Final Results for the year ended 31 March 2022

Presentation Transcript

26 May 2022

Introduction

Chris Hunt

Head of Shareholder Relations, ICG

Welcome

Good morning, everyone, and welcome to ICG's Full Year Results for the 12 months ending 31st March 2022. It's great to have a number of you here with us in person.

The slides for the presentation, along with the company results announcement, are available on our website. As always, we're going to leave a good amount of time for questions at the end. For those of you online, who wish to ask questions, there are two ways to do so. You can type questions under the Ask a Question tab, which is open for submissions throughout the presentation. And for those of you who wish to ask questions live at the end, dial in details can be found at the top right on the online portal.

At this point, I'll pass over to our CEO and CIO, Benoît Durteste. Benoît?

Business Performance

Benoît Durteste

CEO & CIO, ICG

FY22 highlights

Thank you, Chris. Good morning, and thank you for making the time and for some of you to come to our offices. We have a good amount to cover today. I will start with some observations on our performance and what it means for ICG beyond the overall numbers. Vijay will discuss our financial results and our guidance. And I will conclude with a look to the future.

Full year '22 was a record year for ICG on pretty much every metric. To highlight just two, we doubled our fundraising at $22.5 billion and increased our Fund Management Company profit before tax by 41%. But much more importantly, it marks, I believe, a defining year in ICG's development. We have reached a different level in scale and breadth, reinforcing our standing in the industry and further underpinning our future growth trajectory.

We are growing substantially, and the strategic and financial benefits are – of our business model are becoming ever more visible. You could see this in the expansion of our client base, and I'll come back to that, as well as in our operational and financial results.

During fiscal year '22, we decided to pull forward fundraising, in particular for Europe VIII. This was very timely. In a market that is crowded for private equity strategies in 2022, we have substantial capital available to take advantage of opportunities. And on the fundraising front, we can focus our efforts on our flagship Senior Debt Fund and our Real Assets strategies, all of which are logically in demand in the current market environment.

Coming into full year '23 and a macroeconomic climate that is undoubtedly complex, I remain very positive about ICG's prospects. We have historically done very well in periods of greater uncertainty, which particularly suits our investment approach. And our platform is clearly benefiting from real scale in a broad range of strategies.

This confidence is reflected in the fact that today we are accelerating our fundraising guidance. We are now expecting to raise at least $40 billion cumulatively in the three years to full year '24, that is one year earlier than we had previously guided.

FY22 performance review

Let's now turn to some specifics. We have been enjoying meaningful growth for many years, and this trajectory is continuing in our financial and operational performance. In a nutshell, we've shut the lights out in full year '22. We raised $22.5 billion from clients, increasing our total AUM to $72 billion. That's up 26% on a constant currency basis during the year.

This level of fundraising is twice as much – let's say it's more than twice as much what we have ever raised in a single year previously. In part, this is due to our fundraising cycle and the strategies we had in the market. But it's also the result of our increasing breadth, meaning we are raising more capital across more strategies.

We continued, during the year, to see elevated levels of activity, deploying and realising more than in any year in our history. Our discipline around realisations is particularly important here as it helps anchor fund performance and lock in track records that support future fundraising efforts.

Sustainability continues to be woven through the fabric of our firm in many ways: our commitment to net zero, which we discussed at length in January, our Article 8 funds, and the fact that we have just under $4 billion of sustainability-linked financing across the firm and our funds.

Our financial performance reflects this. Third-party fee income is up 34% year-on-year. And as I just mentioned, our Fund Management Company profit before tax is up 41% at £286 million. And as Vijay will discuss later, all this is supported by the strongest balance sheet I can recall us having, I've been here 20 years. Highly diversified, low and decreasing gearing and very substantial liquidity.

So coming into full year '23, we have significant strategic and financial flexibility to capitalise on the opportunities ahead of us.

Multiple levers of growth

I mentioned just now the increasing breadth of our platform and how this is creating multiple levers of growth. As we have discussed before, it is a result of our ability to both grow up and grow out. As we look at some of the strategies we have raised for during the year, four things stand out.

Firstly, even our most established strategies are capable of material vintage on vintage growth. For Europe VIII, which is still fundraising and currently stands at €7.2 billion, third-party commitments are already 69% larger than for Europe VII. That is the largest ever vintage to vintage increase for that strategy. And the same record increase can be observed for Strategic Equity IV and Asia IV.

Secondly, the successes of our new strategies, both Sale and Leaseback I and Infrastructure Equity I had final closes with total fund sizes of well over €1 billion each. That is a remarkable achievement for first-time funds. And these strategies open up significant new markets for us. And as they scale in the coming years, they will generate significant fee income.

Thirdly, we clearly are becoming increasingly relevant to clients as we get larger, and our consistent over-performance through cycles is recognised. During the year, we signed two mandates at over $1 billion each with an SDP. We had previously never raised a mandate of this size for a single strategy, and let alone two.

And finally, we are attracting new clients to ICG's platform both in our existing and our new strategies. Indeed, this year, saw us attract the largest number of new clients in our history, as we increased our client base by 23% to 586 clients. We had particularly notable successes with high profile investors in North America and in Japan. And this opens the door to future additional fundraising within these large and quite attractive markets.

Expanding and diversified client base

Our focus continues to be on growing our client base. And in addition, as we scale more strategies over time, we expect to benefit from an increased share of wallet as clients invest larger amounts in multiple ICG strategies.

Investing effectively

During full year '23, we will continue to hire into our marketing and client relations team. As a matter of fact, this is the team we are budgeting to invest the most in for the year as we prepare for what will likely be extremely active fundraising years in full year '24 and beyond. We deployed and realised at record levels during the year, as I mentioned earlier. We have very strong well established origination capability, which enables us to source attractive opportunities and then actually become more attractive in the coming months.

And the realisation environment in full year '22 was also very supportive and we took advantage of this to derisk our funds and anchor performance.

In terms of how we manage our portfolio, while there are growing economic challenges, interest rates, inflationary pressure, supply chain issues, this doesn't really represent a new consideration for us. We've been taking into account the risk of an economic downturn in our investment decisions for years. Actually, we saw the risk of such a downturn was high before the crisis – the COVID crisis occurred that changed everything, at least for a while.

But some of you will know that – remember that for years I've mentioned that because our funds are long-dated in nature, we have to assume that they will encounter a crisis – at least a crisis at some point in their life. So we always prepare for a downturn or any unexpected negative event.

We run regular stress test or fire drills on our funds and portfolio companies, as much as anything to ensure that these risks are always top of mind for our investment executives, and obviously, for our portfolio management teams.

This inherently cautious, and in my mind, reasonable investment approach is reflected, one, in our core sector focus – you may remember the software, particularly subscription-based, core healthcare services, education, infrastructure, all of which are inherently less cyclical and also less exposed to inflation risk; and two, in how we structure our transactions, typically with much lower leverage and with more downside protection.

So we tend to have comparatively low risk defensive portfolios, and we have historically been adept at taking advantage of opportunities in more difficult market conditions.

It's noteworthy here that both our deployment and realisation levels in Q4 were above those of Q4 of the previous financial year. So while the markets were clearly more complex, we have the product breadth and the expertise to continue to successfully navigate them. Investment activity and realisations, incidentally, remain high to this day.

Continuing to build on our track record

Our focus on deploying well, managing our portfolio carefully and realising with discipline has been an important contributor to our generating a very strong track record during several cycle and through several cycles. And this track record is one of our most valuable assets.

On this slide, if you look at the left-hand side, sets out the gross money multiples and DPIs, Distribution to paid-in, for the last fully invested vintages of our most established strategies. And I would call out the DPI here, which is a measure of how much of our clients' invested capital we have returned to them.

We are particularly strong here, and a number of our funds, in particular, those with more equity exposure showed top decile DPI. This puts us in a very strong competitive position, should there be an economic downturn, because we have realised anchor more performance than most.

During the year, our funds have performed very well. And as a general observation, our portfolio companies delivered strong operational performance. The average annual growth in EBITDA for portfolio companies in Europe VII, for instance, was about 24% in 2021, and it was 31% for portfolio companies in Europe VIII. So our debt strategies are also unsurprisingly performing well. They generate a margin over a floating rate, and as such, directly benefit from rising rates. And with capital markets more constrained right now, we are experiencing a surge in financing opportunities.

This overall performance is a result of our approach to deploying, managing and realising our investments of course, and it's intimately linked to our platform, our long-standing local network, the deep domain knowledge of our core sectors and our differentiated expertise in highly structured complex transactions. These qualities enable us to originate and execute transactions at scales and through the cycles.

Substantial runway for further growth

As we continue to build our platform and our track record, we have substantial runway for growth. I mentioned earlier that third-party commitments in Europe VIII are already 69% larger than for Europe VII. But to put things in perspective, despite a mandate to invest across a broader spectrum of the capital structure, the strategy is still more than three times smaller than the largest European-focused pure-play private equity strategy.

And of course, our less mature strategies show even more upside opportunity. I'm thinking in particular of Real Assets, and we've highlighted here, Infrastructure Equity. And alongside significant opportunity in the individual strategies, it is our breadth of strategies, all of which have potential to grow materially, that is, I think, very exciting for ICG today. We have substantial runway to grow up and grow out. And we have been experiencing an acceleration of that organic growth with the resulting uplift in profits.

On that note, Vijay is going to take you through the financial results. Thank you.

Financial Results

Vijay Bharadia

CFO, ICG

FY22 financial review

Thank you, Benoît. A warm welcome to everybody who has attended in person today. Thank you for coming over.

I'm delighted to be presenting such a strong financial performance for ICG, continuing our strong track record of profitable growth. As a reminder, all the financial information that I will present is based on alternative performance measures, which exclude the consolidation of some of our fund structures, which is required under IFRS.

First, a brief overview of our key financial results, and I will touch on each one of these in more detail later on. I'm extremely proud to summarise here the outstanding performance of our business during this financial year. We report record results across the board.

The step change in the size of our business and the financial results we are reporting today are a testament of how our business model is delivering long-term growth. I will now go through each of our key financial results in more detail.

Record fundraising locks in future revenue

First, fundraising. We raised $22.5 billion of third-party capital. And notably, it was strong across both existing and first-time strategies. Given the nature of our business, this level of fundraising locked in future fee potential. We estimate that the funds we raised this year has the potential to generate management fees of nearly £150 million per year.

Furthermore, the weighted average contractual life of the closed-end funds we raised during the year is just over 11 years. And this therefore translates into substantial fee generation over a long period of time.

Resilient growth in AUM through cycles

Moving on to third-party AUM. This has grown 27% on a constant currency basis during the year. We have grown third-party AUM at a 20% CAGR over the last five years. Or putting it another way, it's more than doubled in that period. And as you can see from this graph, we have an uninterrupted track record of resiliently growing AUM through a number of macro and geopolitical events over the last decade. And we are well on our way to reaching the milestone of $100 billion.

Powerful embedded fee generation

I talked about the fee potential from our funds raised during FY ‘22. And now I want to take a moment to talk about the substantial fee generation potential from our AUM. At year end, we had $58 billion of fee-earning AUM with a weighted average fee rate of 58 – 88 basis points. We estimate this has the potential to generate annual management fees of just under £400 million a year. And given the long duration of our funds, this contractual fee income that we have visibility on for a long period of time.

In addition, our third-party AUM includes $10 billion that is not yet paying fees. We estimate this AUM has the potential to generate roughly £65 million per year of management fees based on its weighted average fee rate, once it's deployed.

And on top of this, many of our strategies have the potential to earn performance fees, which are an important but relatively small proportion of our fee income.

Finally, in these periods of volatility and uncertainty, it is important to remember that our management fees are charged either on amount of capital committed or the cost of capital invested. And this is very important. It means that our business model has a very powerful embedded fee generation potential that is almost entirely unaffected by the volatility in the public markets.

Significant step-up in third-party fee income

Turning to third-party fee income. The combination of the amount of capital we raised during the year and the fact that a lot of it was raised in higher fee strategies that charged fees and committed capital, resulted in a significant step-up in third-party fee income, up 34% compared to prior year. Within this were £14 million of catch-up fees, predominantly from Sale and Leaseback and Infrastructure Equity I.

Performance fees, as I said, have always been an important but relatively small contributor to our fee income, and this year was 12.4% of our total fee income, which is in line with our medium-term guidance.

We have grown our third-party fee income at a 28% CAGR over the last five years, greater than the growth in our AUM at 20% over the same period. Although in any given year the comparison will be impacted by which strategies we fundraise, we expect that trend to continue over the long term as we further broaden our range of equity strategies and raise subsequent larger vintages of existing strategies.

Strong margin, investing for the future

Moving on to operating margin. This grew by roughly 370 basis points during the year to 55.8%. This substantial growth in operating margin was primarily due to the step-up in the fee income that I mentioned in the previous slide, as well as the fact that Europe VIII raised a substantial amount of capital and charged fees on the entire amount for practically the whole year.

From an operating cost perspective, we continued to hire in selected investment teams, as well as in certain corporate functions. Over the past five years, we've grown our headcount at an annualised rate of 15% below that of our fee income, underscoring the long-term operating leverage we have in the business, resulting in increasing profitability, particularly as strategies scale.

Looking ahead, to support our long-term growth ambitions, we will continue to invest in our platform in FY ‘23, particularly in marketing and client relations team, as Benoît mentioned, as well as in our new and some of our emerging strategies.

And in FY ‘23, we expect our operating margin to be above 50%, in line with our medium-term guidance.

Long-term growth in FMC profits and dividend

Turning to FMC profits. The step-up in our fee income, along with a higher operating margin, has driven a 41% increase in our Fund Management Company profit before tax. We have grown our FMC profits at a 32% CAGR over the last five years, a higher rate than both AUM and third-party fee income.

Taking an even longer-term perspective, as with AUM, a few slides back, you can see from this graph that we have resiliently grown FMC profit through a number of years across macro and geopolitical events over the last decade. Our progressive dividend policy remains in place, distributing between 80% and 100% of our post-tax FMC profits to shareholders.

For FY ‘22, we're proposing a total dividend of 76 pence per share, a 36% increase on the prior year and the 12th consecutive year of increasing our ordinary dividend per share.

A successful balance sheet strategy

An important enabler of our growth is our balance sheet. And we’ve pursued a very successful strategy in this regard. Our first priority is alignment with our clients. And the principal route of achieving this is by investing our balance sheet alongside our funds. And currently, our co-investment ratio is 5%.

To be efficient in generating that alignment, we seek to reduce our balance sheet commitments, where we can. For example, for Europe Fund VIII, we reduced in absolute terms, the level of the firm's co-investment by 16%. And we will continue over time to make our balance sheet commitments as efficient as possible.

Our second priority is to grow third-party fee income in the Fund Management Company. As you know, we have successfully growing organically by seeding new strategies. Sale and Leaseback and Infrastructure Equity are prime examples during this year. And these two strategies are now generating combined annualised management fees of nearly £25 billion based on their AUM at year-end. And there are a number of others underway as you can see on this slide.

Of course, key to this is to have a very robust capitalisation. During the year, we took advantage of the market conditions and issued a €500 million eight-year fixed rate sustainability-linked bond, which combined with positive operating cash flow gives us very significant liquidity of £1.3 billion.

And finally, net gearing. This has reduced to 0.45x due to the reduction in the net debt of £134 million during the year, along with the increase in retained earnings. In the coming years, as we launch a number of new equity

funds supported by our balance sheet, we will continue to maintain a robust capital structure. To this end, we have a long-term target of having zero net gearing.

Resilient balance sheet generating attractive returns

For our shareholder equity, this strategy has clearly resulted in resilient, attractive returns, not just in terms of accelerating the growth of the Fund Management Company but also from the balance sheet itself. Investing alongside our funds has incredibly – which has got an increasingly diverse portfolio, as you can see on the left-hand side.

From an economic perspective, on the right-hand side, in FY '22, the net investment returns on the balance sheet were 18.1%. And it's worth noting that over 50% of these returns were from assets that were either sold or for which sale prices were agreed during the period.

Taking a longer-term perspective, the balance sheet has generated an average net investment return of 12.8% over the past five years, which is roughly the time horizon for a single investment within a fund. This has resulted in NAV per share at the year-end of 696p. While not the key component of value for ICG, it is notable.

And to reinforce again this point on resilience, if you look at the impact of COVID, our NAV per share declined by only 6% between March '19 and March '20, and is now worth 1.5 times that. So combining that resilience, alongside the diversification, liquidity and low decreasing gearing, this results in the strongest balance sheet in ICG's history. This in turn gives us significant financial and strategic flexibility to continue to grow.

Guidance

And to finish on guidance. We are accelerating our fundraising guidance, and we now expect to raise at least $40 billion cumulatively over the three years ending 31st March 2024. That is a year earlier than we had previously guided and underlines the confidence we have in our business and in our prospects.

Our guidance for performance fees, FMC operating margin and net investment returns remains unchanged.

Thank you, all. And I will now pass back to Benoît.

Looking Ahead

Benoît Durteste

CEO & CIO, ICG

FY23 fundraising pipeline

Thank you, Vijay. Let's turn now to the fundraising pipeline for full year '23. Full year '22 was always going to be a peak year in our fundraising cycle, given the strategies we have in the market. And this was exacerbated by the fact that we took the opportunity to bring forward fundraisers, and in particular, as we've discussed, Europe VIII.

After such a year, you might expect the following years to be meaningfully below the medium-term average fundraising expectation, which for us is roughly $10 billion a year based on our guidance last year.

But that's not what we are experiencing for full year '23. And there are a number of reasons for that. During the year, we will have final closes for Europe VIII and Strategic Equity IV. And although, both the strategies are now substantially raised, it still adds up. And we have been able to scale both these established strategies and much more than we had originally anticipated.

We will also be fundraising for our flagship European senior debt strategy, SDP V. And depending on deployment and market conditions, we will likely be back with the next vintages of Sale and Leaseback and our European mid-market fund, as well as some real estate strategies and potentially life sciences and LP secondary. So despite coming off the back of a record year, full-year 2023 is shaping up in line or above or medium-term average fundraising expectation.

Conclusion

To conclude, we had an incredible full year 2022, a defining year in our market spending and in our growth trajectory. Our efforts of the past years in both scaling and expanding our strategies are clearly bearing fruit. We enter full year 2023 in a position of strength strategically and financially. And we are confident in our outlook for this year and beyond.

Alternatives have clearly become mainstream as an asset class. And I do not see a risk of that reversing even in a higher interest rate environment. As a matter of fact, from recent discussions with clients, there are indications of further increased allocations to private markets in a context of higher market volatility.

So very supportive structural tailwinds remain. And I am convinced we are well-positioned to capitalise on this opportunity. We have more levers of growth than we've ever had, and we have products, which are very well suited to the current context, floating rate, debt products, real assets and strategy such as Europe VIII and Strategic Equity IV, with their highly structured, flexible and opportunistic approach.

This concludes our results presentation for today. Vijay and I will now take your questions. Maybe we'll start in the room. Yes. It's coming. I think it's coming.

Q&A

Dave McCann: Thank you. Yeah. Morning. It's Dave McCann[?] from [inaudible]. Thanks for the presentation. Two questions from me. First one you touched on it in part already in the presentation, but let's get the elephant in the room out the way in terms of the rising interest rate and inflationary environment. I'm particularly interested in your views on what this does to the kind of financial health as the investee companies you have.

You did touch on it, partly in the presentation, just, if you could expand on that a bit more? What are they saying in terms of the impact from rising rates on their business, in terms of financial strengths and to the extent that supply chain and inflation issues those impacting them before so that would be key?

And also Ben, what you touched near at the end there, the appetite for alternative fundraising going forward, if we were to be in a meaningfully higher interest rate environment. That's I guess the first question with some sub-parts.

And then second real question is Vijay, you touched on it in the presentation about this, I think this is a new formal target of zero net gain. And I think it was mentioned at analyst breakfast previously, but I think this has to be formally in numbers. Maybe I'm wrong there, but maybe just outline why that's now the right target and where does capital returns fit in amongst this thinking, particularly about the share price, where it is, and you already have fairly conservative gearing now. Why go even more conservative when you could be taking a different approach?

Benoit Durteste: So I'll try to unpack the first question and you could discuss the gearing. So on portfolio companies and the potential impact from higher interest rate inflation. So higher interest rate has no direct impact on the financial health of portfolio companies. They're all hedged. So they tend to borrow in floating rate, but they're hedging everything. So there's no direct impact from interest rates.

Now, if you link that to the overall economic environment, who knows there might be, but we're not seeing that today at all. I mentioned some of the performance for our key funds for the last and you could see the numbers

were incredibly impressive. So companies have been enjoying very meaningful growth. There's a long way to go before they start experiencing difficulties. And we're not seeing it today.

Inflation. The inflation aspect, that's more complex because it varies dramatically country by country and business by business. We're not seeing much of it. There is some in the US, particularly on staff cost and sometimes related trends. Much less so for now in Europe, but I'd have to break it down. I mean, we're almost seeing none of that in France, but France is in a better position because of energy, relative energy independence, and higher unemployment. And so therefore there's more of a cushion. Germany, different reasons. Germany has been experiencing staff shortages for years.

So the current situation isn't really a change for the company. So, you have to break it down. And the UK, which is often the case, is a bit of mix bit in between the US and what we're seeing in most continental, European country, but it's not notable. And for now for the businesses that I've seen inflation, for instances, raw material they've been able to pass them on.

Now having said that, I have to caveat that somewhat is I've discussed what all our core focus sectors are. They are not the most exposed, right. So if we're doing, for instance, clinics in Germany, it's by regulatory agreement they pass on all the costs. And so obviously those companies are not seeing any of that. So you have to take what I'm saying with a bit of a pinch of salt. We also have a portfolio that tends to be less affected by inflationary pressure.

Part of your question – the second part of the question, if I'm not mistaken was more on the fundraising part and what do we think about the fundraising environment in a higher interest rate environment? So far, we're not seeing anything in the broader markets. I made a comment about the fundraising market being crowded this year. It's crowded because there are a lot of very large private equity sponsors back in the market this year but they're raising.

I'm sure you've seen the headlines for some of our US peers. They've been raising record numbers this year. So the appetite for alternatives is there. It just so happens this year, that if you're more of a mid-sized private equity fund that may not be top tier, it's going to be more difficult because there's so much that's out there in the market at the same time, but not seeing any shifts.

As I was saying, I had discussion with CIOs of a number of our clients over the past few weeks. And if anything, they're moving more into alternative because the view is they want to move to something that is less volatile. So it depends on what your assumptions for real estate – for interest rates are but, for instance, we – and I think pointed to that fact in a previous presentation, but we've experienced higher interest rates in the US in the not too distant past. And that did nothing to the alternatives market. I mean, it continued to grow.

So I think you would have to take assumptions of very, very high interest rates. And we're talking 5, 6, 7% before you could think about significant shifts in allocation. I'm not really seeing that. Up until then, all the equity products are so far above in terms of yield and all these investors need these higher yielding strategies.

And for debt strategies, they're all floating rates. So as the interest moves, I mean, so do the returns on these debt strategies. Yeah. Which is by the way, which is an important point, which people often forget is for us, the first reaction, when there's a rise in interest rate, is great news because all of our portfolios that our debt portfolios suddenly just rise. You have nothing to do. Your performance on the fund has just improved.

So an increase in interest rates is actually for us immediately has a beneficial impact. If you remember, you may not remember, our main fund which was a subordinated debt fund that went through the financial crisis. The biggest impact on that fund was not level of defaults or anything like that. It was the drop in LIBOR. That was the biggest negative impact on the performance of that strategy. So if we could have the same in reverse, it would be very good news.

Dave McCann: I'm just going to ask one follow on before Vijay, maybe answers the – you asked the next question on the gearing. You mentioned the investee portfolios hedge and you sort of referenced there in that floating rate exposure, for how long are they hedged?

Benoit Durteste: It's typically three, five years. It depends on the – it also depends on the situation. So up until last year, it was practically free the hedge. And so companies tended to hedge a lot and for a long period of time, because they were essentially free. As hedging become more expensive, I'm sure companies will start to be – fine-tune it a bit more, but that's typically what they do. It's at least three years, sometimes five. And it's for the bulk of their debt position.

Vijay Bharadia: Coming to the question on net gearing. So we have been de-gearing for some years now, as you may have noticed. And this time around, we thought it's extremely important to actually communicate that ambition towards net zero. And the principal reason for that is as you've seen this year and what you're seeing in terms of the pipeline for new products, we're going to have a lot more equity products in the market; and what we don't want these having a leverage on leverage on the balance sheet effectively. So the ambition here is to effectively reduce our net gearing over time to zero.

And to the second part of your question on capital allocation strategy, our strategy remains same as in previous years. In addition to alignment with our clients, we do want to continue to reinvest back in the business, we do want to continue to diversify. We want to increase those waterfront of products that we have in the pipeline. So you will see some of that still continuing for some time.

Speaker (JP Morgan): Hi, good morning. It's [inaudible] from JP Morgan. A few questions. Firstly, around the sort of demand side of your portfolio companies. So when companies come to you to borrow and you lend to them, how much of that is driven by demand for their underlying services products and therefore we see more pressure? Let's say we see a recessionary environment if the demand for their services, products drops, do they invest less therefore they need less borrowing? Is that – just sort of how that works around your companies?

Benoit Durteste: Yeah. That's a good question. Not directly. I mean, it's hard to say there's no impact. I mean, if there is a drop-in activity across the board from all companies, it's hard to be immune for that. But fundamentally, most of our financing comes in as either companies are being acquired or they themselves are building out and they are making acquisitions.

And so, from experience in a downturn, what you find is the strongest players take advantage to consolidate the market. And that often generates opportunities for us because it's concurrent with a credit crunch or at least some constraint on credit. We're starting to experience some of that because, as I'm sure you are aware, the capital markets are – they may not be shut, but they're quite constrained. That means that there's a lot of demand for financing from companies for us.

But just to be clear, that is one part of what we do. Obviously, when we're doing infrastructure equity, the dynamics are very different and so it's – what we do is broader than just debt. But for those debt strategies, these are the key factors.

Speaker: And then Vijay, maybe one for you. In terms of like the balance sheets, it's come out really strong increase in an AV. I think when we had the impact of March 2020, it was mainly, I think some of the CLOs default rates, we assumed the assumptions increased with defaults for CLOs. It looks like we haven't seen that yet. So any just sort of what you're seeing in the market out there for CLOs and other S&Ps Moody's downgrading CLOs at the moment?

Vijay Bharadia: No. So I think the simple answer is no, we are actually not seeing any impact to our CLO portfolio. Currently, our portfolio continues to perform well. We do have two assets, which are in default, very small compared to hundreds of assets that we have across nearly 30 CLOs. We continue to assume a default rate of 3%. And we are not seeing deeper levels anywhere near that.

I think just to take a step back, I think the risk on CLOs continues to be sort of overstated. I think you saw what happened during COVID. These vehicles survived through. That's happened in the past as well during the global financial crisis. Actually, people confuse between CLOs and CDOs. That's one.

And the second is CLOs are only less than 10% of our value share. So I think just need to be mindful of not sort of, to overstake too much on CLOs risk, really.

Speaker: And just a final one. How are you sort of thinking about sort of semi-liquid offerings and are you – would you consider perhaps moving a little bit more into the wealth management, retail type of universe?

Benoit Durteste: I'm not sure they're linked. So we are present in the high net worth wealth management, not retail. I think that raises a whole host of other questions, but in the high-net-worth segment, through feeder vehicles from banks, we are present. We have such investments in a number of our strategies, the European Fund, Strategic Equity and so. So we're present there and that's important because it's likely to become a very significant source of capital. So you want to establish a brand name. So we are present there.

The liquidity piece is a completely different question. The liquidity piece is in order to address the retail market, do you need to offer liquidity? And then what does that – we haven't done any of that. For one thing, because our strategies they're closed-end, long-term strategies. They have no liquidity. That's actually their biggest advantage. So we'll see. I know there's a big debate. Can you create partial liquidity? I'm not so sure. Certainly, we wouldn't want to make any promises of liquidity that you can't keep because that's not the nature of the strategy.

Speaker: Thank you.

Speaker: [Inaudible] two questions. Firstly, if we turn to your – the scaling ability of your funds, if you're seeing a 60% plus increase in size, is that coming from more deals, bigger deals, a combination of the same? And if it's coming from more deals, how does that relate to your staffing levels?

And secondly, you said that over half your balance sheet returns came from realizations of one form or another. So on the rest, which doesn't, what have you actually seen in terms of valuations at the end of March? Because there have been elements of market stress and presuming that's affected your mark to market.

Benoit Durteste: So on the first one – I was focusing on the mark to market, what was the first part of your question?

Speaker: What have you seen basically?

Vijay Bharadia: The driver for the growth in the fund size.

Benoit Durteste: Yeah. Sorry, fund sizes and teams. Sorry. Thank you. It's a combination. I mean, typically when you grow from vintage to vintage, the most significant driver is typically size of deals and that's the reason you grow. That's – the market has kept on growing. In a sense, it's grown ahead of us, certainly if I think about our flagship strategies. And so we're not really doing more deals, we're just doing bigger deals. Actually, if I look over time, we've been doing fewer deals, interestingly, as we were doing larger deals.

So if you look at certainly the European Strategy, there were probably too many deals in Fund V, certainly Fund VI and we've seen that stabilize at a lower level. For these strategies, it's around 20 deals or so per vintage in Fund VI. Fund VII is looking to be the same. You'd have to look at it different by strategy. But if you look at senior debt, senior debt, clearly, it's an increase in the size of deals because there's a limit to how many deals you can do. And senior debt strategies, it's a lot more. You tend to do 40, 50 deals per vintage. You need more diversification but that tends to remain stable.

Having said that, it doesn't mean we're not beefing up our teams all the time. We are, because it's a feature of thinking about the future, thinking about evolution, thinking – you have to be – I think I've mentioned this before. In our industry, the rule of thumb is you have to be thinking two vintages ahead. Okay? Who could retire, who can – and how do you position the various people. And because generally, it's a collection of relatively small local teams that effect is multiplied. So that's how you think about your team composition.

So we keep on doing that. The European Fund, as you pointed out, we're still fundraising, but it's up 69% in size. We keep making a few hires, but obviously, we're not doubling the size of the team. We don't need to do that.

On the mark to market, we don't mark the market. That's the short answer, but do you want to –

Vijay Bharadia: So what do we typically tend to do is tend to look at – the basis[?] of valuation, just to give a little bit of colour, is either you compare to comps or you do DCFs. In most of our portfolios, we're actually doing DCFs over a very long period of time, anywhere between five to ten years, depending on asset class, depending on sector, etc.

And where we – what we tend to do there is we will take the business plans that come in from portfolio companies. And where we see that there could be some pressure, whether it's inflation or otherwise, we would actually tweak or add risk premiums on discount rates to factor in any potential near term challenges that our company might see.

So that's all being captured into our valuations. And these valuations, yes, they're based on 31st March, but they're actually happening around about May. So it's post yearend. So we're actually taking current performances of portfolio companies to determine what the valuation should be at the end of March.

Speaker: Thank you.

Benoit Durteste: But I think it's – part of the difficulty is you're making an observation based on what we've seen in the public markets. But that's not at all our experience on the ground. The performance of portfolio companies has remained very good to this day. We're not seeing any drop off, we're not seeing a slowdown. I'm not saying it won't come, but we're not seeing any of that in our portfolio companies.

And importantly, when we're looking at exits for transactions, these exits are – systematically, they are done at a higher valuation than what we're holding the asset at, systematically. So we haven't seen that shift that you're observing through public markets. Again, we don't have – we don't do tech, we don't do – so some of that may also be linked to our portfolio, but I think it's important to understand that piece.

And then again, if you look at – because you're talking about equity exposure here because the debt is unaffected by what's happening. And so for strategies where we have equity exposure, if you think about it, they're either strategies that are heavily structured strategies like the European Fund, and so we have a mixed – there's a lot of downside protection through debt, and equity exposure, where we tend to be conservative on where we mark those assets, or it's infrastructure equity. And infrastructure equity, sometimes it's good to be lucky, is significantly exposed, I mean the majority of their exposure sector-wise is in renewables. So lucky for that strategy, what's been happening recently with energy prices has clearly benefited that portfolio.

Speaker: Thank you.

Speaker: Yeah, good morning. Just on the deployment outlook, it seems like it's very strong so far, given the market downturn. Are you seeing any nuances between different areas and senior debt or new European corporate strategy?

Benoit Durteste: Yes, there are always nuances. So for debt strategies, an environment that is more constrained on the financing front, particularly from public market, is a favourable environment. So if you're

thinking of our mess[?] strategy in the US, our mess strategy in the US does incredibly well when the [inaudible] markets are shut. Because there's nowhere else to go.

Likewise in direct lending, if the capital markets are more difficult, players will tend to gravitate towards private markets, even for very large transactions. So for these debt strategies, the pipelines right now are incredibly strong, but that's what you would expect.

For strategies that have more of an equity angle to them, that's in part related to the overall deal flow and the deal flow remains strong this year. Is it going to be as strong as last year? – but last year was a record, it was a high historically – Don't know, but it remains very active.

And again, for us, because we tend to prefer highly structured transactions, more complex, typically non-sponsored actually periods of greater volatility are good for these strategies because we prefer to do off-market deals. And these are, I shouldn't say easier, but you find more of these opportunities in more turbulent markets.

Speaker: Secondaries, you're also doing [inaudible].

Benoit Durteste: Secondaries there is a flow. It always does well. And plus, the – I don't know if you remember, but the area where we've established actually a global leadership is in GP-led secondaries. And this is really, it's a nascent asset class. It's a nascent market. There is much more demand than there is capacity.

So it's the only strategy that I know of where you have that feature is because it's new – you have a few funds trying to raise, but we are the largest fund specialised in this globally, which is telling you something. And as a result, there's so much demand that actually we turn down 90%, maybe actually more, of the deals that we see because you can.

Vijay Bharadia: We can't raise the fund fast enough.

Benoit Durteste: It's a bit of an Odyssey, this one. It's very specific to that market, it's not a reflection on the broader marketing environment.

Speaker: Then just two quick follow-ups, just on the fundraising. I know you mentioned their congested, it seems like the flagship funds are in very strong demand. I'm just wondering for newer funds, maybe like Life Sciences on North America private equity, given some of the congestion in the market, is there any less demand would you think?

Benoit Durteste: We don't know. You only know once you test it. In any event, those first-time funds are always difficult. It's not really a question of demand because in the scheme of things, you're not raising all that much. I stated before, a successful first-time fund fundraise is 500 million and above which is why we're saying when you have two that are north of a billion, you've done incredibly well. If you could do 500 million, that's it, you have a fund, it exists. It's a valid first fund.

So it's a very small amount compared to what's being raised in the market. So it's less that[?]. It's a question of can you get enough focus from the LPs and it takes a, I mean, these funds take a very long time. So we're very happy to comment on the highly successful fundraise for Sale and Leaseback and Infra. But they took us over what, two years, which is what you expect for first-time funds. So in those, you just have to keep going at it.

Speaker: And then last question, just a number on the EBITDA growth in the portfolios. I think 24%, 31%. Just wondering how that compared to like the last five years on average, what do you see in terms of EBITDA growth. And then how would you think about that in the coming year, for example?

Benoit Durteste: Well, it's higher than the long-term average. That's for sure. Otherwise, we'd have an unbelievable performance. But it was very strong the year before, so it's not –2021 was not particularly unusual in that sense. It has been strong for a couple of years.

As I was saying so far, we're not seeing a slowdown, so who knows. But in a sense when companies are growing this fast, you have a lot of room for error, right? It means that all of the deals that were invested in. Even Fund VIII, which is a very new fund, if companies have started out on that pace, it means you've almost immediately de-risked. You could take a lot of volatility after that. Remember, this is – we're long-term. These are long-term holds.

Speaker: Right. Thank you.

Speaker: If there are no more questions in the room, there are a couple of questions that have been submitted online. First of all, you've spoken about the impact of higher rates and higher inflation on the debt strategies. But could you talk a little bit more about the potential impacts on fund returns in our equity strategies, both within structured private equity and also the equity strategies within real assets?

Benoit Durteste: Sure. So on real assets – so this is more for the future, right? As I said it ties into the question about portfolio companies and exposure to interest rates, existing portfolio companies are hedged. So there's no direct impact.

There is a question about future transactions because your cost of financing is likely to be higher, but that's reflected in your business plan. So in what we're seeing, and I'm thinking here this is particularly true in infrastructure equity and some of our – we don't have much in pure equity real estate, but in some of that, it's reflected then in your business plan and how you're pricing the deal upfront.

For the European Fund – as I said earlier, the European Fund been fund is a hybrid fund. It uses complex financing. There is some equity exposure, but there's also a very significant debt exposure. So actually, all in all, the increase in interest is actually favourable for that strategy both for the existing deals because, again, it's all floating rate, but also looking forward, for a number of reasons, including what I said earlier, which is those complex deals tend to do well in a more difficult environment. So it's not just the direct impact of the interest rates, it's also what that does to our competitive environment.

Speaker: Thank you. A couple of questions on fundraising. First of all, are you seeing different demand dynamics from the different buckets of LPs, US large pension funds versus sovereign wealth funds, are you seeing any different dynamics occurring?

Benoit Durteste: Not really or not yet. Most sovereign wealth funds still have targets of increasing their allocation to alternatives. Now, again, you have to break it down. The situation is different depending on which sovereign wealth fund you're thinking about, but to date I'm not seeing a much difference. We would hope given that we're in the market with our flagship senior debt fund that there was going to be greater focus on senior debt assets, because in a sense, that's an easy allocation. It's floating rate. It's senior debt in the current environment, but I actually – I can't even make that claim because there's still a lot of appetite for private equity funds as we've seen in some of the recent fundraise. So I'm not – no, I haven't seen – at least I haven't seen yet any significant – actually, any change at all.

Speaker: You've spoken about the fundraisings for certain leasebacks and infrastructure equity. You've mentioned that certain leaseback might be coming back to the market later this financial year. Can you give any commentary on how big those subsequent vintages could be for those two strategies?

Benoit Durteste: Bigger.

Speaker: There was a – and then I think the final question online. Is the decision to reduce net Gary consistent to have – consistent with a desire to have a less volatile share price and a higher valuation ascribes[?] to the combined FMC plus IC?

Vijay Bharadia: Well, it's hard to comment on the share price valuation. I leave it to the market to think about that. We just focus on running our business in the most capital-efficient manner that we can. We are very bullish

about the future prospects of our firm, the growth, the fundraising pipeline we have in the near term, but most importantly, the structure of tailwinds[?] we have. So we've remained quite confident in our outlook there. In terms of the share price, we know that we are valued below our peers. We hope that the results of our strategy will hopefully at some point in time be recognised

Chris Hunt: And that covers all the questions we had online. If there are no more in the room, then that concludes the presentation. And thank you all very much for attending.

[END OF TRANSCRIPT]