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Moderator: **Gurjit Kambo**

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Operator: Good day, everyone, and welcome to Petershill Partners Q3 2022 Trading Update 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 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 U.S. 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'd like to hand the conference over to Gurjit Kambo from Investor Relations at Petershill Partners. Please go ahead.

Gurjit Kambo: Good afternoon and good morning, everyone. By way of introduction, my name is Gurjit Kambo. I recently joined Petershill Partners as Head of Investor Relations and look forward to connecting with many of you over the coming weeks and months. I thank you for joining us today to discuss Petershill Partners' Q3 2022 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 Partner 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. We encourage investors to consult our site regularly for updated information. Petershill Partners 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 any reportable results. For completeness and transparency, the Q3 trading update includes operating metrics for periods prior to the initial acquisition date presented as if the company's assets following the initial acquisition of the partner firms had been owned by the company during the historical periods presented. With us, today to discuss the company's results for the third quarter are Ali Raissi and Robert Hamilton Kelly Co-heads of the Petershill team within the operator Goldman Sachs Asset Management. With that, I'll turn the call over to Rob.

Robert Hamilton Kelly: Thanks, Gurjit, and good afternoon. Good morning, everyone. Thank you for joining our call today. It's my pleasure to present Petershill Partners' third-quarter trading update for 2022. During the quarter, we saw continued strong fundraising activity in a challenging environment with $55 billion of gross fee-eligible assets raised in 2022 supporting the development of Petershill Partners' future fee base. Our results published today, and the operating metrics which were provided in this trading update reflect our focus on growth, profitability, and cash flow and present a comprehensive picture of the quarter's trading. They also demonstrate the continued strong AUM growth from our partner firms. In addition to organic growth, we also see additional opportunities through acquiring new partner firms or follow-on acquisitions. However, given the uncertain macro environment, we remain highly selective and will continue to adopt a risk-adjusted outlook for new investments. During the quarter, the company made two acquisitions of new partner firm Equity Stakes through investments in LA and SLR Capital Partners alongside the Petershill for Private Equity Fund and also a follow-on acquisition of additional equity in Kayne Anderson Real Estate. The aggregate amount committed to these was $180 million, and they're expected to be approximately 6% accretive to 2023 consensus earnings estimates. We view these as reflective of our selective approach, investing in a follow-on where we have high conviction, a private credit firm in SLR that can benefit from a high-rate environment, and a strong track record healthcare and technology buyout firm in LA.

Turning to the results. We start with total AUM, which is an important metric for the diversification of the business. And for performance fee generation in the future. Aggregate partner firm AUM grew 6% during the quarter and 36% year over year to $282 billion. Aggregate fee-paying AUM is important for the management fee profitability and grew 3% during the quarter and 30% year over year to $189 billion. For the quarter ending 30th of September 2022, there were gross fee-paying asset inflows of $3 billion, realizations of $3 billion, and a market-based decrease of $1 billion. Acquisitions during the quarter, increased aggregate fee-paying AUM by $6 billion with the follow-on transaction, of course not adding to aggregate AUM for the last 12 months, partner distributor earnings were down 1% to $360 million. Partner fee-related earnings were flat at $208 million and partner net management and advisory fees were up 13% to $327 million. Management fees, excluding transaction fees, increased 26% in the last 12-month basis commensurate with the growth in aggregate fee-paying partner firm AUM. During the quarter, partner net management and advisory fees was $75 million, down from $90 million in the comparable quarter last year.

And partner fee-related earnings were $47 million, down from $66 million in the prior year. These decreases on the quarter reflect an unusually high Q3 2021, driven by outsized transaction fees, and an unusually low Q3 2022, driven by outsized management fee offsets. To give specifics, transaction and advisory fees were $24 million in Q3 2021 and fell to $6 million in Q3 2022. Based on the lower transaction activity in the small number of our partner firms that contribute to these fees. In addition, management fee offsets were $12 million this quarter, compared to $1 million during Q3 2021. Therefore, recurring management fees in the quarter of $69 million were stated after these offsets and so would have totaled $81 million if there had been no offsets compared to $66 million in 2021. To unpack this a little. Certain partner firms provide transaction and advisory services as well as services to monitor ongoing operations of portfolio companies. Management fees paid to these partner firms may be subject to fee offsets, which are reductions to management fees and are directly linked to prior period transaction and advisory fees. Put simply, elevated periods of transaction fees, as we saw in 2021, will typically mean the periods of higher management fee offsets will follow.

As an outlook for the company, the lower transaction fees in 2022 should lead to lower management fee offsets in 2023. In any one quarter management fee rates can vary with higher management fee offsets experienced in Q3 2022 having an approximate 20 basis point impact on our Q3 management fee rate. As a result, our guidance focuses on a 12-month period. Our last 12 months' management fee rate was 1.42%, reflecting higher management fee offsets. Guidance for 2022 has been amended to 1.4% for 2022 and we maintain our guidance for 2023 and the medium term at 1.5% on an organic basis. As a reminder, the fee rate of the vast majority of our partner firm products are locked in and fixed when a fund is raised. The increase in partner fee-related expenses primarily reflects an increase in the overall number of employees within the partner firms and from the additional investments undertaken in their growth. Our FRE margin year to date is 65%, and we expect FRE margin for 2022 to remain at this level within our guided range of 65% to 70%. Partner realized performance revenues totaled $16 million in the quarter and $63 million for the year to date, representing 19% of partner firm revenue relative to our full-year 2022 guidance of 15 to 20% and 20 to 30% in the medium term. On capital return, we're pleased to announce we've successfully completed the $50 million share buyback program announced on April 20, 2022. And with that, I'll hand over to Ali to briefly discuss our outlook.

Ali Raissi: Thanks, Rob, and thank you, everyone, for joining us. As said out in Rob's section, we're extremely pleased with our partner firm Strong Asset Raising year to date and remain confident in the outlook. The macro environment is more challenging, but we continue to see long-term structural tailwinds supportive for growth in the alternatives and private market sectors. Allocations from institutional investors to private markets continue to have potential to increase over time, and we see new avenues such as the private wealth segment supplementing potential growth over the medium term. The need for capital and the strategic services that underpin Petershill Partners' offering to partner firms remains strong. While the nuanced fundraising environment is resulting in differentiation in terms of outcomes for firms seeking to raise funds. As you heard in Rob's comments, we've had a strong asset-raising year to date with $55 billion of gross fee-eligible capital raised, which is testament to the strong track record and established investor relationships of our partner firms. The impact of the nuanced fund-raising environment as investors digest the capital-raising needs of the industry and navigate inflation and interest rates this year have been core themes for investors as well as GPs. Petershill Partners has been built to navigate this type of changing fundraising and operating environment and continues to be well-positioned. Our diversification across partner firms means we have no reliance on a single rate. Our largest underlying fund represents only about 5% of aggregated AUM. Our long-term fee-related earnings-centric model provides resilience against challenges on realizations, performance and gives visibility to revenues over time.

Our exposure to macro rail assets and credit speaks to a resilient model well positioned for inflation and rising rates. We believe that the breadth and quality of our partnerships enhance through our value-added services and structured equity provides a distinctive operating model and platform for continued and differentiated importantly risk-adjusted earnings growth. Notably, we expect continued strong cash flow generation. As you know, we participate in profits alongside or ahead of our partner management teams. Not net of their compensation. And so our firms are aligned and incentivized to focus on maintaining profitability. In addition, Petershill Partners PLC maintains its own EBIT margin guidance of 85 to 90%, excluding exceptional items. In summary, Petershill Partners gives our investors access to a diversified, resilient, growing group of leading alternative sector specialists, predominantly with long-term locked-up capital. Our business differentiates us who we partner with and how we can influence value creation in our partner firms. Our model of providing growth, capital, and strategic partnership to leading alternatives firms with alignment alongside management means that we're on a journey with ambitious businesses we're not looking to exit. We maintain alignment with many of the attractive themes of growth in private alternatives, coupled with the benefit of diversification across partner firms, funds, and sectors that can perform through the cycle. With that, I'd like to open it up now for questions. Operator, could we please have the first question?

Operator: Thank you very much. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypads. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. And again, that is star one to ask a question. We'll pause for a moment to assemble that queue. We'll take our first question from David McCann from Numis.

David McCann: Morning or afternoon everyone, depending on where you are. Just one question for me, really. I mean, if these fee offsets were sort of known about, given that the higher transaction volumes were within the numbers last year, why wasn't this in your guidance?

Robert Hamilton Kelly: Hey, David, thanks for the question. It's Rob speaking. So we do certainly know, obviously, that through a cycle, transaction fees and offsets are then charged on the back of higher transaction fees. And so in our medium-term guidance, we do account for these. The timing of them is always a little uncertain. So we've had $13 million of offsets year to date, of which clearly 12 have come in this one sector. And so depending where that falls in a period or in a year or across a year, that can impact a single quarter or a few quarters rates. But again, the medium-term guidance factors this in.

Operator: Thank you. We'll go to our next question from Luke Mason.

Luke Mason: Yeah. Good morning, guys. Just three questions. Firstly, on fundraising. Just you mentioned the congestion in the market of things. I mean, 2022, you had a number of large fundraisers in the market. So I'm just wondering if you can give any indication for 2023. Have you got any larger fundraisings in the pipeline? How should we think about that? And then just secondly on M&A. Just can you give any detail on valuation expectations when new purchases of these come down in terms of new valuations? I think the 6% increase seems to imply like a single-digit forward PE multiples so I'm just wondering if you can comment on that. And then thirdly, just on follow-up on the fee credit, just in terms of the accounting treatment. I get what's happened, but just in terms of why and the timing of that, why is it taken a number of quarters for that fee offset to come through basically? Thank you very much.

Ali Raissi: Just on the first bit with regards to fundraising in 2023 and onwards, what we would expect is to kind of provide that medium-term guidance in the year-end sort of guidance. So at this point, you know, clearly, we're coming through to the end of 2022 and where we're pleased about where we've landed versus guidance, but we'll look to kind of provide medium-term guidance just for 2023, but a few years out coming out of the year-end results. Rob, do you want to talk about M&A pricing?

Robert Hamilton Kelly: Yes. So I'd say M&A pricing both reflects the nature of assets or companies that we acquire interest in as well as the overall environment pricing dynamics. So I'd say, you know, clearly, different firms have different levels of pricing attached. You typically see slightly lower multiples for private credit firms, slightly higher multiples for higher growth buyout firms, depending on exactly what they do and the quality in the sector. So that factors in. And then the overall valuation environment, I'd say is certainly one where we are being highly selective and looking at businesses on very much a risk-adjusted basis. But it's also clearly one where it's more of a buyer's market and we apply a high discount rate to reflect the wider macro uncertainty. And so I wouldn't say there's a huge shift in valuation, but it's certainly one where we're able to be highly selective. And then lastly, on the timing of offsets. Look, I'd say the private equity is clearly by nature can be slightly lumpy, both in terms of when people pass through fee charging as well as obviously on the performance fee side. So we tend to look on a, you know, 12 months or last 12 months or annualized basis. We think that's clearly much more significant. The timing of management fee offsets tends to be that the underlying partner firms just pass their management fees through in bulk when they do fundraisers or other activities. And so also cattle calls and other activities. And so in turn offsets often get passed through in one or a couple of quarters. And so they have the same lumpiness as transaction fees if you look on an individual quarter. But again, when you look over a last 12-month or a 12-month basis, they are relatively predictable.

Luke Mason: Okay. Thanks, guys.

Operator: Thank you. And as a reminder, ladies, and gentlemen, if you'd like to ask that question, it is star one on your telephone keypads. So next, we'll go to Mike Werner with UBS.

Mike Werner: Thank you very much for the call, guys. And yeah, just one question from me. And again, it goes back to the offset. You know, just thinking about you know, I know Q3 had last year which was very lumpy when it came to the transaction advisory fees. How should we think about these offsets going forward? And do you expect any I know from a timing perspective you can't forecast, but is there any quantum that you can provide in terms of these fee offsets as we look at over the next, say, 12 months or so? Thank you.

Robert Hamilton Kelly: Yeah, it's a great question. As you say, we're in a slightly unusual period with high transaction fees this time last year and I offset this time in this quarter. Those are obviously directly linked. If you have higher transaction fees in a prior year, you have higher offsets that follow. So forward guidance, I'd say for this year, we've clearly had a period of much more modest transaction fees totaling $11 million year to date versus $34 million at this time last year. And so in line going forward, both for Q4 and for next year, we'd expect lower management fee offsets to follow.

Mike Werner: Thank you.

Operator: Thank you. And our last question in the queue is from Hubert Lang from Bank of America.

Hubert Lang: Hi, guys. A couple of questions. Firstly, on fundraising for this year. You increase your guidance for this year. Is there a particular fund or partner firm driving this uplift? And can you also talk about the types of products out there that are doing well? Any color on that would be appreciated. And a final question is on capital allocation. Given that you said that M&A the market is probably a bit slower and you're being more selective. Does this leave more room for potential buybacks now that the existing one is completed? How should we think about that and also how you balance that versus the dividend? Thank you.

Robert Hamilton Kelly: Thank you. So, yeah, so to touch on fundraising, you know, I do think it's significant to reflect at this point in the year that we started out with just over $150 billion in aggregate fee-paying AUM and that the firms have raised $55 billion of fee eligible AUM in this one year. And that's a year where, as you know, the headlines have certainly been since the start of the year that this is a tougher fundraising environment. So I think this has been a good demonstration of some of the points we made coming into this year that are very high-performing, significant pricing power. Mid-market private equity firms are able to continue to raise through what's already been a tougher fundraising environment. And the follow on from that is also that about $16 billion of that turns on in terms of charging fees in the first part of next year. And so that's effectively locked in management fee growth that comes from that pretty significant $16 billion fundraise turning on. So we think that certainly sets us up well for next year, as well as demonstrating the ability of our partner firms to grow through this year. You've certainly seen some of the specifics reported on and publicly announced this year with the likes of Clearlake, obviously well-known through their purchase of Chelsea Football Club, raising significant mid-teens billion dollars this year. Francisco Partners on the West Coast in the U.S. also raising mid-teens billions of dollars this year. So significant outperformance from our guidance at the start of this year. Maybe I'll let Ali touch on that as well as M&A.

Ali Raissi: Yeah, the one other comment I'd make on that point is that the asset raising was also across a relatively diverse group of firms. So ten out of 18 at the time, private capital firms, you know, we think that that's a good reflection of not just high-quality flagships, but also these firms were able to add on new strategies and, you know, other adjacent strategies to their flagships. So widespread capital raising across over half of the private capital firms in a relatively nuanced fundraising environment. I think, you know, capital allocation is clearly being a focus of the board and the share buyback was a demonstration of their focus on capital efficiency. So you'll observe the buybacks now completed. You know, I'd observe that the company continues to be strongly cash generative. This year we managed to have so far drive $180 million of acquisitions against our guidance of 100 to 300. So within that sort of growth target for the year, Rob mentioned that we're being more selective. And so clearly, one of the things that, you know, as the board will reflect on at the year-end is, you know, is expectations going forward on dividends. You know, at the time of the IPO, we guided that our dividend policy is progressive in nature. And I think that that's something we continue to expect. But, you know, as a company is generating a lot of cash, we'll make sure to continue to be capital efficient. But that will be something for the year-end and something that the board is determining.

Hubert Lang: Great. Thank you.

Operator: Well, next go to Angeliki Berkeley from JP Morgan.

Angeliki Berkeley: Good afternoon. Just a couple of follow-ups from me, please. First of all, on fundraising, you mentioned $55 billion fee-eligible AUM raised this year. And your guidance, I think is for $55 billion the updated guidance you provided this morning. So just to double-check that, you don't really expect anything to come in the fourth quarter. Just wanted to check that. And in terms of the management fee movement, even if I add back the management fee offsets, the management fees in Q3 would be $81 million, which compares to $86 million in Q2. If I am looking at the right numbers, so that's 6% down, even though the AUM has actually the fee-paying AUM have actually increased. So I was wondering if there's anything else driving this Q-on-Q weakness.

Robert Hamilton Kelly: Angeliki, thanks for the question. So on fundraise, as you know, private equity fundraisers are heavily or highly scheduled and so fill into different slots where they are fundraising for three to six months in a very orchestrated manner. So, no, we don't expect any significant fundraising in Q4, mostly because firms have outperformed and raised larger and earlier than we had originally forecast. So I think that reflects some of the strength in fundraising. Again, on a quarter-by-quarter management fee rate, again, you can have little fluctuations in any one three-month period. People tend to look more on a 12-month basis in terms of charging management fees. So I wouldn't read too much into any quarter-on-quarter moves, but more the longer term last 12 months growth in those management fee rates which I think again the growth rate there is pretty clear and tracks pretty closely to the growth in AUM over time.

Angeliki Berkeley: Thank you.

Operator: And at this time we have no further questions. I'd like to turn the call back over to our speakers.

Gurjit Kambo: Okay with that. Thank you, everybody, for joining, and thank you for taking the time. If you do have any follow-up questions and I'm available, and please feel free to contact me. That's Gurjit Kambo at Petershill Partners. So thank you very much.

Ali Raissi: Thanks, everyone.

Operator: Thank you. And ladies and gentlemen, that does conclude today's conference. We appreciate your participation. Have a wonderful day.