE margin was 32%, and our year-to-date FRE margin of 31% compares favorably to the 28% margin we experienced in the first half of 2020. We continue to believe we have operating leverage with regard to FRE margin. For the quarter, our adjusted EBITDA increased 17% over the second quarter of 2020, and 34% for the first half of 2021 as compared to the first half of 2020. Our adjusted net income increased 30% over the second quarter of 2020 and 56% for the first half of 2021 as compared to the first half of 2020.

Turning to slide five of the presentation, the value of the firm's share of investments and unrealized carry at net asset value more than doubled to $349 million from $158 million a year ago. Those numbers are inclusive of the mosaic assets, which were $290 million as of June 30, 2021. It is worth noting that the value of the mosaic acquisition improved considerably from the March 31 values that were the best information available when we communicated via press release on June 23. As noted in that release, we were able to secure a discount to the original option price, which incentivized us to exercise the option early.

The significant increase in the firm's share of carry at net asset value over the last year increases our earnings power considerably. Using an assumption of an average of 6.5 years to realize carry at net asset value, the forward-looking earnings power of the firm's share of carry translates into $38 million of estimated average annual revenue, which is considerably higher than trailing 12-month carry realizations and is more than double the earning's power of the firm's share of carry and net asset value a year ago. Combined with $42 million of run rate annual performance fees, this results in $80 million of run rate firm's share of incentive fees before cash-based incentive fee bonus. As of the end of the second quarter we had collected approximately $9 million of performance fees so far this year. At June 30, we enjoyed $32 million of unrealized performance fees eligible to be realized in 2021, which are not reflected in our revenue. With positive absolute returns strategies performance in the back half of the year, that number grows.

For the second quarter of 2021, our absolute return strategies management fees were up 11% compared to the second quarter of 2020. For the year, our absolute return strategies fundraising has been more than $1.1 billion, approximately $540 million of which was in the second quarter. We had net absolute return strategy outflows for the second quarter of approximately $280 million, resulting in a modest net outflow of approximately $76 million for the year.

Importantly, the fee rates on absolute return strategies funds raised have exceeded the fee rates on outflows, resulting in an increase in our absolute return strategies management fees for the second quarter, despite the modest outflows and for the year.

That is all before giving effect to the increase in absolute return strategies fee paying assets under management associated with our investment results. While we continue to maintain our base case expectation, flat flows for our absolute return strategies vertical and we are unlikely to change that assumption without clear evidence of a significant change in the macro environment. We continue to believe in the value proposition that vertical provides and the value that our breadth of strategies provides to both clients and shareholders. There are few alternatives' solutions providers with the ability to serve clients at scale in both private markets and absolute return strategies. As we have said before, when we look at the way the other solutions providers with similar growth rates and private market strategies are valued, and we look at our own valuation and breadth of strategies, we think the value of our platform is under appreciated.

During the quarter, we were added to the Russell 2000 and the S&P total markets indices. Also during the quarter the CRSP Index, which had previously utilized an inaccurate free float share count, corrected the share count, resulting in a share of sale of approximately 10 million shares for one passive index shareholder upon rebalancing in June. In closing, we leave the quarter with great confidence in our ability to deliver value for clients and shareholders over the remainder of 2021 in 2022 and beyond. And with that, I'll turn the call over to GCM Grosvenor President, Jon Levin. Jon.

Jon Levin: Thank you, Michael. I'll begin my remarks on slide six. Michael hit on the continued growth and the earnings power in scalability of the business and we're excited to continue to invest behind this momentum. Importantly while always investing for the future, we remain laser focused on delivering exceptional performance and client service to our existing clients. But we also believe there's a large world of potential clients that would benefit from our solutions. In that vein, last quarter we mentioned our recently established office in Toronto. In recent weeks, you likely saw additional hires and initiatives we've announced in our business development area. One area in particular that I wanted to address is the creation of GCM Grosvenor Insurance Solutions. We believe our investment capabilities, in combination with our flexibility and creativity in structuring and executing those strategies, makes us an ideal partner for insurance companies.

Historical under allocation to alternatives, combined with the current interest rate environment, will drive growing interest in alternatives from insurance company balance sheets. The global insurance market is a multi-trillion dollar opportunity. Insurance capital represents less than 5% of our AUM today, and we believe this segment could become a low to mid double-digits percentage of our AUM overtime, which makes it a multibillion-dollar opportunity for us. You should expect to continue to see us invest in our business development function.

This past quarter, we raised $1.5 billion, bringing year-to-date fundraising to $4 billion. Our fundraising continues to be notable in its high level of diversification across asset class, investment type and client type. Based on our current fundraising pipeline, we're very optimistic for the back half of the year, which consistent with our plan, is likely to see asset raising that exceeded the first half of the year.

We continue to benefit from a strong fundraising backdrop across private markets in particular, which accounted for 2/3 of our fundraising in the second quarter. As we expected, we saw specialized funds contribute more significantly to our fund raising this quarter with total fundraising split approximately evenly between specialized funds and customized separate accounts. Our existing clients continue to be a significant source of fundraising, in this quarter 72% of capital raised was again from existing clients.

Notably since a year ago, we have doubled the number of wealth channels that have at least one GCM product approved on their platform. More than 95% of our top 25 clients have added capital in the past three years, a significant endorsement of our value proposition and the strength of our relationships. We have intentionally structured our business model to evolve and grow with our clients. Oftentimes, relationships move into new strategies. We currently work with more than 45% of our top clients across multiple investment verticals. We also see strong interest in the ESG and impact investment strategies, which we view as both a differentiator and competitive advantage for the firm.

With regards to investment activity, the second quarter remained quite active. In the quarter, we invested approximately $3.1 billion of capital across more than 100 investments, bringing year-to-date capital deployments to nearly $6.5 billion. We also reported solid return generation across all verticals. In absolute return strategies, the trailing 12-month net performance was 17% as of June 30th. Within private market strategies, we saw a 27% increase in unrealized carry in the quarter, which speaks to the significant appreciation in our investments during that period.

I will now touch on the significant growth and earnings power from incentive fees, which is best captured on slide seven and provides a little bit more detail to what Michael already discussed. As a reminder, we have incentive fees of two forms, annual performance fees, which are typically associated with our absolute return strategies vertical, and carried interest typically associated with our private markets activities. The earnings power from the total incentive fee opportunity represents significant upside and is growing at a nice clip. The firm's unrealized carried interest and investments at net asset value as of the end of the quarter increased in value by more than 120% in the last year as investment performance has continued to be strong. It now stands at $349 million in total value. Within that figure the firms unrealized carried interest and net asset value is $247 million as of quarter end, which has grown by more than 170% in the past year. To help you translate this into annual earnings power figures, if you assume that it takes on average 6.5 years to realize carry, that $247 million would translate into annual carry realizations of $38 million. This annual earnings power has more than doubled over the last year in line with the increased value of our unrealized carry. This figure only represents carry associated with programs that have already appreciated in value, typically older programs, and does not yet include the carry associated with billions of dollars of capital raised in more recent time periods.

As a reminder, our carried interest pool is unique and it's a very high level of diversification, which alleviates potential volatility and carry earnings. Our unrealized carry is spread among 129 programs, each with typically dozens of contributing investments. Beyond carried interest we have $42 million of run rate annual performance fees, a number that has grown by 45% over the past year as we continue to see a mix shift in fee structures within the absolute return strategies vertical.

Taken together, while we continue to be a management fee centric business, we believe this $80 million combined figure, which is before any discretionary incentive fee compensation, is an important contributor to value that we can deliver to shareholders over time. Now, I will turn the call over to Pam to address our financial performance in more detail. Pam.

Pam Bentley: Thanks, Jon. I'll begin on slide nine. As our assets have continued to grow and we continue to see a mix shift towards higher fee activities, such as co-investments, direct investments, and secondaries, we've seen an accelerating positive trend in our earnings power. The firm's adjusted revenue increased 33% compared to the second quarter of 2020 and 29% on a year-to-date basis. Our fee-related revenue this quarter increased by 13% over the second quarter of 2020, and on a year-to-date basis, our fee-related revenue was up 10%. Both absolute return strategies and private markets saw management fee growth from the first to second quarters and on a year-over-year basis. Consistent with our expectations, private market specialized funds more significantly contributed to management-fee growth this quarter, increasing 11% over the first quarter and 24% on a year-to-date basis. Part of this was driven by catch-up management fees from our private market specialized funds, which were $2.3 million in the second quarter. We anticipate similar levels of catch-up management fees in the third and fourth quarters.

Our fee rates in each of our verticals were stable, and solid fundraising for specialized funds and for secondary, co-invest, and direct investment activities provide support for our current fee levels and rate expansion opportunities going forward. Administration fees declined this quarter to just under $2 million upon the expiration of a long-term contract we had to provide ARS administrative services. Broadly speaking, we provide these services to primarily private market clients for over a quarter trillion dollars in assets. This is in the ancillary service we offer to many of our clients, which adds significant benefits in the form of client retention and data. You can expect our administration fees to level off to less than $1 million per quarter, starting in the third quarter.

Moving to incentive fees, we realized just under $3 million of annual performance fees this quarter. As we noted last quarter, we typically realized the majority of our annual performance fees in the fourth quarter, so the fees received in the second quarter were not surprising and in line with our expectations. In addition, we realized more than double the level of carried interest this quarter compared to Q1, and overall investment realizations continue to be strong.

Turning to slide 10, we are very pleased to see the investments we've made in recent years continue to come to fruition and drive growth in our assets under management and financial performance. As Michael noted on the year-to-date basis, our fee-related earnings, adjusted EBITDA, and adjusted net income all increased, illustrating the continued positive momentum of our business. Our year-to-date fee-related earnings increased by 23% over the same period a year ago, reflecting the growth in our management fees combined with the business scaling and margin expansion that we've discussed on prior calls. Our fee-related earnings margin grew quarter over quarter and was more than 31% for the first half of 2021, compared to 28% for the first half of 2020, despite the higher cost necessary to operate as a public company. We expect stable to modest increases in our fee-related earnings margin through the rest of the year.

Headcount was relatively stable in the second quarter. We expect headcount to increase to the balance of the year, as we continue to make strategic investments in certain business development professionals, as well as public company-related personnel. Our fee-related earnings compensation and benefits decreased quarter over quarter to $40 million as we moved past some of the seasonally higher expenses in the first quarter. That said, you can expect stable to modest growth in FRE comp in the third and fourth quarters as we see the full impact of some of our headcount additions.

Turning to incentive fee-related compensation, since our Mosaic Asset acquisitions did not close until early July, our incentive fee compensation in the second quarter primarily relates to our realized ARS performance fees. Going forward, you can expect cash-based incentive fee compensation to be based off the net incentive fees attributable to the firm from both realized carried interest as well as performance fees.

General and administrative expenses increased on a quarter over quarter and year-to-date basis due to public company operating costs and secondarily as travel activity has started to resume. We anticipate stable to modest increases in G&A over the balance of the year, dependent on potentially higher travel activity related to our business development efforts. Overall, our expenses are in line with our fee-related earnings expectations of 15% to 20% growth year over year. We also remain on track for fee-related revenue growth of 12% to 15% this year.

Turning to slide 12, the business continues to generate strong cash flow and our cash balance at quarter end was $246 million, net of cash designated to fund future investments. This includes the cash generated from our $110 million incremental term loan, which we completed in June to finance the Mosaic Asset repurchase. As a result of increasing the size of our term loan, our quarterly interest expense is expected to be closer to $5 million per quarter, starting in the third quarter of this year. We closed on the transaction to repurchase Mosaic on July 2nd, which was funded by $165 million of our cash. As Jon walked through, the transaction further enhances the value of our on and off balance sheet assets, mainly investments and unrealized carried interest. In addition to the economic value, we are pleased to eliminate the financial statement complexity associated with the Mosaic-related redeemable non-controlling interest, and hope that it is easier to see the value embedded in our balance sheet and future earnings.

Finally, given our strong profitability and our confidence in our future growth, as Michael mentioned, we are increasing our dividend to 9 cents for the third quarter and the board authorized a share repurchase plan of up to $25 million. This $25 million plan will primarily be used to opportunistically repurchase outstanding Class A shares and warrants. An estimated $6 million of this plan will be used to reduced shares to be issued to employees to satisfy associated tax obligations in connection with the delivery of vested equity-based awards in August.

In summary, we continue to be excited by the positive trend of the business and the significant earnings power we are creating. Thank you again for joining us, and we're now happy to take any questions.

Operator: Thank you. (Operator instructions) Our first question will come from Ken Worthington with JP Morgan.

Ken Worthington: Hi. Good morning. Thanks for your comments this morning. Can you level set us in terms of the fundraising for the specialized funds that you have in market? I think you mentioned in your prepared remarks that the outlook for the firm was better for fundraising in the second half than it has been so far in the first half, and I don't remember if you mentioned this or not, but I thought it might have been driven by the specialized funds. So again, to level set us, how much has been closed so far and I think, the four funds you were expected to have in market this year – infra, secondaries, advance and multi-assets, would be number one? Number two, how much has been raised in these four funds so far this year? And then help us with expectations for the second half of the year. And then lastly, you mentioned that catch-up fees, I think, were $2.3 million in 2Q, but expected to be about the same in 3Q and 4Q. And I guess my question is, if the fundraising is expected to be better in the second half of the year and given that there's more time going by and you're further away from the inception date of those funds, why wouldn't catch-up fees, in fact, be bigger in the second half of the year than they were in the first?

Michael Sacks: Thanks, Ken. It's Michael and thank you for the questions. First, I would say that we are overall very comfortable, very confident as you heard me say, and as Jon said, in our fund raising for the second half of the year. We have not released numbers on specific fund raise, the specific co-mingled fund efforts, and we've stated that we won't do that until final close. And the only fund that's in market now that has a final close before the end of the year or at the end of the year is the advance fund. So we look forward to releasing those numbers after the end of the year.

What I can tell you is that we are confident in the performance of those co-mingled funds. We are confident in our separate account re-ups and our new separate account activity. And I think Jon said and our expectation is for fundraising larger in the back half of the year than in the front half of the year. And what I would mention on the catch-up management fees, is that of the four funds in market, the only fund that has funds that have appreciable catch-up management fees are secondaries fund and advance, multi-asset class having – just getting started and with a lot of confidence on our part. And the infrastructure fund is structured in a way that there aren't catch-up management fees. So, obviously, we have tried pretty consistently to be conservative in what we put out there for you. We have been very clear and very strong about our ability to hit our 12% to 15% fee-related revenue growth and our 15% to 20% fee-related earnings growth, and those numbers imply continued growth in the back half of the year. We've talked about the strength of the pipeline pretty directly. And Jon, I think, said pretty clearly what our expectations are for fundraising back half, and we're feeling very good about that environment in general.

Ken Worthington: Okay. So if we don't get specific numbers, can you give us maybe a sense how far of the way through infrastructure and secondaries, are you? Are we in the first half of the game? Are we in the second half? I assume advance is very much towards the end. But can you give us what inning we are? If you can't do it individually, then do it collectively?

Michael Sacks: Advance will have its final closing towards the end of this year. And so that's kind of late innings. Both secondaries and infrastructure will raise into next year, which is, I guess, middle innings, maybe mid-late. I don't know if that's sixth inning or fifth inning and – fifth inning, sixth inning, seventh inning, I don't know. And MAC is early, very early innings, and we – it has a lot of promise. So, we're very – we're comfortable with how our fundraising is going, and we are confident in the numbers that we've put out and feeling that we had a good couple of good strong quarters here that we've reported and are optimistic about the back half of the year.

Ken Worthington: Okay. Great. And then in terms of the absolute return business, we were – inflows in 1Q, outflows in 2Q. I would say performance in 1Q was not maybe as good, and 2Q seemed fine but below what we are seeing in Blackstone's business and below some of the indices that I think we track. Does performance need to be better than what you're delivering for the absolute return business to get to more consistent inflows? I think, Michael, you mentioned in your comments that you think about flows in the context of the macro environment that you see as important. But how important is delivering returns to get back to more consistent inflows?

Michael Sacks: Well, I would say a few things. So one is, obviously, performance generally is important. I think it's – I think you got to be a little careful about looking quarter-to-quarter and trying to adjust your expectations for the business. Last year, we outperformed most of our peers pretty significantly, and our trailing 12-month performance numbers are very strong. And frankly, our net flows environment this year is – seems pretty good relative to the space. So I think you – of course, performance is – comes first, but looking at it over a reasonable time frame, and we've been at this for, as you know, just a long time, decades, and so it is really important. The second thing that I really hope you take away and that everyone takes away from this call, is the significant or strengthening of the basic economics of the business where while there were net outflows, the actual revenue impact of flows was flat to marginally positive for the quarter, positive for the year before getting any benefit from the positive compounding in the market. And that's management fee only when we've also had a significant amount of incremental capital that now has a performance fee associated with it, and you've seen a very significant increase in the run rate performance fees over the last year, which we mentioned.

So, in general, while we don't want to change or predict a macro change in the flow environment, we've always maintained that that's a very valuable vertical. It is one that distinguishes us in a good way with clients. It's one that gives us more tools to provide solutions and support for clients. It's generated tremendous cash flow over decades and is going to continue. And we just think that when you look at the relative valuation differences of our firm where our private markets business is growing in line with others. And you – that vertical is not being, in our view, afforded the – it's being underappreciated is I think what I said.

Jon Levin: This is Jon. I would just add one comment. Michael said this, but just to reiterate it, I think that from a performance standpoint across the board, where you kind of think about we have, generally speaking, clients that would work with us in the ARS vertical either in a multi-strategy way, in a maybe more credit-oriented way or in an opportunistic way, those are kind of three big buckets across the board. The feedback from the marketplace and from clients is that when you look at our performance over longer periods of time, as Michael pointed out, I think, is a more important metric whether you're talking about the last 12 months, or the last 18 months, kind of almost universally, feedback on our performance is that it is strong, meeting their goals, and generally strong from a competitive standpoint as well.

Ken Worthington: Great. Thank you.

Operator: Our next question comes from Jeff Schmitt with William Blair.

Jeff Schmitt: Hi. Good morning. Could you discuss the creation of the Insurance Solutions division and kind of your strategy there? We've seen some insurers pull back on alternative investments, I think, in recent years just trying to reduce volatility. But are you seeing that demand really shift there, I guess, with this low interest rate environment?

Michael Sacks: Jon, why don't you take that one? And you touched on it, obviously, in your remarks, but I don't – I know you can do it.

Jon Levin: Sure. I think, in general, our view is that the demand for alternatives is large and growing. Certainly, you will find specific instances where people have to be wary of the overall composition of their balance sheet and regulatory capital treatment. But to the point you made, overall, as a matter, it's in a place where there's historical under-allocation to alternative strategies. And then specific to the point you made, the interest rate environment only drives the need to find return from other areas besides fixed income, which make up obviously a significant portion of insurance company balance sheets. I think specific to us, the idea that we are an open architecture firm with a lot of different ways to implement alternative investing, primary funds, co-investments, secondary investments, direct investments. Covering all of the asset classes from the liquid to the illiquid and the ability to work with clients in a customized manner, which as we know represents about 75% of our assets under management, makes us a pretty ideal partner. And particularly on that last piece, we have the ability to structure alternative solutions that meet insurance company balance sheet needs with respect to volatility, with respect to liquidity, with respect to return generation. And we think there's a very large opportunity there. And from a competitive standpoint, our focus is on providing those solutions to those insurance companies and asset management business as opposed to being in the insurance business ourselves, which is obviously a trend you've seen from others in the marketplace. And so we're pretty excited about what that future holds for us.

Jeff Schmitt: Right. Okay. And then looking at the carried interest, and you provided some great detail there on that kind of earnings power and how that's increasing. And then your retention of that has been going up in terms of how much is going to employees or what have you, your retention in that is going up. And I think maybe slow 60% go out the door to employees now. And you had mentioned newer funds, your retention goes up. So do you see that going to kind of 50% over time to bring you more in line with peers? And how should we think about that timeline? Like how long would that take?

Michael Sacks: Well, so if you – if the timeline, it's a little bit hard. So, the cash that's received from carry now is related to carry that dates back anywhere from a couple of years to a very long – to a decade. And if you look at that, it's about 65-35 now. Maybe it's a little bit more in favor than 35% in favor of the firm. But that relates to long ago allocations. For the last several years, we've been – as we've said before, we've been allocating to the team on a basis where it vests over time about half. And so as we move forward in time and the carry plans that are generating the carry revenue start to – the percentage that comes from the carry we've allocated in the last five, six years starts to increase, that number will shift and should grow.

And maybe the most important point, so I think that – is we have acceleration looking forward a few years in that. And then to Jon's point that he touched on in his remarks, that there is a lot of carry that is not yet at NAV that has been related to the assets raised and funds invested over the last several years that we certainly hope will come online and going forward as well. So, we think we've got these sort of two strong tailwinds that will accelerate that carry, that firm share of carry line as we move forward.

Jeff Schmitt: Got it. Okay. That's helpful. Thank you.

Operator: Our next question comes from Peter Kaloostian with Morgan Stanley.

Peter Kaloostian: Hey, thanks for taking my question. You mentioned strategic hires in the client group to expand to high-growth geographies and channels. I'm just kind of hoping to get a little bit more color on how you're approaching distribution today, specifically in high net worth channels where we're seeing increasing demand for alternatives, thanks.

Michael Sacks: Sure. So thanks, Peter, for joining and for asking a question. Jon touched on this in his comments. We've been clear that we think our best opportunity in high net worth in the intermediate term is to have a greater representation on the very successful powerful wealth channels. And over the last year, we've doubled the number of channels that we have product on. We look forward to further increasing the number of channels and also increasing the breadth of product with regard to the different channels. And so, we think that we have some real opportunity there. And people who have been following us from the beginning know that we think that's a place where we can – where we could have – we could do a better job, and we're – I think we're starting to show some fruits of the efforts there in light of the identified opportunity.

Operator: We'll take a follow-up question from Ken Worthington with JPMorgan.

Ken Worthington: Hi. Thanks again. In terms of capital management, how aggressive do you plan to be in deploying the $25 million or the $25 million less the $6 million? And then how do you approach warrants versus the common? And I think you said you plan on being opportunistic. But given where the stock price is, again, how attractive do you think the shares are here?

Michael Sacks: We think that they're very attractive. I think you know our views, Ken, and we think they're attractive here. And so we've authorized that at the Board, we've got an identified use for a significant chunk of it. We are open to looking at warrants as compared to stock. And I think we will just, we will be opportunistic. We will sort of be opportunistic. We will take our time relative to our kind of normal course volume. It's not an insignificant amount of capital. And we also think that we're a little – we don't love shrinking the float. On the other hand, we've always talked about the quality of the business as our ability to return capital to shareholders. And there are two ways to do it, the dividend and buybacks, and we wanted to authorize this plan and have that ready, if the stock continued to exhibit weakness, we think it's good to have.

Ken Worthington: Okay. And then warrants versus common?

Michael Sacks: I think we'll look at accretion, dilution, it's there. We're – it's a little bit hard for us to ascertain the degree to which the warrant overhang is having an impact on shareholders or institutional shareholders, but that would – we would look at warrants as well.

Ken Worthington: Okay. And then on contracted but not yet fee-paying AUM, declined slightly from pretty high levels in 1Q and sort of high levels now. Is the composition of net sales sort of changing again? Are we seeing more net sales being funded immediately? I think in part, the pipeline was building so much because the pipeline – or the – sorry, the net sales were coming in a bit differently than maybe they had in the past. So maybe more pipeline building than immediately funding. So are you seeing that composition sort of switch back again to what the net sales looked like in years past?

Michael Sacks: No, I don't think you can take away any meaningful change in the business from kind of the one quarter. We expect that number to grow over the back half of the year and to be higher at year end than it is today, or it was at 6/30. As you know, contracting on separate account agreements doesn't always line up perfectly with calendar quarter. And if you look last year, I think we had a similar fundraising level in Q3 of last year and then – and you've seen a big growth in CNYFPAUM in Q2 and again, in Q1 of this year. So, we don't see any fundamental shift there. And we – as we always say, we like to grow our FPAUM. And we like to grow our CNYFPAUM, and we expect to do that over the back half of the year.

Ken Worthington: Great. Okay. Thank you very much

Michael Sacks: Thank you.

Operator: And it appears there are no further questions at this time. I'd like to turn the conference back to Stacie Selinger for any additional or closing remarks.

Stacie Selinger: Thanks, Lauren. Thank you all for joining us today. If you have any feedback or follow up questions, please feel free to reach out. Otherwise, we look forward to speaking with you again next quarter. Thank you again.

Operator: And that does conclude today's conference. We thank you for your participation. You may now disconnect.