Petershill Partners

Operated by Goldman Sachs Asset Management

Petershill Partners FY2021 Results

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Operator: Good day, everyone and welcome to Petershill Partners 2022 Preliminary Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. I'd like to advise all parties that today's call is being recorded. I would now like to hand the conference over to Ayesha Parra from Investor Relations at Petershill Partners. Please go ahead, ma'am.

Ayesha Parra: Good morning and thank you for joining us today to discuss Petershill Partners Maiden 2022 Preliminary Results. I'd like to remind you that during this call we may make a number of forward-looking statements which could differ from our actual results materially, and Petershill Partners assumes no obligation to update these statements. A replay of today's call will be available on the Investor Relations section of our website, along with a copy of our preliminary results and presentation. We encourage investors to consult our site regularly for updated information.

Petershilll Partners commenced conditional trading on the London Stock Exchange on 28th September 2021, on which date the initial acquisition of the portfolio of partner firms by the company was completed. The company's results are for the period 24th March to the 31st December 2021. However, income earned by the company and trading started after the initial

acquisition on the 28th of September 2021. And as such, these results represent income for one quarter only.

We present our financial results on an IFRS basis, but also use alternative performance measures to reflect the underlying information and metrics that the operator on board use to track the performance of Petershill Partners. For completeness and transparency, we provide full year results for our interest in the partner firms in aggregate, including operating metrics for periods prior to the initial acquisition date, presented as if the company's assets at the time of the IPO had been owned by the company during the historical period presented.

Joining me today to discuss the company's results for the period ended 31st December 2021 are Ali Raissi and Robert Hamilton Kelly from London, and Christian von Schimmelmann from New York, Co-Heads of the Petershill Group at Goldman Sachs. After the presentation, we will have Ali Raissi and Robert Hamilton Kelly, as well as Naguib Kheraj, Chairman of Petershill Partners, available in London to take questions during the Q&A. And in the coming weeks we will be meeting with investors so please feel free to reach out if you wish to meet with management.

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

Robert Hamilton Kelly: Hello. I'm Rob Hamilton Kelly, Co-Head of the Petershill Group at Goldman Sachs. Turning to page three, we're pleased to deliver year-end results for 2021. Our maiden results have outperformed expectations set at IPO, demonstrating the key characteristics of the company. Our aggregate total partner AUM increased 56% in 2021 to $234 billion as at year-end. Partner distributable earnings, or adjusted revenues, grew to $382 million, up 57%. Our adjusted EBIT margin was 87% in Q4.

Importantly, the company continued to demonstrate its resilience as a model of gaining access to the growth and profitability of private alternatives industry, having a stable capital base with 8.1 years weighted average duration, being diversified across 23 partner firms, including our five Q4 acquisitions. Demonstrating multiple engines of growth and strong positioning in a more nuanced fundraising market, we're updating our 2022 guidance to $40-45 billion in organic gross fee-paying partner AUM raised. More than two times the amount raised in 2021, and with significant visibility across asset raising from ten different partner firms.

` On the back of these strong results, the board will propose a final $30 million dividend in line with the prospectus and intends to propose an additional buyback program of up to $50 million at the AGM. Metrics you see here sit at the heart of the company and are reflected in our initial trading quarter as a public listed business.

We're a fast growing firm, both by organic and acquisitive means, with significant margin and free cash flow generation, anchored on a stable, long-term capital base and diversified across 23 partner firms with over 200 fund products generating fees.

With that, I'll hand over to Ali.

Ali Raissi: Thanks, Rob. I'm Ali Raissi, Co-Head of the Petershill Group at Goldman Sachs. And as Rob mentioned, we're very happy to be here to talk about our maiden set of results for Petershill Partners plc. To put 2021 in context, it was another important step on a journey that Goldman Sachs Asset Management has undertaken for the last 15 years. A journey to partner with the highest quality alternative asset managers, provide them with growth capital and strategic support, and give investors access to this privately held industry in a diversified manner that has been successful and a performance leader in the space across multiple market cycles and vintages.

Goldman Sachs started this journey with the first GP stakes fund in 2007, continued it through the incubation of partner firm investments we undertook from Fund II in 2013 until our listing in 2021. The listing was also the first of its kind in the industry but for us, it's been another important step with a long-term commitment. Our permanent capital in Petershill Partners matches the duration of our partnerships, raises capital for further acquisitions and elevates our established but growing businesses' profile.

We recognize the listing as a first step in an important new journey. We believe that Petershill Partners represents a diversified, resilient company for investors seeking access to the growth and profitability of private alternatives, including Goldman Sachs Asset Management's private investors who incubated the firm.

Moving to page seven, I want to spend a moment to speak about the nature of the business. One, our company gives investors access to management fees, performance fees and investment income related to earnings from across $234 billion of our partner firm AUM. This is a diversified, resilient model driven by 23 engines of growth. These are our 23 partner firms who operate predominantly across private markets. So we seek partnerships with independent, high quality firms, with management teams aligned through retaining substantial economics in their own businesses. Independent partner firms are at the heart of our company and of the success of our sales strategy over the last 15 years. Management's ownership is a critical element in maintaining their focus, alignment and longevity. And three, we look to make new acquisitions and grow the footprint of businesses over time and work extensively with existing partners to help them grow and develop.

On page eight, I want to talk to Petershill Partners' revenue model. This business is in line with other private, focused alternative asset management firms. Our revenues consist of

management fees, performance fees and investment income. However, in our case, these are generated across 23 independent partner firms managing $234 billion of assets under management. This is across a host of funds and strategies. This gives us diversification and resilience to not rely on any one brand, any one fund or any one strategy. The majority of our revenues are recurring, stable management fees, which, as Rob mentioned, are from funds with weighted average duration of 8.1 years.

On page nine, we'll talk to the multiple drivers of our growth. We have multiple drivers of sustainable growth. The industry growth, our partner firms' growth and value creation and inorganic growth driven by the operator. Even if we were to never make another acquisition, our industry is growing robustly, expected at double digits long-term CAGR, and our partner firms have demonstrated outperformance and growing faster than this industry average. We add value to these businesses, working actively with our management teams on capital formation, business development and using our capital and follow-on investments to develop their businesses. We also have a long track record of targeted, repeat, accretive acquisitions. And we also look to operate in a capital efficient form, making acquisitions, but also returning capital when appropriate, as demonstrated by the board's proposal this year.

On page ten, we can see that we are tracking well against our goals and targets set at the time of the IPO. We guided to partner firm growth above that of the alternatives industry. Our partner firms actually grew 56% in 2021, adding $3.4 billion of gross fee-paying assets in Q4. And for 2022, we update guidance to $40-45 billion of gross fee-paying AUM to be raised, and maintain medium-term growth expectations above that of the industry. At the IPO, we guided to $100-300 million of annual acquisitions across three to six transactions per year. We delivered $458 million across five acquisitions in Q4 alone and maintained guidance of three to six investments a year, $100-300 million invested. Importantly, consistent with our previously

communicated focus on the private markets, all five of our acquisitions were related to private equity firms.

On the back of our strong 2021 results, the board will propose a $30 million final dividend in line with guidance, maintaining the progressive dividend policy we indicated at the time of the IPO, as well as proposing a $50 million 2022 buyback program. At the time of the listing, we provided guidance of the operator's fees and corporate costs. We're adding new guidance for the company of an 85-90% corporate EBIT margin, highlighting our efficiency and the profitability of our business model.

With that, I'm going to hand over to Christian to talk about the underlying drivers of our growth.

Christian von Schimmelmann: Thanks, Ali. Hello, everyone. I'm Christian von Schimmelmann, Co-Head of the Petershill Group at Goldman Sachs. And I'm happy to be joining you today from New York for the presentation of the preliminary results for Petershill Partners. I want to spend a moment to talk about two of our key growth drivers in 2021: our ability to add value to our existing partner firms through GP services and our ability to source and acquire interest in new portfolio firms.

Starting with our ability to add value, GP Services is effectively our operating partner platform within Petershill where we work with management teams of our partner firms on growing and developing their platforms. In 2021, we delivered on 242 projects in aggregate across capital formation and product development, portfolio company services and operational improvements, which was a record year for the platform and a significant increase over 2020. Importantly, our GP services team doesn't only add value to existing partner firms, but also helps position us as an attractive partner for future acquisitions.

Regarding acquisitions, we acquired a total of five different interests, all in private equity firms, adding $20 billion of private equity AUM in the fourth quarter alone. As you can see on the chart on the bottom right, the combination of organic growth and new acquisitions, in addition to positive investment performance, resulted in an AUM increase of over 50% in 2021.

On the next page, looking at the acquisitions in more detail. Q4 was not only a very active but also very selective and targeted quarter for our M&A platform. In particular, we invested in firms that specialize in sectors that we specifically identified at the time of the IPO as some of the most attractive sectors for future growth, including M&A buyouts, healthcare and technology. In aggregate, we invested a total of $458 million across five transactions as compared to our full year guidance of $100-300 million, which we expect to be accretive by 9% in 2023.

One point to note is that Petershill Partners generally makes these new acquisitions alongside the private funds, which resulted in a lower blended ownership for the five new transactions relative to the 19 partner firms the company started with. But importantly, those five new transactions all came with the same governance rights and protections as our existing transactions. Also, all five new acquisitions were equity interest, resulting in a blended margin of 60% versus 69% for our pre-existing partner firms, which were a combination of equity interests and revenue shares. This update to our business mix is part of the forward guidance that Rob and Ali will go into.

On page 14, you can see that we've been able to achieve the meaningful growth in 2021 with a very distinctive and highly diversified revenue base. Across our $234 billion of partner firm AUM, no single fund represents more than 5% of AUM. In addition, the aggregate capital base has an average duration of 8.1 years, is diversified across sectors and strategies. And with 90% of our partner firms headquartered in North America, we believe we are well positioned in the

current geopolitical environment. We also bridge between fee-paying AUM and total AUM, which highlights the strong investment performance of our partner firms in 2021, a point that Rob will cover in more detail.

Finally, on page 15, looking at the diversification at the underlying partner firm level, our 23 partner firms each run multiple vintages of funds over different time periods, with a total of 212 funds across 75 different strategies. In addition to managing diversified and complementary strategies, we believe some of our partner firms were among the strongest performing firms in their respective sectors. In 2021, for example, Harvest, Accel-KKR, Clearlake, General Catalyst and Francisco Partners each won prestigious industry awards in their respective sectors in 2021, building on previous awards won across the platform.

While performance and quality of our underlying partner firms were critical drivers of our success in 2021, we believe they may make an even bigger difference in the future, where, as Ali will discuss in a moment, we may enter into a period of greater differentiation in the market with strong and well positioned firms having an opportunity to outperform.

With that, I'd like to hand it over to Rob to review our preliminary results in more detail.

Robert Hamilton Kelly: Turning to management results, the company effectively operated from IPO in Q4, so the first P&L and balance sheet cover effectively this period. Management results are important for us as it's what we focus on in running the business. This also strips out non-cash IFRS line items.

If we start with adjusted revenues, same as partner DE, these were $382 million for 2021, up 57% versus the prior year. For Q4, this was $122 million. After operator and corporate operating costs, these were $106 million of adjusted EBITDA for Q4, representing an 87%

corporate operating margin and $98 million of adjusted PAT for the period. We can clearly see high 57% growth, strong profitability with the 87% margin. And this is based on durable 8.1 year capital base and it's diversified from across 23 partner firms.

Looking at the growth, AUM growth is reflected in both total AUM income growing by 56% and fee paying AUM growing at 19%. Total AUM is important as a metric for the diversification of the business and for performance fee generation and fee paying AUM is critical for FRE and management fee profitability. This has played out in revenue generation with 57% increase in partner DE for the year and a 35% increase in the management fee portion of this, to $211 million.

Turning to the quality of our revenue streams, we look here at the basis of our $211 million partner net FRE for 2021. What we see here is strong, consistent partner FRE margin, 69% stable over the last three years; a partner management fee rate of 1.54%; blended 14.2% FRE ownership. And this is drawn from a diversified earnings base.

The strong year is also reflected in our partner PRE revenues of $129 million. This has been driven by continued outperformance of the PE firms versus benchmarks, with 23% aggregate realised IRRs and 81% of products above the benchmark at year end. This has led to a robust increase in accrued PRE to $649 million at year end. This doesn't run through our P&L until it's realized but is a good leading indicator.

You can see in the bottom right, a steady increase in performance fee eligible AUM to $208 billion and that again is a strong leading indicator of PRE realizations.

If we pivot to the balance sheet, you can see we ended the year with a significant cash balance of $522 million, or $307 million pro forma for deferred acquisition costs. In addition to cash from

realized retained earnings through the year, we've also have gross debt capacity of up to $1.1 billion relative to the upper bound of a 1.5 to 3 times long-term cap guidance should we wish to access additional debt financing. This informs our capital allocation policy, which is overseen by our independent board. We continue to see good opportunities for $100-300 million of annual CAPEX-light M&A, and the company has maintained its guidance. On leverage, we maintain guidance under three times net debt with the potential to go above 1.5 times as we digest acquisitions.

We have a strong focus on capital efficiency and so maintain the progressive dividend policy, and will propose a $30 million 2021 dividend and intend to announce a $50 million buyback. The buyback is based on good Q4 numbers using distributable earnings and an indication of confidence in the long-term prospects of the business relative to the current share price.

Lastly, as year-end numbers, we have a full company balance sheet issued for the first time. We can see this is dominated by the fair value of partner firm investments, which we fair value under IFRS principles and capitalize on the balance sheet. This gives a book value of $5.3 billion or $4.58 or £3.39 per share.

In the appendix we've got more detailed breakdown of the values per the notes to our financial statements. I'd note from this the vast majority of that value is in the private capital funds. We look at these on a mix of multiple and discounted cash flow basis. For management fee based earnings, we use a weighted average discount rate of 12.1% and a multiple of 16.6x. And for performance-based income, this is a 22.1% blended discount rate. I note that these are significantly higher than most estimates of our cost of equity as a listed liquid company.

With that, I'd like to hand over to Ali.

Ali Raissi: Thank you, Rob. 2021 was an important year and we've hopefully started to demonstrate the value and resilience of our approach. On page 25, we're going to talk to our strategic goals for 2022. We aim to continue to support partner firm development and growth in a robust, repeatable framework through our value-added GP services. We aim to continue to identify attractive acquisitions and access the fastest growing areas of alts, where we can be most impactful with our capital and our partnerships. We aim to be highly efficient in terms of return on capital for investors. And more broadly, I would also note that as the first year post IPO, we continue to have significant focus on broadening market understanding of the company.

On page 26, we'll spend a moment to talk to some of the key themes we see going forward. The impact of the nuanced fundraising environment as investors digest the capital raising needs of the industry and navigate the core themes of inflation and interest rates this year will be a core theme. But it's also important to put this in context of prior periods. Private capital raising has navigated prior rising interest rate periods with strong growth. Inflation has forecasted it to normalize in 2023. But either way, we have built a business that is resilient and have partner firms who are well positioned for inflation.

88% of buyout funds achieve their raise targets in 2021. And while we expect this to drop at the industry level for 2022, we believe this will allow our high quality partner firms, who enjoy significant demand and pricing power, to outperform and distinguish themselves.

More importantly, on page 27, we believe that Petershill Partners has been built to be well positioned in changing fundraising and operating environments. Diversification across strong partner firms means no reliance on a single raise. Our largest underlying fund represents less than 5% of aggregated AUM. Long-term fee related earnings centric model provides resilience against challenges on realizations or performance, and gives visibility to revenues over the long

term. And exposure across macro real assets and credits speaks to a resilient model positioned well for inflation and rising rates.

Our operator cost model, primarily driven as a percentage of revenues, and the partner firm structured margin protections speak to more resilient cost model over this period. And the tragedy in Ukraine has highlighted the importance of geopolitical risk that we face today. Petershill Partners benefits from 90% of aggregated assets under management headquartered in North America, 87% long-term lockup and negligible exposure to emerging markets or Eastern Europe.

On page 28, as we've noted, while it's expected to be a nuanced fundraising environment, we believe Petershill Partners' approach diversification, the partner firm quality and resilience will be a differentiator in 2022. We expect partner fee-paying assets to be double the level raised in 2021 at $40-45 billion. That's across a range of ten partner firms, both in new and existing strategies. This is a significant step-up versus the $20 billion raised in 2021. And while it's tougher to assess potential reductions in fee-based AUM, we guide to $5-10 billion and this compares to $6 billion in 2021.

We conclude our outlook and guidance for 2022 on page 29. We're confident around capital raising for 2022, as demonstrated by our organic growth guidance of $40-45 billion. We maintain our acquisitions target of $100-300 million per annum across three to six investments. We maintain our guidance on progressive dividend policy and as mentioned, we are adding a corporate margin guidance of 85% to 90% EBIT margin. Relative growth and additions in partner firms will move our guidance for FRE margins to 65% to 70% and our FRE ownership to 13% to 14%. It's worth spending a moment on noting that this is not driven by a change on like-for-like partner firms' margins, but rather a change in the mix and relative contribution of

partner firms to the overall mix. We maintain PRE revenue mix at 20% to 30% and tax and tax equivalent at related expenses at 12% to 14% for the medium term.

And with that, we thank you for joining this call. And we'd like to --

Operator: Ladies and gentlemen, if you would like to ask a question, you can do so now by pressing star one on your telephone. That's star one if you'd like to ask a question. We will now take our first question from Hurbert Lam, Bank of America. Please go ahead. Your line is open.

Hurbert Lam: Good morning. I've got three questions. Firstly, on M&A environment, can you just talk a bit about what your outlook is for M&A this year? Have valuations come down or changed as listed company comps have come down throughout this year? If you just give us a little bit color in terms of how you think about M&A this year.

Second question is, can you talk also about the realization exit environment this year? Your expectations for it, just given the markets and the slower IPO backdrop. just so we can think about performance fees for this year.

And lastly, can you just talk a bit also about the lockup? The first tranche has expired already at end of March. Can you talk about how you think about a potential sell-downs, what goes into decision-making process and what conversations have been from the existing LPs, if they've expressed interest in selling and when we should expect them possible selling going forward? Thank you.

Robert Hamilton Kelly: Thank you. Let me take the first one and then I'll let Ali take your second two. So in terms of M&A outlook, we obviously reaffirm our guidance of $100-300 million of acquisitions a year across three to six investments. I'd say from an overall perspective, we

maintain our focus and discipline on partnering with high quality firms with the right contractual terms and entry pricing. But I would say that the overall environment is relatively conducive to us finding good partnerships and agreeing terms. Particularly I think the bid-ask spread maybe between us and some management teams narrows in terms of firms looking to raise capital. And so I think it's a helpful backdrop from that perspective.

I'll let Ali take question two and three.

Ali Raissi: So on the realizations here, clearly last year was a heightened realization environment; we had roughly $6 billion of realizations. This year we're guiding to $5-10 billion. And so clearly, I would say some of that is reflected by the nature of the firms and the diversity that we have across the platform.

With regards to the lockup question, I'd say that, as you've noted, the first lockup has expired. I'd say that 75% of the shares continue to – or roughly 75% of the shares continue to be held by these private funds that incubated the business. And they're held in long-dated private funds where the GP of those funds, Goldman Sachs Asset Management, would ultimately decide the realization of those. For us, Petershill Partners is really the first step in a in a new journey in the public space. And so clearly there is a longer term focus on value maximization and value creation. And I'd say that the funds that incubated Petershill Partners are well within their normal private equity fund periods. And so in that regards, we haven't had many conversations to the tune of what you've raised.

Operator: Thank you. We will now take our next question from Gurjit Kambo from JP Morgan. Please go ahead. The line is open.

Gurjit Kambo: Hi. Good morning. Thank you for the presentation. Just a couple of questions. Firstly, on the decline, the FRE ownership, I think on the new five funds, it's around just under 5% versus the 13, 14%. Can you just, again, just explain to us the rationale for that decline in FRE ownership? Secondly, just in Q4, I think you saw a slight decline in the FRE margin to around 60%. Is that sort of like a – was there some one off impacts then, I guess, because the guidance is to get back to the historical, around 69%. And then just thirdly, in terms of just the deployment environment, what are you hearing from your partner firms? Is there still good pipeline out there for them to deploy the assets that they're raising? So those are the three questions, thanks.

Robert Hamilton Kelly: Yeah, thanks. So if we cover the FRE ownership, as you note, in the new acquisitions, just under 5%. So as a reminder of the framework, Petershill Partners makes new acquisitions alongside our Petershill IV private fund. And given the size of each typical transaction at $100-500 million in aggregate, Petershill Partners benefits from that scale of that private fund in making new acquisitions. And we gave guidance in the company acquisition webinar, that Petershill Partners would typically be about 20% of each transaction. And so the thing I'd note there, if you assume Petershill Partners is a little under 5%, the overall ownership is closer to 20% in the partner firm. And so when we acquire these interests, we have the same contractual rights and voice with our management teams as we had in our prior investments as well. So I think that's an important point to note.

In terms of the FRE Q4 60%, I'd say that we do sometimes expect Q4 to be slightly lighter as a number of bonuses and other expenses are passed through from partner firms in Q4. But our overall guidance at the 65 to 70% level is on a full year basis, and we expect there can be some seasonality in any one quarter. But I'd say broadly, the overall level of 69% for the year was in line with guidance.

Gurjit Kambo: Just in the deployment, just in terms of the partner firms, I guess there's lots of assets being raised. There's a lot of dry powder out there. What's the kind of availability of deals out to invest?

Robert Hamilton Kelly: Yeah, absolutely. So, look, I think this ties to the realization environment as well. Clearly, there have been some macro as well as geopolitical turbulence in the first quarter, particularly with the war in Ukraine. I think you've seen slower activity from across the private industry as a whole, but I'd say we're still early in the year. And so I think that deployment as well is linked to our forecast on realizations and we reaffirm guidance of performance fee revenues PRE, Partner PRE, being 20 to 30% of overall partner revenues for the year.

Gurjit Kambo: Okay. And just one quick follow up, just to make sure I'm completely clear on this. So on the FRE ownership, so I understand that you take 20% of the deal. So the PHL listed entity plus the fund will maybe be taking like a 20% ownership. And it's basically the aggregate ownership which gives you control and the contractual rights with that partner firm and it doesn't matter that you've only got 5% as long as the combined is like 20%. Is that the way to think about it?

Robert Hamilton Kelly: Yeah, I'd say it's a combination of that and the fact that the interest that Petershill Partners has also have the same contractual provisions. So in that regard, it's not just the case of the aggregated 20%, but it's that the investments come with a series of rights that don't necessarily relate to the percentage of equity. More relate to consent rights and protections that adjust to the amount – any amount of the equity.

Gurjit Kambo: Okay. Thanks. Great. Thanks.

Operator: Thank you. We will now take our next question from Mike Wiener from UBS. Please go ahead.

Mike Wiener: Thank you, Mike Wiener here, UBS. Two questions, please. One is a bit of a follow-up with regards to the locked-up shares. Can you just give us an indication as to if there's any fee step downs from the Petershill II, III, IV funds? Just thinking about potential timing of potential disposals.

And then second, on the $40-45 billion of capital raising, you said that compared to about $20 billion, I believe, last year. Can I just confirm, a) that the $20 billion does not include the acquisitions that you made in Q4, whereas the $40-45 billion does?

And then second, just thinking about this guidance with regards to the capital raising, especially with you owning now about 4% on average of new acquisitions versus the 14% blended ownership of the initial 19 partner firms, 18 partner firms, how should we think about that guidance? Is that guidance evenly spread across these two groups of firms, largely because, again, you're going to – you'll get 14% of the economics of the fund raising on the partner firms you had at IPO, but only 4% of the economics of the fund raising of the newly acquired firms. Thanks.

Ali Raissi: Michael, could you repeat your second question?

Michael Wiener: Sure. So with regards – I'm just trying to think about the $40-45 billion of capital raising. You noted that a gross capital raising guided for in 2022, you noted it was about $20 billion, I think, of fee paying gross capital raises in 2021. I just want to confirm that $20 billion does not include the acquisitions that you made in Q4 or if it does, that'd be helpful.

And then second, just with regards to the guidance, is there any way to break out the fee, the capital raising guidance between the funds that you held at IPO? Because you have a 14%

economic interest in those funds on average, a blended average, whereas the recently acquired interest, you'll only have a 4% economic interest. So how that capital raising is split across these two different groups ultimately can have an impact. Or should we think about it, a similar percentage of capital raising across these two groups of firms?

Ali Raissi: So Michael, I'll take the fee step-down question and then I'll hand over to Rob to talk about the gross capital raising and the percentages on the guidance. Just in terms of the funds, Petershill II and III incubated Petershill Partners. Petershill II is already after its investment period, but these are long duration funds. So there's a step down that naturally occurs in these sort of funds after the investment period. And then another step down that occurs much later on, after around 12-ish years. And so in that regards, Petershill II, which is the older of the two funds, is in its stepdown period post the investment period. And then clearly in terms of Fund III, it is – as a 2017 fund, it's well within its investment period. I'd say our key focus is on both of these and for the investors in those funds, is a focus on value creation and value maximization. And really that's reflected both by the ongoing shareholding, it's reflected by the longer lockups that we envisaged at the time of the IPO, and it's also reflected by the fact that those funds continue to hold shares post the expiry of that first lockup.

Michael Wiener: Thanks. And just to confirm, 12 years after the fund starts, there would be a step down in the fees that Petershilll generates, is that correct?

Ali Raissi: Correct, correct. And that's really in the management fees, but clearly not in the performance fees. And then maybe just to hand over to Rob on the gross capital raise.

Robert Hamilton Kelly: Sure. So, Mike, on page 28 of the investor presentation, we give a bar chart of the 2021 gross and net capital raised and realized. So $21 billion in 2021 raised, $6 billion realized. And so that for the year forward is our guidance of $40-45 billion in fee paying assets being

raised, almost twice the level of 2021 and $5-10 billion of potential performance fee realizations over that time period. That doesn't include – any potential acquisitions or M&A would be additive to that. As you can see on page 28, $10 billion of 2021 M&A was additive to the $21 billion raised and the $6 billion net realized.

In terms of the FRE ownership for the go forward, I'd say that there's two aspects. So we do include – in our $40-45 billion gross fee paying asset raise, we note that the expected blended ownership of that cohort is about 9.5% on a blended average basis. And you'll also note in the appendix to the presentation, we also add disclosure on the ownership weighted AUM by asset class as well as actually the five largest positions by ownership weighted AUM.

Michael Wiener: Excellent. That is very helpful. Thank you for spotting that. Cheers.

Operator: Thank you. We will now take our next question from Luke Mason from BNP Paribas. Please go ahead.

Luke Mason: Yeah, morning, guys. First question, just on the fair value of partner firms on the balance sheets, I mean, we've seen that de-rating for some of the listed alternative measures year to date, like 20 to 30% on your valuation metrics using like a DCF and cost of equity and public comps. How should we think about that impacting Petershill Partners this year or in Q1?

And then secondly, just following up on the performance fee 20% to 30% guidance, I mean, it was 16% in 2020, 27% in 2021. And in general, as we think about those performance fees, are smaller partner firms, you think, or relative to the big players, more resilient for performance fees in terms of I guess you have a lower proportion of exits to the public markets or IPOs, for example? So I'm just wondering if you can give any more color there.

And the third question is just on the performance of the underlying funds or the underlying funds within the partner firm. So I mean, technology funds make up 35% of the mix. I'm just wondering if we should think about any impact given a de-rating in the public markets. Thanks.

Robert Hamilton Kelly: As we think about the fair value, you're right and we have page 33 in the appendix breaks out the fair value by different component. And I first note of course you see that a very significant proportion of that fair value is derived from the management fee recurring profitability component of the businesses with a smaller amount coming from the carried interest or performance fee component.

We give detail on that page as well as in the preliminary notes on the range and blended discount rates and multiples used to derive those values. And so I note again at a 12% blended management fee discount rate, 22% blended discount rate on the performance side, those are significantly ahead of most estimates of the cost of equity of the business. And I think similarly ahead of most of the costs of equity being applied to some of the listed peers, which as we note, have had some price movements this year. So I say as ever in a fair value market, multiples are observed and an input factor, but certainly not the only input factor into that.

Ali Raissi: On the guidance for performance fees, I think, as you note, clearly mid-market firms have multiple potential sell-on ability, both in terms of other buys in the private markets that are larger as well as the public markets. And so they've demonstrated historically multiple different tool sets to being able to create realizations. I'd say the other key element of our business is just that resilience in that you have over 200 different funds, multiple vintages across over a decade, average duration of 8.1 years across these funds. And so clearly in that regard, there is a lot of diversification and very little reliance on an outcome from any one given fund for generating our performance fee.

Maybe just to talk to the underlying funds and their performance, I'd say the observation around the 35% of exposure to tech really captures a broad church in terms of what we define as tech. And that encompasses everything from tech-enabled or tech-enhanced private equity investing all the way through to actual tech and healthcare tech. And if we look at the equivalent for the S&P, that number is probably around over 50% from our last assessment. And so at 35%, it's relatively, I'd say, in line with the overall market and not necessarily what you would take as being that tech exposure.

Robert Hamilton Kelly: The only thing I'd add to that, Ali, is as well, if we look at the decline in some of the tech stocks this year, it's been most pronounced in unprofitable, high growth firms. But we actually think about what a number of our partner firms own and invest in in that space, so the likes of Francisco Partners, Accel-KKR, Clearlake and others, most of the businesses that they own are highly profitable but still growing mature, more mature software businesses. And so I think in the broader market, we've seen those down to a much lesser degree than the unprofitable, high growth tech names.

Luke Mason: Great, thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, you can do so now by pressing star one on your telephone. We will now take our next question from Arnaud Giblat from BNP Paribas. Please go ahead.

Arnaud Giblat: Hi. I just had a quick follow-up on the guidance with regards to the EBIT margin of 85% to 90%. So I was just wondering if you could help us bring this together. So you've got a 7.5% FRE and PRE charge. Then there are other operating expenses and maybe GP related performance fees relating to the new acquisitions, but I don't think these kick in for another two years. Well,

could you help me bridge from 7.5% [inaudible] 2.5% missing? [inaudible] other operating charges to get to the 90% range? And why the 5% range, please?

Robert Hamilton Kelly: Thanks, Arnaud. So, look, I think you're right in terms of your footprint. I think the other costs are costs we outlined at the time of the listing. So board costs, administrator, audit and other related expenses. So we do think that that's likely to be a relatively stable margin. But just given it being the first full operating year of the business, we've given a slightly broader range.

Arnaud Giblat: And in 2022, there's no GP related performance expenses relating to new acquisitions yet?

Robert Hamilton Kelly: That's correct. Yeah.

Operator: Thank you. There are no further questions in the queue. I will turn the call back to your hosts.

Ali Raissi: Thank you, everybody, for joining us today on the maiden results presentation. We look forward to speaking to you over the coming weeks. Should you have any further questions, please feel free to reach out to Ayesha Parra and we'll look to speak to you again. Thank you.

Operator: Ladies and gentlemen, that will conclude today's conference. You may now all disconnect.