Company: **Goldman Sachs and Co.**

Conference Title: **Petershill Partners Q3 Trading Statement Conference Call**

Moderator: **Ayesha Parra**

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Operator: Good day, everyone, and welcome to the Petershill Partners Third Quarter 2021 Conference Call. At this time, all participants are in 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. And by remaining on the line, you were representing, to the company and Goldman Sachs that you are located outside of the United States and are not a US person as defined under Regulation S of the US Securities Act of 1933. Or you are a qualified purchaser as defined under the US Investment Company Act of 1940, and that you are not located in or resident of any jurisdiction where to attend this conference call would constitute a violation of the relevant laws of such jurisdiction. Now I would like to hand the conference over to Ayesha Parra, Head of Investor Relations. Please go ahead.

Ayesha Parra: Good morning, and thank you for joining us today to discuss Petershill Partners Third Quarter 2021 Trading Update. Before we begin, 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 trading statement release. We encourage investors to consult our site regularly for updated information. Petershill Partners Plc, the company, commenced conditional trading on the London Stock Exchange on September 28, 2021, on which date the initial acquisition of the portfolio of partner firms by the company was completed. Prior to this date, the company did not trade and therefore does not have reportable results. For completeness and transparency, the Q3 trading statement includes operating metrics for periods prior to the initial acquisition date, presented as if the company's assets, as at the time the IPO had been owned by the company during the historical period presented.

With us today to discuss the company's results for the quarter, Ali Raissi and Robert Hamilton Kelly, Co-heads of the Petershill Group. With that, I'll turn the call over to Ali.

Ali Raissi: Thanks, Ayesha. Good morning everyone, and thank you for joining our call. It's my pleasure to present Petershill Partners Third Quarter Trading Statement, which marks our first quarterly announcement as a public company. Our results today and the operating metrics we are providing for this trading update reflect our focus on growth and profitability, and we believe, provide a comprehensive snapshot of the quarter's trading. They also demonstrate continued strong growth from our partner firms. In addition to organic growth, we also see further significant inorganic growth opportunities for our investment company through the execution of our CapEx-like M&A, the first example of which we'll speak on today. The combination of organic and inorganic growth maintains our focus on delivering shareholder value over time. Let's start with some highlights for the third quarter. We, of course, have the successful IPO of Petershill Partners PLC with the addition to the main market of the London Stock Exchange and the premium segment of the official list of the UK FCA, raising $745 million in gross primary proceeds and net primary proceeds of $707 million.

We saw accelerating fundraising momentum across the company's partner firms with aggregate partner firm AUM growing 35% year-on-year to $203 billion. Aggregate fee-paying AUM was up 13% year-on-year to $145 billion. Strong aggregate AUM and fee-paying AUM growth is the basis for future earnings development and highlights the positive operating dynamics and pricing power of our high-quality partner firms. This growth has translated into robust, recurring, and high-quality earnings from our partner firms, with partner distributable earnings more than doubling year-over-year to $107 million, bringing the last 12 months to $364 million and positioning the business well for the fourth quarter and the year ahead. Partner FRE grew 70%

year-over-year to $66 million, reflecting a 74% Q3 partner FRE margin on $90 million of partner net management and advisory fees. An attractive realization environment led to 189% increase in year-over-year realized performance revenues which were $29 million for the quarter. The remaining $11 million of partner distributable earnings was made up of partner realized investment income.

Overall, approximately 21% of the partner revenue over the last 12 months came from partner realized performance revenues, highlighting the management fee-centric nature of the company's financial profile. As we've discussed, we believe we have partnered with some of the leading alternative asset managers. We help assist them in developing their businesses with our growth capital and strategic partnership. And over time, we will seek to add more new firms to this company delivering a combination of strong, enhanced organic growth of our existing partner firms as well as inorganic growth through accretive CapEx-like M&A. We've previously guided that we expect Petershill Partners to acquire between three to six new partner interests annually, deploying between $100 million to $300 million of acquisitions, with the upper bound not representing a Cap and that we see heightened activity in the current market. In that context, we're pleased to announce that on November 9th, 2021, the company made its first new acquisition of a minority equity stake.

The new partner firm interest is Symphony Technology Group, a leading technology-focused US buyout firm that has generated top quartile fund returns across market cycles. The firm manages aggregate assets of $5 billion and fee-paying assets of $3.9 billion. The whole cash transaction costs for Petershill Partners was $60 million, with $28 million funded at close. And this transaction is expected to be immediately accretive to earnings and adding 1% to earnings by 2023. Technology is one of the fastest-growing areas of private markets and so remains a strategic focus for us, alongside health care and infrastructure. This is our first transaction for Petershill Partners since the listing and represents a running start to a healthy pipeline of potential transactions that we continue to see for the business going forward. Importantly, it also represents the strength of our sourcing and efficiency of our acquisition model.

While we're humbled by the support and interest in Petershill Partners, our listing represented an important milestone in a very long journey for our business, but importantly, also the beginning of a new one that we're excited and focused on delivering continued partnership and long term growth to our partner firms and our investors. With that, I'm going to pass it over to Rob to provide a more in-depth business overview.

Robert Hamilton Kelly: Thanks Ali, and good morning, everybody. I'll first review the company's key operating metrics, liquidity profile and then touch on how our value-added GP services capabilities have helped support our partner firms and their businesses. So, as Ali highlighted, partner distributable earnings in the quarter more than doubled year-over-year to $107 million bringing the last 12 months partner distributable earnings to $364 million. The step-up in the company's earnings power is being driven by the continued acceleration of partner fee-related earnings on the back of strong fundraising and deployment across the company's partner firms, with aggregate fee-paying AUM growing 13% year-over-year to $145 million. These earnings are being generated from a wide footprint of underlying businesses that are growing rapidly. We're not reliant on one firm, one fundraise, one track record, one brand so unique and differentiated aspect of our business model through the diversification benefits that our underlying partner funds provide, now, to 20 high-performing asset management firms, giving us a distinctive risk-adjusted earnings growth and a high quality of earnings.

Turning down into the components that make up partner distributable earnings, the first of which is partner FRE. Partner FRE, drawn from management fees, has increased 70% year-on-year to $66 million in the third quarter, bringing the last 12 months to $207 million. Driven by the combination of growth in partner net management and advisory fees and the slight increase in the last 12 months FRE margins to 71% demonstrating very strong profit margins underpinned by our expense protections. As a reminder, the company has expense protections like revenue share economic arrangements, restricted compensation agreements, and limitations on nonessential business expenses appropriately tailored to each part of helping support alignment and stable recurring margins at the company level. These margin protections provide a higher quality of earnings reducing the volatility and increasing profitability of the business. The largest partner FRE contribution by fund represents approximately 6% of the aggregate, again highlighting the diversified nature of the company. One thing to note was the partner blended net management fee rate of 1.78% for the quarter reflects an elevated level of advisory fees that are occurring in nature but will vary from quarter to quarter.

A medium-term guidance on partner firm management fee rates remains intact as broadly stable on an organic basis. Secondly, partner PRE partner-realized performance fee revenues, which represented direct participation, the upside of performance of partner firms' funds and products, increased nearly threefold in the third quarter to $29 million and stood at $93 million for the last 12 months. The company's partner firms managed over 140 different performance fee-eligible funds at different stages of their life cycle. And due to this diversification, the company anticipates that realized performance fee revenues will be earned regularly from a wide range of funds going forward based on the quasi-recurring source of income within a range of 20% to 30% of total partner firm revenues over the medium term, and assuming market conditions and environment will be supportive. The fact that these earnings are drawn from dozens of different strategies significantly dampens the volatility of this fee stream.

I'd also note that due to seasonality of realized performance fee revenues, historically, over 70% of these revenues are realized in the second half of the year. And thirdly, partner-realized investment income, as an owner of equity in the partner firms. the company shares in a percentage of the investment and balance sheet income of the businesses and realizes this through a number of direct positions in the funds of underlying firms. The realized investment income totaled $11 million in the quarter, again, reflecting the supportive realization environment.

Turning to liquidity, with net primary proceeds of $770 million from the IPO, the company expects to have sufficient cash available to finance significant further investments over the medium term. The long-term outstanding debt remains constant at $350 million and below the company's financial strategy to remain below 1.5 times net debt to adjusted EBITDA for the purpose and long-term capital planning. If we turn to consider GP services, our product as a company - as a business is to offer counsel and strategic support to middle-market alternatives firms. Our aggregate AUM of $203 billion compared to alternative industry AUM, TAM or total addressable market of $10.7 trillion dollars, which is expected to grow to $17 trillion by 2025.

We collaborate with our partner firms as they seek to scale and institutionalize their businesses, providing guidance, best practice, and analytics through what we call our GP Services Team and Platform. Over the past quarter, GP Services Platform continued to see elevated levels of engagement and activity, bringing year-to-date interactions to a record level and outpacing the number of partner firm engagements for 2020, and demonstrating the value that our partners place on this aspect of the strategic partnership. A consistent theme across our interactions today is the desire for increasing focus on ESG and sustainability. This quarter, our GP Services Team released a module on ESG and they've had particularly high engagement levels on the topic, and we think that will continue to enhance and future proof the growth of our partner firms in the years to come. We believe our GP services platform represents a distinct value proposition for our partner firms. With that, I'll hand it back to Ali to briefly discuss our outlook.

Ali Raissi: Thanks, Rob. The performance of the company remains in line with our expectations and with guidance provided at the time of the IPO, and we're extremely confident in the outlook from here. Structural themes of growth, need for capital, and strategic services that underpin Petershill Partners investment approach and our partner firm's growth remain strong and maintain our confidence in the medium-term target for organic aggregate partner firm AUM growth to exceed that of the alternatives industry. The challenges and opportunities presented by the current market environment have in large part enhanced our offering to our partners, and we believe that the breadth and quality of our partnership enhanced through our value-added general partner services and structured equity provides a distinct - distinctive operating model and a platform for continued and differentiated risk adjusted earnings growth. Petershill Partners expects the current environment to present further opportunities for the company to grow inorganically through further acquisitions of partner firm interests, and the pipeline of new potential acquisitions remains encouraging.

In closing, Petershill Partners is in the business of providing growth capital and strategic partnership to leading alternatives firms, and the themes that continue to drive our partnership, industry growth, and development, and our track record in providing a win-win approach to make Petershill - make Petechill Partners one of the leading choices for leading businesses. With that, we thank you for joining our call, and we'd like to open it up now for questions.

Operator: Thank you. If you wish to ask a question at this time, please press star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will now take our first question from Gurjit Campbell from JP Morgan. Your line is open, please go ahead.

Gurjit Campbell: Hi, good morning, it's Gurjit Campbell from JP Morgan, thank you for the remarks earlier. Just a couple of questions. Firstly, in terms of the pipeline of investments that you referred to, could you sort of give us any sort of color in terms of any particular regions that you're looking at and maybe by asset classes. Are there are any SKUs, is it more private equity, or is it maybe private credits or anything just on kind of the type of on the pipeline that's out there? And then secondly, just in terms of the assets under management, when you mark to market, how often are they marked to market, is it every quarter? And is that for all of the partner firms AUMs or is it early for a certain percentage? So those are the two questions, thank you.

Ali Raissi: So let me take the first question on - in terms of pipeline. Look, as we mentioned, we're quite confident on the pipeline. The primary focus continues to be private capital, with - within that a focus on private equity. We've identified core themes that the company is focused on with tech, health care, infrastructure, balance sheet repair themes being sort of current themes that we're focused on. And so the pipeline also reflects that, with regards to your second question.

Robert Hamilton Kelly: Gurjit, can you just repeat the second half of the question again?

Gurjit Campbell: Yes, sure. Yeah, just in terms of the assets on the management, how often do the partner firms sort of mark to market their AUM, and is it for all of the AUMs or is it only for a certain part of the AUMs that gets marked to market?

Robert Hamilton Kelly: Yeah, it's a great point, Gurjit. So the funds will go through their processes to mark to market their own AUM every quarter. And you see that reflected in the aggregate number that we report, so the $203 billion. And to a large extent, the delta between the $145 billion fee-paying AUM and the aggregate, a large part of that is made up from the impact of that mark to market over time, and so that's where you see that flowing through. But typically, essentially all the AUM is marked to market on a quarterly basis and is reflected in that $203 billion number.

Gurjit Campbell: That's great, thank you much.

Ali Raissi: Thanks, Gurjit.

Operator: We will now take our next question from Herbert Klein from Bank of America. Please go ahead.

Herbert Klein: Hi, guys, good morning, I've got three questions. Firstly, you mentioned the hire management fee rate was driven by advisory fees, just wanted to get a sense as to how much of the $90 million in management advisory fees would you consider to be extraordinary? Just so that we can get a sense as to what the underlying fees, excluding these extraordinary advisor fees would be in the quarter. That's the first question, second question is on the fee-paying assets as well as the aggregate assets. Can you give us an update on the breakdown between asset classes between asset return private equity credit real assets? Could you give us the latest update on the asset breakdown, it would be good. And lastly, just wondering if you can give us an update also on the underlying partner firms like any ones you would like to highlight are doing particularly well, or any one you'd like to also mention that are maybe having a little bit more challenges. Just any color on the underlying partner firms would be good. Thank you.

Robert Hamilton Kelly: Thanks. So I'll take the first two there and maybe let Ali comment on that - on the third. So, okay, I'd say with regards to management and advisory fees, the firms charge management fees on - typically on commitments in terms of the private firms, and then advisory fees will occur on certain transactions that they may undertake. We think of those advisory fees as essentially recurring in nature. We typically have advisory fees happening every quarter. And while they are a little elevated this quarter, our guidance, as we say on the medium-term, for the effective management fee rate remains intact. I think as we think about year-end reporting, we'll look to give a little bit more disclosure on the individual - on these individual line items. But I think of them as essentially recurring in nature in terms of the fee-paying, AUM breakdown. So we don't give a breakdown by asset class in Q3, we will as we look towards year-end reporting. I think of the long-term trends as remaining largely intact in terms of an increase in the private capital AUM as a percentage of the overall AUM mix. And that being driven largely from our private equity and venture component of that component.

Ali Raissi: Maybe on the third question, I sort of generally observe, as evidenced by some of the numbers, we've seen robust performance in the business. With regards to individual breakouts, we've always kind of taken a focus on giving shareholders a meaningful level of disclosure and information to assess earnings growth potential and opportunities in risk for the company. But given our product is the capital and strategic partnerships that we provide our partner firms, that does come with a certain, I'd say, focus on confidentiality on their part, and clearly also sort of influences our ability to transact going forward. So I think in terms of our focus, we're very, very pleased and confident about the robust performance across the business. We've continued to see strength across the sectors and industry themes that we clearly operate in. But breaking out any individual firms is always going to be something that we've been focused on maintaining a certain level of confidentiality, just given sensitivities. And again, with that in the context of providing the right amount of operating disclosure and operating metrics that, hopefully, gives you insight into how Petershill Partners is performing.

Herbert Klein: Right, thank you.

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

Mike Werner: Thank you very much. I have got three questions if you don't mind, please. One's a bit of a follow-up on the discussion about the partner firm - aggregate partner-firm AUMs and the fee-paying partner-firm AUMs. And just wanted to kind of confirm that the delta in the growth rates is something that we're likely to continue to see going forward so long as the underlying valuations improve. In terms of mark to market, I can you just confirm that we shouldn't expect to see fee-paying AUM kind of accelerate to the levels that we're seeing for the aggregate partner AUMs. Second, Symphony Technology. In terms of the disclosure that you provided today, it was very helpful and thank you for that. Is that something we should expect going forward for each individual transaction? And then also if possible, can you let us know the method that you acquired Symphony, whether that was an exclusive negotiation or an auction and whether symphony was included in the Q3 figures? And then finally, just a question on accrued carry interest. We've seen it grow, I think, 200% year-on-year, just trying to think about the pace of that carried interest migrating from an accrued number to a realized number. And over what timeframe should we expect, let's say, the bulk of that to be realized. Thank you.

Robert Hamilton Kelly: All right. Thanks for the questions, Mike. So what - I touch on that and then let Ali chime in as well. So I think it's a great point on the AUM versus fee-paying AUM, I'd say, yes, look, in a strong performing market, it's possible that those markets move the aggregate further. There is obviously an aspect of that delta which is what I call fee exempt AUM, so co-invest type capital, as well as what I call non-activated AUM, so AUM where capital's been raised but fees haven't been turned on yet. So those will be factors that will - that would dampen that gap. But in a rising market, the change in mark to market change in fair value would also increase the gap. So that market movement will be a factor. If we focus on the Symphony disclosure, yes, I think we set up in a way to look to provide that disclosure going forward. I think, as Ali alluded to, our product as a business is the partnership with the underlying firms so we need to be sensitive to information that they are sensitive to.

But we think that by giving you the level of consideration as well as the impact in terms of earnings accretion that should help analysts and shareholders understand and model the business accurately, so we look to replicate that going forward as well. And then a crude carrier, I think it's difficult to put a precise forecast on the timing and the exact horizon of that. We're obviously in a very good and robust realization environment at the moment. And so you've seen numbers produced this quarter and you've got our last 12-months numbers. So I'd say, in this environment, that represents a good base level to this year.

Mike Werner: Thank you very much. And can I just follow up quickly on Symphony? Can you just confirm whether Symphony was included in any of the Q3 numbers? Thank you.

Robert Hamilton Kelly: It wasn't, so because the transaction happened post-quarter-end. We've stated those - the AUM metrics but they weren't included in the $203 or $145 billion.

Mike Werner: Thank you.

Operator: As a reminder to ask a question, please press star one on your telephone keypad. We will now take our next question from Dick Mason, from BNP Paribas. Please go ahead.

Dick Mason: Yeah. Morning, guys. Most of my questions have been answered, just a couple of follow-up questions. On the advisory fees point, we're still seeing heightened levels of investment activity in Q4, so I'm just wondering if you can give any detail. I guess we should expect heightened levels of advisory fees in the coming quarter or quarters. And then just on the Symphony deal, slightly below the average in terms of AUM for your existing partner firms. I'm just wondering when you are looking at acquiring the stake in Symphony, your GP services business, how much of a value add was that in you being able to acquire that firm? And are there any specific areas where you can look to help Symphony grow essentially? Thank you.

Robert Hamilton Kelly: Thanks. So I'll take the first one then maybe let Ali take the second one. So look, I think yes, in a heightened environment, it's certainly possible that advisory fees will stay active, and as they say, that they are a recurring part of our management fee stream. I'd say that the levels in Q3 were particularly elevated, so I wouldn't necessarily expect to see that recur in the same way going forward. And so we reaffirm our medium-term forecast in terms of management fee rates but it's certainly possible that we will have more advisory fees in the upcoming quarters as we have had in the historic quarters as well. Ali, I'll let you touch on the second one.

Ali Raissi: Yeah, look, I think my observation is Symphony is a well-established, high-quality private equity business. It's within the range that we've guided towards, which is five to $15 billion AUM firms. Clearly, in all of our transactions, the GP services value add is a key consideration, and it's an area where we can be strategic and sort of add value post partnership. As regards to areas of focus with individual firms, I think again, I'll sort of repeat what Rob said a little earlier which is that strategic partnership is a critical factor. It's one of the things that we offer our partner firms, but it also does sort of reflect elements of confidentiality and so I wouldn't necessarily look to break out what we're focusing on and looking to partner with Symphony on. But clearly, high-quality business and also one that fits within the area of our sort of size focus.

Robert Hamilton Kelly: I'd maybe just add to that that we obviously have very good partner recognition in the space, so we have other leading mid-market buyout firms to focus on, technology - different areas of technology so the likes of Francisco Partners or on Excel KKR. So we have very good partner recognition in the space and I think a very good playbook to work with our partner one-to-one.

Dick Mason: Great, thanks.

Operator: As a reminder to ask a question, please press star one. We will now take our next question from David McCann from Newmar. Please go ahead.

David McCann: Good morning, everyone. Thanks for taking my questions. The first one, really just to follow up on the questions that were referenced earlier about the elevated advisory fees in the quarter. Was that also a driver of why the FRE margin has accelerated to about 74% versus the kind of 70%-71% that they'd been running at historically? Just a comment there would be useful. That's the first question. Secondly, just on the Symphony, I mean, what was the ownership percentage you've actually acquired, I assume you're not going to give the precise number, but maybe you can give an indication kind of where it was in the kind of 10% to 20% percent type range or indeed the 14% kind of average. Just an idea of was it kind of high or low in that range would be useful. And then the third question, obviously earlier, well, actually until last week, the FTSE decided to reclassify you as a closed-ended fund, I just wondered if you had any thoughts on this internally and indeed how you think that might impact on your shareholder's willingness and ability to hold the shares. Thank you.

Robert Hamilton Kelly: Thanks, David. So I'll touch on these three briefly. So it's absolute there, the advisory - elevated advisory fees flow through into that FRE margin, and so our medium-term guidance remains intact at that, closer to that 71% level in terms of being stable on an organic basis. The ownership percentage, I'd say, as you can tell from the size of the transaction, it's slightly lower than our average ownership level. But when you look at the company in an aggregate level, it doesn't impact our blended average ownership level across the 20 different partner firms. And then lastly, on the investment companies side, I'd say we obviously listed under Chapter 15 of the LSC rules so by definition, we're an investment company. And I think we've said that on a couple of times on the front page of the prospectus. I think we, as a management team, focus more on the - delivering on the earnings and the growth of the business and so from managing the company and growing the earnings base, we don't necessarily focus too much on a classification that we're not necessarily involved in the conversations zone.

Operator: As they are no further questions in the queue at this time, I would like to turn the call back to your speakers for any additional or closing remarks.

Ali Raissi: Again, I wanted to kind of reiterate our thanks for you all joining us today on our first set of quarterly results and we look forward to continuing the conversation. And please feel free to reach out should you have any further questions. Thank you.

Operator: Thank you. This concludes today's call, thank you for your participation. Ladies and gentlemen, you may now disconnect.