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Moderator: Gurjit Kambo

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Operator: Good day, everyone. And welcome to the Petershill Partners Q3 2023 Trading Update Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question and answer session. I would like to advise all parties that today's call is being recorded. And by remaining on the line, you are representing to the company and Goldman Sachs that you are located outside of the United States and are not a US person [inaudible] under regulation as of the US Security Act of 1933. Or you are a qualified purchaser as [inaudible] under the US Investment Company Act of 1940 and that you are not located in or resident of any jurisdiction. Way to attend this conference call would constitute a violation of relevance law such jurisdiction.

Now I would like to hand the conference over Gurjit Kambo, who is responsible for Investor Relations for Petershill Partners. Please go ahead.

Gurjit Kambo: Good morning, everyone, and thank you for joining us today to discuss Petershill Partner's third quarter 2023 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 update.

With us today to discuss the company's trading update for the third quarter, we have Ali Raissi-Dehkordy, Co-Head of the Petershill Business Unit within Goldman Sachs Asset Management and Adam Van De Berghe, who is responsible for the CFO function for Petershill Partners. With that, I'll turn the call over to Ali.

Ali Raissi-Dehkordy: Thanks, Gurjit, and good morning, everyone. Thank you for joining our call today as we present our third quarter trading update for 2023. I'll provide some high-level commentary on the business and the market backdrop and Adam will provide more details on the key financials during the quarter.

During the quarter, our partner firms continue to experience steady fundraising growth with $6 billion of gross fee eligible AUM raise during this period, taking the year to date total to $20 billion. Achieving the asset raising on time highlights the strength of our partner firms giving the challenging industry backdrop where we have seen funds staying in market for longer and raise targets getting pushed out. We have now substantially completed our asset raising for 2023 and are pleased to have achieved our guidance on gross fee eligible AUM raised for the second year in a row.

There are signs that inflation is moderating and an expectation for rates to stabilize but at the same time, broader macro uncertainty persists as we head into the year-end. Against such a backdrop, we've remained highly selective and focused on the risk adjusted outlook for new investments. We did not undertake any acquisitions during the period; however, we have a strong cash position and are well positioned to take advantage of attractive market opportunities when they arise.

We have seen consolidation in the industry as companies seek to scale up or add additional strategies with a particularly strong interest for specialist mid-market firms, which is representative of the majority of our partner firms and Petershill partners. The company continues to demonstrate strong cash generation supporting future growth and capital return to shareholders. And with that, I'll hand over to Adam who will run through some financial updates.

Adam Van De Berghe: Thanks, Ali, and good morning, everyone. Our performance in the third quarter reflects consistency during a challenging market and is in line with our expectations. The environment today is less favorable for capital deployment and realizations than it was a year ago. However, we continue to build a foundation for attractive FRE centric earnings. As Ali highlighted, our partner firms raise $6 billion of gross fee eligible AUM in the quarter and $20 billion year to date.

Aggregate partner firm AUM grew 7% year-over-year to $303 billion. Aggregate fee-paying AUM was $197 billion, 4% higher year-over-year and leading to a 21% increase in partner net management and advisory fees. Partner fee related earnings were $53 million in the third quarter, up 6% from the prior quarter and 13% year-over-year. The growth in the quarter came amidst the period in which there were no new transaction fees, which were driven by investment activity at our partner firms and $6 million in offsets from transaction fees previously recognized.

Partner realized performance revenues were $14 million in the quarter, up 40% from the prior quarter. Partner realized performance revenues as a percentage of total partner revenue stands at 9% for the year. We expect activity to remain subdued in the near-term. However, our partner firms are positioned well for when market conditions improve with $613 million of partner private markets accrued carried interest.

Our partner firms did realize several assets in the quarter resulting in partner realized investment income of $13 million. Partner distributable earnings were $80 million, 16% higher year over year. We continue to return capital to our shareholders and have purchased approximately $21 million of our previously announced $50 million buyback program.

Moving to the outlook, the investment period for many funds has extended given the market conditions and it has taken longer to deploy existing capital. This has led to delays in the activation of management fees on some of the capital raised over the last 12 months. Over the next few quarters, we expect to increase as markets become more receptive.

Our partner firms' successful fundraising has positioned them well to take advantage of an improving market. The performance of our absolute return strategies has been mixed so far this year against the backdrop of a challenging environment. While we typically see higher performance fees in the fourth quarter partly driven by the crystallization of fees in the absolute return strategy, we expect a more muted outcome relative to the fourth quarter of last year. We maintain our guidance for 2023 that we issued with our interim results on the 8th of September. With that, we thank you for joining the call. I would like to open it up to questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask the question. We'll take our first question. Luke Mason from BNP Paribas. Your line is open, please go ahead.

Luke Mason: Yeah, thanks for the call, guys. Three quick questions. On fundraising, how should we think about the fundraising outlook into 2024 and beyond? Is the $20 billion to $25 billion this year more of a trough level and do you have any visibility on fundraising for 2024? I mean, I think there's Clearlake on Bloomberg talks of being back in the market with fundraising.

Secondly, just on deployment, you made a comment there just around expect increases in deployment as markets become more receptive. What have you seen so far in Q3 across partner firms, and do you have visibility on pipelines that you're talking to partner firms about?

And then thirdly, just on FRE margins there's been a downward trend in recent years. I mean, how should we think about that longer-term trend and then specifically into Q4, should we expect any elevated levels of costs in Q4 with bonuses and things coming through? Thank you.

Ali Raissi-Dehkordy: So, I'll do the first question on fundraising and then Adam will pick up the next two on deployment and FRE margins. Clearly, there's an element of cyclicality to years of fundraising. You've seen some of the news in in the press that speaks to anticipated fundraising. We won't comment on any individual partner firms at this stage. I think generally speaking, our cadence has been in the New Year, we give AUM guidance, and we'll look to give you our expectations for 2024 at that time. Maybe I'll hand over to Adam to talk about deployment.

Adam Van De Berghe: Thanks, Ali. So, on your second question on deployment, in my remarks what we saw in this quarter was approximately $20 billion of assets previously raised that have now been activated in underlying funds. And so that will flow through as we report fee paying AUM going into the end of the year and that has partly what has contributed to our FRE revenue in the quarter.

In terms of FRE margins, we've seen margins broadly stable over the last three quarters. So, in the last year and even over the trailing last 12 months, if we think about the fourth quarter, expenses at partner firms tend to be slightly higher in the fourth quarter than they do throughout the rest of the year. With that being said, we're comfortable with our guidance on our FRE for the full year of 2023 between the $190 and $210 million which incorporates our expectations from margins.

Luke Mason: Great, thank you.

Operator: Our next question, David [inaudible] from [inaudible]. Your line is open, please go ahead.

David: Yeah, morning. And so yeah, three from me as well please. So firstly, just on that investment income obviously a bit higher than most people were looking for in the phone call. Can you just talk through what that was really coming from and then the outlook for that would be useful. That's the first one.

Secondly, I think Adam, you may have partly just answered this just now in that last question, but it does look like the underlying fee yield went up in Q3 compared to the first half of the year. So just to confirm, so we obviously know you've got this lag in the AUM by three months but just to confirm, so are the fees not lagged in the same way? So, I think you were saying that some of the fees switch on in the period obviously helped. So, can you confirm that was the case? Indeed, any other drivers why it looks like the - underlying so excluding the transactional stuff. Looks like the fee margin did go up a bit in that quarter from what we can see.

And then finally just on that fee switch on, you said obviously $20 billion come online cut. Obviously, can't see it in the numbers yet because of the lag which we know about. There's still another $8 billion fees to be switched on in the numbers you've given. So, when's that other $8 billion come into the AUM? Thank you.

Adam Van De Berghe: Thanks, David. It's Adam. I'll take those. So, on your first question on investment income in the quarter, we saw contributions by approximately half a dozen partner firms. I would say that as we know, investment income similar to PRE is broadly driven by market activity which has been lower this year than call it relative to last year. I would - as we look forward, it really depends on those activity in the market if those continue to be subdued, we would continue to expect to see a bit of lumpiness in investment income.

On your second question, the $20 billion. Yes, just to confirm we're reporting at this quarter $28 billion of AUM raise that is not yet activated. $20 billion of which has been activated in this quarter so with the AUM reported on a lag, we expect that to flow through the P&L or the revenue is current. And so, what you're seeing there is just the revenue coming through on the P&L and the AUM will flow through in the next quarter.

In terms of the remaining $8 billion on your third question, it really is driven again by opportunities in the market that the partner firms see. We would expect that $8 billon to be deployed over the next several quarters which would of course then in turn contribute to management fee revenues in those quarters as well.

Operator: We'll take our next question. Angeliki Bairaktari from JP Morgan. Your line is open, please go ahead.

Angeliki Bairaktari: Good morning and thank you for taking my questions. First of all, you mentioned $6 billion fundraising in Q3, and which brings the nine-month fundraising to $20 billion which is sort of you have already hit your target of $20 billion to 25 billion. Can you give us perhaps some color with regards to expectations for the fourth quarter? Do you think you will be able to reach the upper end of that fundraising range?

Then in Q3 you had $5 billion of fee-paying AUM inflows. Are those $5 billion effectively reflecting the activation of those $6 billion raised in the same quarter or are they perhaps coming from the previously not yet fee eligible - not yet fee paying AUM from the $28 billion?

And then one last question on M&A. At the H2 stage, you guided - you said that you expect to be below the $100 million to $300 million investment range. Is it fair to assume that you may not do any deals or that you will not do any deals this year? From the looks of it, I mean, you haven't announced anything so far and we are in November. So, I guess it is very well possible that we don't see any M&A from you this year? Thank you.

Adam Van De Berghe: Thanks very much for the questions. This is Adam. I'll take the first two and Ali - I'll pass it to Ali for the third. So, on the first question with respect to the $6 billion in the third quarter and $20 billion for the full year, our guidance that we set out the beginning of the year, it was $20 billion to $25 billion. We think where we are now, we're broad. I think the partner firms have broadly raised on their targets and so while there's possibility for incremental AUM to be raised before - in the last quarter, we do think they're broadly there where they were aiming for their targets.

In terms of the $5 billion raised in the previous quarter and how that makes up or what was activated, It's a bit of a mix. So, there are some assets that were raised and activated in the quarter. There are some assets that were raised and are not yet activated. And so, what we tend to see every quarter is a bit of a mix of new AUM that is raised and activated and then some AUM previously raised is activated.

And then of course the third leg of that is AUM that's raised which is not yet activated. I think it has happens to be a bit of a coincidence that the numbers are broadly similar this particular quarter from last quarter. But it's been a broad mix across those three.

Ali Raissi-Dehkordy: And for the third question, Angeliki. We don't expect any new partner firm M&A this year. Clearly, we're still sitting in November and in our history, we have done deals in around a month's time. So, we're not calling the whole year at this point, but my expectation is at this stage that we won't have any new partner firm M&A.

Angeliki Bairaktari: Thank you.

Operator: We'll take our next question. Hubert Lam from Bank of America. Your line is open, please go ahead.

Hubert Lam: Thanks for taking my questions. Most of my questions have been asked, just general question. Just wondering what your thoughts are as we head into 2024. Are you optimistic that things could start to improve as rates inflation start to stabilize? I'm just wondering, and do you think we're still in a pretty difficult market environment and it could be more geared towards potential improvement in second half of next year? Just wondering what your general thoughts are as we head into 2024 in terms of deployment and investments, et cetera. Thank you.

Ali Raissi-Dehkordy: I think if I reflect on 2023 as part of answering your question on 2024, clearly it was a muted year. We had less M&A this year. I think some of that is just going to be driven by M&A activity. And so, if we expect the same levels, we'll have sort of similar call it muted PRE realizations new deal activity. If I take stock of where we stand today, clearly there's a let's say a macro risk, a geopolitical risk that has continued to be present in various different forms.

We have some more stabilized views on rates clearly some positive news on inflation. Both of those seem to indicate some increase in the M&A back book deal activity that the banks look at across the street. That's all-positive news but clearly, we had a little bit of that as a preview in in September, but things went the other way. So really depending on how that M&A back book and deal activity looks in 2024 is going to drive the rest of this year.

Some elements of it as you've noted are sort of do look a little bit better than they did earlier in the year just in terms of the outlook for interest rates, the outlook for inflation, and clearly some of the M&A activity that's being sort of considered on the advisory side. So, we see those as positives but again having made similar positive observations coming out of the summer it's really going to depend on how that activity starts looking early in the year for the new partner firms. And it's probably a little too early to say, just given that we've had some relatively I'd say bigger macro uncertainty introduced recently as well.

Hubert Lam: Great. Thanks. Sorry, I just got one more follow up question on how do you think about the dividend for the full year? Just because I guess there's not going to be much activity in terms of the M&A side. So, should we think - is there potential for like a higher dividend for this year? Any thoughts around that? Thanks.

Adam Van De Berghe: Yeah. Thanks, Hubert. It's Adam. So, our policy is a progressive dividend policy. And so, at this point we continue to maintain that policy and when we deliver our full year results in March, we'll announce what we've done for the full year. Thank you.

Hubert Lam: Thanks.

Operator: We'll take our next question. Mike Werner from UBS. Your line is open. Please go ahead.

Mike Werner: Thank you very much. I got two questions. One, a little bit of a follow up on the FRE margin side, I'm just wondering about the impact on some of the recent regulations put in place in the US for private fund advisors. And whether that's going to act as a little bit of a headwind for your partner firms, or is it going to have no effect? And therefore, no impact on the FRE margin.

Second question, with regards to the $20 billion of AUMs that became fee paying in the calendar Q3, can we get a little of a breakdown in terms of the mix of those AUMs across your different segments? Thank you.

Adam Van De Berghe: Yeah. This is Adam. I'm happy to take both of those questions. So, in terms of the discreet FRE margins across some of the different firms within the US, we've had conversations with them on and off about some of the pending regulations and at the initial indication there is that it's not likely to have a material impact to the margins of their particular businesses.

We'll continue to monitor that with them but as of now they seem to be - they seem to all indicate that it's - while there's some incremental work and effort for them on the reporting on some of their funds that they don't see that as necessarily a headwind in their individual margins. As for the $20 billion of fee-paying AUM that's been activated in the quarter, it's across a couple of different firms in terms of asset classes. Those are in the private equity asset class for this quarter.

Mike Werner: So, all $20 billion was in private equity?

Adam Van De Berghe: Yes, that's correct.

Mike Werner: Excellent. Thank you very much.

Operator: Thank you. We'll take our next question. Andrew Shepherd-Barron from Peel Hunt. Your line is open. Please go ahead.

Andrew Shepherd-Barron: Great. Thank you very much indeed. Just one question from me, really linked to M&A but more to the point M&A in your industry. Obviously, you've made no acquisitions this year, but can you make any comment on how much other acquisitions have actually been going on in the private capital management space in the US? What sort of valuations have you seen? Presumably you got pretty good insight into that and how active some of your competitors or peers who raised money early this year, back end last year what they're up to? Thank you.

Ali Raissi-Dehkordy: It's continued to be an active year and that's really driven by three different types of, I'd say participant. And generally speaking, they've always - if we look over the last half a decade that these participants have always been around in one form or another. We've seen more recent activity on the part of let's say large to mid-market players who are looking to build out their capability set and they're really, really focused on mid-market sector specialists which has been our area of focus.

We think that that's really because those firms have toolkits to create value, that there is a lot of LP comfort about their ability to drive revenues and EBITDA growth in the underlying assets that they buy, and having sector specialism has allowed those firms to grow well. If you look at the last year, 60% of AUM growth in private alts was in the mid-market specialists. And you've seen how that's actually manifested itself in Petershill Partners with two successive years of relatively strong and on time fundraising.

So, an attractive area for consolidation, you've seen some of that consolidation both from listed players and players who have aspirations to list. And we've seen another sort of source of deal activity be GP stakes players. I think we've seen that group be relatively active. There are some players who are earlier in their lifecycle who've been looking to build up their deal flow and demonstrate that.

And then the third group is other strategic or institutional buyers who like the asset class and those have included sovereigns and insurance players over the years, and they've continued to be active. Kind of reflect on 2023 so far and maybe even if we look back as far as 2022, has been a relatively active year. We've probably I'd say increased our threshold for M&A at Petershill Partners and that's kind of reflective of some of the challenges we see applicable to the whole industry.

We've talked about these at length, these fundraising and realization challenges but it has meant that the firms that we've been selective with have been firms that are mid-market specialists who are in growth areas like healthcare and real assets and credit. And clearly, we've benefited from some of that as the company has seen continued relatively strong growth. I've seen maybe a little bit less of that active targeting across the group and there are some areas where we've shied away from where other participants in the stake space have more recently have sort of gone into.

But I would say that it continues to be quite robust, valuations of being quite robust and they haven't seen the same movement that we've seen in the public markets across the whole alt space let alone the European alt space which has seen even greater movement. But the private markets have not really ridden up in the same ways that we saw the write-up in 2021 and they haven't written down that in the same way that we've seen since 2022.

They've been a lot more stable. Maybe the one change is being there's a bit of a bid-ask spread narrowing in terms of firms being more realistic about fundraising and timelines and realizations and timelines. But beyond that we've continued to see robust activity in that market.

Andrew Shepherd Baron: Great. Thank you very much.

Operator: Once again if you would like to ask the question press star one. We'll take our next question. Alexander Bowers from Berenberg. Your line is open. Please go ahead.

Alexander Bowers: Two from me. Just the first one on the $6 billion raised during the quarter, could you provide some colors to which firms or how many firms this came from? And then the second one, I think some of this has already been answered but I'll ask it anyway. Just around sort of has there been any change in the focus of the types of firms you're looking to invest in in terms of investment strategy or asset class?

Adam Van De Berghe: Thanks. Thank you very much. This is Adam. I'll take the first question and then I'll pass it over to Ali for the second one. So, as it relates to the quarter, the $6 billion raise was across an approximately half a dozen firms and on the $6 billion a little bit under half of that was in the private credit strategy. The majority of the remainder was in private equity. Overall, for the year we've seen $20 billion raised and that's over close to a dozen or so firms that have raised assets across the full year so far to date.

Ali Raissi-Dehkordy: And look, as for strategy at the time of the IPO, we gave some guidance about the sectors we've been focused on. We spoke about a focus on mid-market. I just talked a little bit about why we think that that continues to be an attractive space both in terms of growth prospects, in terms of realization prospects, and we've focused on areas such as healthcare, private credit, real assets all of which I'd say we've been able to deliver in terms of acquisitions and follow-on deals over the course of the period since the IPO.

Our focus today remains in that group. I think the one key area of nuance that has been fleshed out by LPs which is an area that we've always focused on is investors really want to understand firms that have a right to win in the market. So, lots of different tool sets to create value, being able to disaggregate what amount of value came from, financing over the last decade and isolate that and think about what value was created by revenue and EBITDA increases in value creation and sector knowledge.

But all of that really plays into this sector specialist narrative that we have, and we think we've got some of the best sector specialists globally in each of their spaces. What that's meant is these are also firms that aren't the number one in their space in terms of size, but they might be the number one in their spaces in terms of performance. And that actually allows us to grow in both growing market environments and grow in terms of flat market environments.

Alexander Bowers: Thank you.

Operator: This concludes today's question and answer session. Gurjit Kambo, at this time, I would like to turn the call back to you for any additional or closing remarks.

Gurjit Kambo: Yeah, I'd just like to thank everybody for joining the call today. And if you have any sort of further follow up questions, please feel free to reach out to me. So, thank you from the team. Have a good day.

Operator: This conclude today's call. Thank you for your participation. You may now disconnect.