Full Year Results Presentation

Presentation Transcript
21 May 2026

Chris Hunt

Good morning. Thank you for joining this webcast covering ICG's results for the 12 months ended March 31 2026. The slides are available on our website along with the accompanying results announcement.

As a reminder, unless stated otherwise, all financial information discussed today is based on alternative performance measures, which exclude the consolidation of some of our fund structures as required under IFRS. This morning, I'm joined by our CIO and CEO, Benoit Durteste; and our CFO, David Bicarregui. They will give an overview of our performance during the year, and we will then take questions.

And with that, I hand over to Benoit.

Benoît Durteste

Thank you, Chris. Good morning, everyone. Full year '26 has been a good year for ICG. We reinforced our scale and competitive position, beat by some margin our fundraising targets, established a strategic relationship with Amundi and, more generally, built on our track record of strategic and financial growth.

Over the next 45 minutes, we will be discussing this in more detail. But first, I'd like to look at this year in the context of what I believe underpins ICG's success. It comes as no surprise to those who have been following us for some time that our first priority remains investment performance. As more capital comes into private markets from non-traditional sources and new fund structures, I think this only becomes more important.

We are not looking to offer clients beta or to take inconsiderate risk. We want to offer them consistent outperformance, with a particular focus on cash returns and realised performance or, in industry lingo, DPI. We're not looking to grow AUM at all costs. We are focused on delivering significant growth that is built on enhancing the track record and reputation of existing strategies and introducing new strategies with solid foundations, all with a view to generating long-term, sustainable, consistent FRE growth. And this approach is clearly leading to ICG gaining market share.

And we have a substantial amount of white space to grow into, both in our flagships and our scaling strategies. If we continue to execute successfully on the opportunities ahead of us, this will inevitably translate into strong shareholder outcomes in the form of earnings growth and cash generation.

In that context, our strategy is clear. We aim to reinforce our position as a leader in alternative asset management with a reputation for uncompromising focus on investment performance. We are doing that by scaling up established strategies and scaling out into new areas where we see client demand and attractive investment opportunities. This is reinforcing our position with clients.

And during full year '26, we gained 83 new institutional LPs, bringing our total to over 870. In my view, the number of alternative asset managers that have the potential to be globally relevant to clients is shrinking. ICG has emerged as one of the winners in this regard, and I believe we are positioned to continue that trajectory of out-performance.

Turning to FEAUM '26 in more detail. As of March 31 2026, we managed $126 billion of assets globally. Fundraising in the year outperformed our expectations at $17 billion and fee-earning AUM grew 11% during the year. We grew flagship and scaling strategies, established an exciting long-term partnership in the wealth market with Amundi, and we continue to hire, notably broadening our insurance and North

American coverage within our marketing teams and hiring into our European and Asian corporate investment teams.

We are absolutely on the front foot during the cycle. That translated into strong financial performance. We generated $350 million of fee-related earnings, or FRE, that's up 23% year-on-year. We are also reporting GBP127 million of performance fee income and GBP861 million of group operating cash flow, a record level by quite some margin.

To dig a bit deeper into fundraising, which at $17 billion materially surpassed our expectations, we had our best year ever for real assets raising $5.5 billion and for scaling strategies more broadly, which include rail assets, where we attracted $8.4 billion.

In total, 34% of our capital came from North America. This is an interesting trend that I think is driven by two factors. Firstly, there's clearly a desire among some North American LPs to diversify into Europe. Across many of our strategies, we're natural beneficiaries of this.

And secondly, it is testament to the years of effort we've put into our American marketing capabilities and to the increasing recognition of our performance and breadth. Turning to some specifics, Europe IX has continued to raise very successfully, both in terms of size and pace, and today stands at over EUR10 billion. We will likely be oversubscribed and will hold a final close by the summer, ahead of the initial fundraising period deadline.

In a market environment where many require extensions to fundraising periods, this is an impressive outcome. This is also ICG's first ever commingled fund to be bigger than €10 billion. It operates in a space that is increasingly attractive and I believe it will be the largest structured capital fund of its kind globally. We are also, as you know, a global leader in GP-led secondaries. And I do not know of any other European manager with global leadership in two asset classes. So, positive developments for the flagship.

We also had two scaling strategies that held final closes for their more mature funds, both at or even above their targets and both in real assets. Infrastructure II and Metro II saw big upsizes, high re-up rates and strong cross-selling from existing ICG clients as well as good interest from new clients. Successful second vintages are a critical milestone. They are vital to cementing the reputation and position of a strategy.

As a result, we can look confidently to meaningful growth in both strategies in the coming decade. This is a very promising development. We now have visibility on significant organic growth potential in the broad real assets space. And this could be further enhanced by expanding into adjacencies such as infrastructure Asia, which we have recently launched, or others, such as possibly infrastructure debt.

Looking ahead, we have high hopes for LP secondaries, which will be in the market for full year '27. It is also likely we will launch the sixth vintages of both Strategic Equity and Senior Debt Partners later in full year '27, although the exact timing of those is not certain. Given our fundraising cycle and which funds happen to be in market at a given point in time, we'd expect fundraising in full year '27 naturally to be below that in full year '26. But as David will talk about later, the trajectory of our fee-earning AUM, which drives our management fees and FRE, is only loosely related to in-year fundraising. It's really the fundraising cycle that matters.

And on this, importantly, this year has anchored our performance for this fundraising cycle. And it's clear that we are well on our way to achieving our full year fundraising guidance potentially even a year early.

Turning to investment activity. Transaction levels remained healthy over the last 12 months. We deployed $14 billion across our direct investment strategies and realized almost $7 billion. The broader point in my view is that while there is always an element of lumpiness in these figures, we have remained very disciplined in our deployment across strategies.

Our investment committees drive this culture. And during the year, these discussions have been some of the hardest in my memory. We have, for instance, clearly been more cautious than many in direct lending in recent years, although in full year '26, largely by taking advantage of financing opportunities in our existing portfolio, this strategy deployed close to $4 billion.

And in secondaries, both GP- and LP-led, the opportunity set has been huge, but we are being increasingly selective and, in particular, cautious around valuations. Given the macro situation, I do not anticipate a meaningful change in the investment environment during full year '27. And with dry powder of $36 billion, we are well positioned across all asset classes to invest through the cycle and to lean in hard when we see particular opportunities emerge.

Ultimately, what clients care about is realized performance and cash return, especially in higher-return strategies with no natural liquidity. These strategies, which represented three quarters of our management fees in full year '26 have an established track record of market-leading DPI. During the year, we distributed $9 billion to clients in these strategies, further anchoring fund returns.

On the right-hand side of the slide, we show how DPI for a number of these funds has evolved over time. This metric is clearly becoming more meaningful for clients and is a key differentiator for many of ICG's strategies, directly contributing to our continued success in fundraising.

Meanwhile, our debt strategies have continued to perform strongly. I'm going to spend a minute on direct lending, our Senior Debt Partners flagship strategy, to remind you what we do, and given the noise in the market, what we do not do. One hundred percent of our loans from SDP are senior secured, cash-pay, cash-flow-based lending. In that way, we're old school. We do not lend to value or to revenue. There is no PIK or sub debt in SDP. We have minimal software exposure. I mean, in the unrealised vintages at SDP 5 and 4, it's approximately 5%.

And for the last two years, we have not written a single direct loan in the US by choice. From a product perspective, we have no open-ended or so-called semi-liquid structures in direct lending. And the consequences here are twofold. Firstly, we are not exposed at all to redemptions and, secondly, we have substantial dry powder to deploy and take advantage of the cycle. And this conservative approach has not escaped institutional investors and is contributing to our enhanced reputation.

Our CLO business, which is also not exposed to redemptions, has similarly been performing strongly. This year, we issued three new CLOs and are continuing to receive dividends in line with our historical average. So, in all, when I look across the portfolios and fund performance, whether higher-return strategies or debt strategies, I feel we are very well positioned to continue to deliver for our clients and to strengthen our market position and standing with LPs.

That delivery and our clients' confidence in our future potential has enabled us to gain market share in recent years across both our flagship and scaling strategies. This slide is indicative only as market-wide data is never perfect and or entirely comparable. But based on publicly available data, all of these strategies have grown faster than the markets in which they operate.

But let me reiterate, and it goes back to my first slide, I view this as an output of our investment performance. The top-quality returns to clients drive growth. And I expect that to continue. Institutional

investors with whom I engage all the time remain committed to private markets and are looking to grow allocations with the right managers.

However, from my perspective, they are increasingly focused on alignment of interests with GPs. They are increasingly aware of managers pursuing an AUM-gathering strategy. They do not want their deployment cycle to be governed by the ebbs and flows of wealth capital in evergreen vehicles or to have to worry about potential conflicts of interest in allocations. In this respect, ICG stands in a differentiated position compared to many of our global alternative asset manager peers.

Looking ahead, the opportunity set for us is huge. Based on our existing client base today, three quarters are invested in only one strategy and fewer than 20% are invested in two strategies. As demonstrated by the final close of Infra II and Metro II in real assets, cross-selling is becoming an increasingly meaningful part of our fundraising, along with our continued ability to attract new clients. I'm confident that today, we have the investment strategies, scale, and client franchise to be a beneficiary of institutions seeking to do more with fewer managers.

To conclude, I'm very proud of the results we are reporting today. I view them as another checkpoint in the journey of profitable, scalable growth that ICG has been on for over a decade, and I see huge opportunity ahead. Importantly, our strategy is clear, aligned to what our clients want and how the market is evolving, and we have financial resources and people to execute on it.

And with that, I'll pass over to David.

David Bicarregui

Thank you, Benoit. I'm going to talk about our evolved financial presentation and then dig into our FY26 financial performance in more detail. But before that, I want to reinforce the link between the strategy that Benoit has just outlined and the financial results we're reporting. We have a broad and scaled range of investment strategies across multiple asset classes, which has led over the last five years to our fee earning AUM doubling to $87 billion at March '26, all organically.

And due to our focus on growing higher-return, higher-fee strategies, we have seen a very positive mix effect in our management fee rate, which has expanded by 13 basis points over the last five years to stand at 98 basis points today. The link to our financial performance is clear: a diversified range of scaled and scalable strategies that meet our clients' needs, leading to growing fee-earning AUM at attractive management fee rates. This resulted in management fee growth above that of fee-earning AUM.

As our strategies scale up through multiple vintages, we see significant operating leverage. That link between our strategy and our financial performance has driven the evolution in our financial presentation that you see today, which focuses on three distinct related attributes for value.

The first is fee-related earnings, or FRE, defined as the profit generated from the management fees, less group cash operating expenses. This metric clearly shows the trajectory I was describing on the previous page of growing fee-earning AUM, management fees, and operating leverage. Shareholders also receive performance fee income, which in our financials has no cost associated with it.

And finally, we have the balance sheet portfolio, which co-invests alongside our clients in our funds and seeds new strategies and products. Alongside these three metrics, we will also focus on group operating cash flow and net debt. Importantly, from a shareholder perspective, we are also reporting these on a per-share basis.

Put together, this financial presentation aligns with our business and the drivers of shareholder value. It's clear and simple and it's comparable to other global alternative asset managers. In the coming pages, I will focus on each of these five components. Feedback on our FRE disclosure back in November was very positive. And of course, we will welcome any more thoughts on this evolution.

As a result of these changes, we are updating our medium-term financial guidance. We are replacing guidance on FMC margin with guidance that, over the medium term, we expect FRE margin, excluding catch-up fees, to expand. Over the last five years, FRE margin has grown by 14 percentage points. The rest of the guidance remains unchanged.

And as Benoit said, we're two years into our fundraising guidance and have raised $40 billion of the $55 billion, so well on our way to meeting or exceeding this target. And we continue to expect performance fee income over the medium term to represent between 10% and 20% of our total fee income.

So moving to full year '26 specifically and starting with a snapshot of the financial performance, we are reporting FRE of GBP350 million, up 23% year-on-year. Performance fees were GBP127 million, including a GBP72 million transitional gain due to the change in recognition methodology announced in October of 2025. And our balance sheet portfolio stood at GBP2.6 billion. You can see these on a per share basis on the right-hand side of the page.

At a group level, our operating cash flow was very high at GBP861 million. This was a key driver in reducing our net debt to GBP113 million, down from GBP629 million in March '25, and our net debt to FRE now stands at 0.3 times. So before moving to each of these metrics in turn, I'll start with fee-earning AUM. This has grown 11% over the last 12 months and today stands at $87 billion. We also had $19 billion of AUM not yet earning fees, which would generate approximately GBP120 million in annual management fees if deployed.

And as Benoit said earlier, in-year fundraising only has a loose link to the in-year trajectory of fee-earning AUM. This is clear if you look at this over the last decade. Fee-earning AUM has grown every year, including through a series of macro shocks, during which public market valuations and private market transaction activity saw periods of significant volatility.

Over the last decade, our fee-earning AUM has grown at an annualised rate of 17% and over the last five years at an annualised rate of 14%. The effects of fee-earning AUM growth and expanding fee rates are visible in our management fees, which for FY26 were GBP685 million, up 13% year-on-year in absolute terms or 17% excluding catch-up fees.

Over the last five years, management fees have grown at an annualised rate of 20%. Over that period, we have also seen a meaningful shift in the composition of management fees by asset class. As shown on the chart on the left, credit and private debt have grown more modestly over this period, while structured capital, private equity secondaries and real assets have delivered significant expansion, and combined our higher-return strategies account for over 75% of our management fees.

Looked at another way, the three scaling strategies that Benoit mentioned earlier, LP secondaries, real estate and infrastructure, have become increasingly meaningful. Together, the three of them now account for over 20% of group management fees compared to around 10% five years ago. This is an important development. It reflects the success of building these capabilities organically, is evidence of the increasing diversification at scale and gives clear visibility on the embedded growth potential within ICG today.

Turning to FRE, which for FY26 was GBP350 million or 120p per share, this is up 23% in the year and 30% annualized over the last five years driven by high growth in management fees, alongside strong cost control, with FRE operating expenses up 5% year-on-year. Our FRE margin, excluding catch-up fees over the last five years, has grown from 33% in FY21 to 47% today.

And as I said earlier, over the medium term, we expect to see continued expansion in that FRE margin. Performance fee income was GBP127 million this year, including a GBP72 million transitional gain due to the change in recognition approach announced in October 2025. The majority of the transition gain, GBP49 million, was driven by the initial recognition in structured capital and secondary strategies, including Europe VIII, SE IV and Mid-Market I. Realised performance fees, that is cash received, came in at GBP96 million in the year due to some large realisations for funds that are in carry.

Looking ahead, as we continue to grow high return strategies, performance fees are likely to become a more visible and significant contributor to our top line.

Moving to the balance sheet portfolio, which had an asset value of GBP2.6 billion as of March, our balance sheet exists to support the growth in our fee-earning AUM, which it does through two routes. Firstly, co-investing alongside our funds, which accounts for about 90% of the fair value; and secondly, by seeding new strategies and new products.

As a result, the balance sheet performance mirrors that of the funds in which we invest. From a P&L perspective, over the last five years it has generated an average annual return of 10%, including a 5% return for this financial year. During the year, all asset classes except debt generated between 5% and 8% returns, while debt returned negative GBP7 million, or negative 2%. This outcome in the context of a challenging macro backdrop underlines the diversification and the resilience of the balance sheet portfolio, which we expect to generate low double-digit percentage annualised returns over the long term.

This outcome in the context of a challenging macro backdrop underlines the diversification and the resilience of the balance sheet portfolio, which we expect to generate low double-digit percentage annualised returns over the long term. From a cash perspective, not only does the balance sheet benefit from the cash generation of our funds, we have also been deliberately reducing the absolute commitment from ICG plc as strategies become more established.

We have a proven track record of doing this, which you can see clearly on the right-hand side. As a result, organically growing strategies are cash-intensive in the early years and progressively asset-light as we move through the vintages. Doing this successfully is highly accretive to FRE per share and the co-investment portfolio has become highly cash-generative as vintages have progressed.

This dynamic is now quite visible, with the co-investment portfolio generating an average net cash flow yield over the last five years of 10%. Indeed, as we believe we're in the early stages of a multi-year cycle in which the balance sheet could generate significant cash from our existing product set, as older investments are realised and funds currently being invested have lower absolute commitments from the firm. Of course, there'll be an element of lumpiness to this, but the structural trend is clear.

Cash received from FRE, performance fees and the balance sheet portfolio have each grown year-on-year in full year '26. This has led to a very strong year for the group operating cash flow, which totalled GBP861 million compared to GBP533 million last year. And as a result of this profitable, cash-generative growth, our financial position has never been stronger. We ended the period with total available liquidity of GBP1.5 billion and net debt of GBP113 million. We have a very robust capital structure and a disciplined approach to managing both our debt and our equity base.

So drawing this all together, we have strategic and financial flexibility like never before to maximise long-term shareholder value. And we have a clear capital allocation priority to execute on that. Our progressive dividend policy continues and our ordinary dividend of 87p per share for full year '26 marks the 16th consecutive year of growth.

Once we reach a position of zero net debt, we will continue to allocate thoughtfully. In this regard, all options are on the table: optimising co-investments alongside our existing products and strategies, seeding new products and strategies, making strategic investments, whether in M&A or partnerships more broadly, and of course, returning capital to shareholders through dividends or buybacks.

As a management team, we view these options in the round to assess what will generate the best risk-adjusted long-term growth in FRE per share. Taken together, these results give us confidence in the trajectory of the business and in the opportunities ahead.

Q&A

Chris Hunt

Thank you very much. Thank you, David.

(Event Instructions)

Oliver Carruthers, Goldman Sachs.

Oliver Carruthers ***Goldman Sachs Group Inc - Analyst***

I just have one question, and it follows on from that slide 22, David, that you showed at the end. I guess, if we think a part two here, that was hitting net debt of zero, which looks like you might be doing this year. So I'm just -- I'm interested a little bit in how you think this capital deployment priority might play out in practice.

And I guess I'm thinking of this also in the context of the new FRE, performance fees and balance sheet disclosure that you give, and the new guidance you give aligned on this metric on a per-share basis. As you say, that aligns you to the global peer set. I think it also highlights how you trade at a discount to the global peer set, and it sounds like you're focused on closing that discount.

So as you say, the balance sheet is at the beginning of this early year cycle of elevated cash flow given maturing investments and the lower commitment needs. So in the context of that, I guess, four-part capital deployment priority, I'm really interested in how you think about share buybacks in this context.

David Bicarregui

Yes, good question. I think two things I'd say. I mean, firstly, just picking up on one of the comments you made or the implications you made, I think we're very focused on growing the business, investment performance. As we've said in our presentation, that will drive growth and positive outcomes for shareholders over the long term. That's what we are in control of. That's what we want to drive, and that's our focus, our investment performance first. The other things will follow.

We think FRE per share and FRE in general therefore gives you a much clearer basis of comparison to the global peer set. That was one of the drivers of why we think this is an important way to exhibit the growth that we've achieved and the growth potential to come. And then on capital allocation priorities, I deliberately made the comment that we're very committed to the progressive dividend and reaching zero net debt. Those are our near-term priorities. We're clearly not there yet in terms of reaching a net cash position.

And given the operating environment, having strategic optionality and extra liquidity is not a bad thing. And so we don't feel under any sort of undue hurry around that. You're right, if you play this through with reasonable assumptions, that will be something that plays out over the next year or two as a practical matter.

Benoît Durteste

Yes. If I can add, I agree, David. And I mean we'll see and will tell. And as David said, that's giving us optionality. It may be that we find ourselves in a very strong financial position exactly at the right point in the cycle. As you're aware, there is not everyone is showing the sort of performance that we are showing today. There is a lot of pain in the broader alternative asset management industry. This could create some opportunities for us. I mean historically, one, we've been cautious.

And two, it's been made difficult by -- as you pointed out, the fact that we've always created a meaningful discount to peers. But I could see situations where we could take advantage of the environment and perhaps accelerate our growth in some specific areas. So that's certainly something that we're keeping a very close eye.

Chris Hunt

Perfect. Thank you, Oliver Carruthers.

David McCann, Deutsche Bank.

David McCann ***Deutsche Bank AG - Analyst***

Yes, two questions from me, really focusing on the new disclosures, if that's okay. The first one really is, with the changes that have been made, are you going to subsequently make any changes to the Board and other key staff remuneration KPIs in light of the new disclosures? And if so, what KPIs are now going to matter to the Board and what hurdles need to be achieved? That would be the first question.

And then secondly, just a more technical one, really. Thinking about the definition of FRE that you've now set out, can you just outline why you're not including share-based compensation, depreciation, and amortisation within the definition of FRE? And related to that, how should we think about the incidence of the effective tax rate across the group, splitting it between FRE, PFI, and the other components? Thanks.

David Bicarregui

David, let me take your questions maybe in reverse order. So in terms of the technicalities of the definition, we're using a definition that we believe to be quite comparable to market standards. Most firms don't include share-based compensation in FRE. It's meant to be more aligned to a cash view of the world, and shares are obviously non-cash. So in that sense, it's comparable.

We do obviously break out all the components. So if you choose to reconstruct the measure a different way or adjust, that's obviously available to you as well. Tax effects, they are, it tends to be more about the mix of investment returns versus fees. And obviously, those are hard to predict in a given period, that effectively creates the ETR for the year. Again, you'd have to have a view on mix of revenue to really come up with that answer.

And in terms of the Board, obviously, we're not talking about the Board here today. We're actually talking about external presentation of the FRE metric, the margin, and the guidance. But I'm sure, in due course, the performance measurement of the management team will be aligned to the way that we're talking about our medium-term guidance.

Chris Hunt

Thank you, David.

Hubert Lam, Bank of America.

Hubert Lam *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I just got two questions. Firstly, on costs. Can you just give us your guidance on group cost growth for this year? I think where '26 was only 3% cost growth, which was better than expected. So just wondering how we should think about this year?

Second question is on deployment. I think, Benoit, I think you were a bit cautious on -- correct me if I'm wrong, on deployment this year, similar to last year. Considering you have about $13 billion of dry powder in debt and the dislocation we're seeing in that market. Do you see possibly more opportunities to deploy that this year?

Benoît Durteste

David, do you want to add.

David Bicarregui

Yes. Let me just take the cost question first, Hubert. Yes, I think we've clearly got operating leverage in the business. We've been talking about that for some time. Three quarters of our cost base, as you know is people and people related expenses. So that's really a view on how much head count and compensation outcomes.

And so we have good control levers around that. I wouldn't take 3% as the new normal. I've been guiding more in the sort of 5% to 10% range because we are clearly still growing the business. And as

we said in our presentation, we will want to make selective hires, add to the platform, and continue to improve the client experience, all of which implies some cost. But clearly, we've got positive operating margin embedded in what we've already got.

Benoît Durteste

And on your question on deployment. As I mentioned during the presentation, discussions at investment committees these days are lively and interesting. If you think about it, we have to contend with an incredibly complex geopolitical environment, economic uncertainty and you add to that the AI disruption and what this could mean for various industries. So that creates quite an interesting environment.

Within that, listen, our goal is to be finding the opportunities and finding opportunities that work long term. We're investing for the long term. And so we're looking through cycles. There are always opportunities. The answer will be different by asset class. I mentioned in direct lending, we've taken advantage of our existing portfolios. We've been doing this for a long time in direct lending. And so we've been taking advantage of existing portfolios to add financings through companies that we know and with legal documentation that is quite favourable, particularly compared to some of what we see in a number of deals in the market these days.

We also have a number of niche strategies, not in size because they've been growing in size, but certainly in their approach. There are flagship structured capital strategies, I mean, it's precisely designed to deal with an environment like this one. It's self-originated transactions. They are non-sponsored deals where we're supporting family owners and founder owners. So it requires a lot of origination capability, but that means you're less beholden to the broader buyout market in that cycle.

So it's not a surprise. I mentioned how successful we've been in fundraising there. That shouldn't be a surprise because that's quite an interesting space to be in right now, and we happen to be a global leader. So you have to pick your spots. I mentioned second raise as well. There is a lot of deal flow in secondaries because, obviously, all the GPs are looking for some liquidity and LPs as well. Having said that, there are still questions around equity valuations. And so we're very, very conscious.

So this is an environment where, yes, you want to find the opportunities to deploy, but you also need to be conscious of the risk out there and remain quite selective and cautious, which has always been -- that's what we're known for. That's always been our approach. So we're not going to move away from being more on the conservative side and highly disciplined in deployment.

Chris Hunt

Thank you very much.

Nick Herman, Citi.

Nicholas Harmon ***Citi - Analyst***

Yes. Perfect. Two questions from me. On the first one, I guess, on the balance sheet, you dropped the NIR targets and I hear you that you still expect to achieve double-digit returns over time. But does that imply, I guess, more volatility in balance sheet returns in the short term, potentially from debt returns?

And I guess more broadly, it feels like you're trying to de-emphasize the balance sheet a little here. This is another strong set of results have been overshadowed by the balance sheet. Is this a -- maybe there's a question for another time, but have you considered other actions to minimize volatility and balance sheet returns?

And then the second question I had was, you said that you see significant operating leverage and are targeting FRE margin accretion. You're at 51% today, or 47% ex catch-up fees, effectively at the end of your current fundraising cycle, broadly speaking. But I think, where do you think you'll reach by the end of the next fundraising cycle? Would 50% be a reasonable assumption?

David Bicarregui

Okay. Let me take those. So I mean, firstly, we haven't changed our view on the balance sheet. Let's be clear. We talk about double-digit returns over the medium to long term. That still remains our view. Why is that? Because, as we said, the balance sheet is invested in the funds, and that's what the funds do over a long time horizon. So in substance, nothing has changed.

This year was a 5% return. I don't think, in the environment we're in, that should be massively surprising to investors, and it shows the diversification benefit of the balance sheet, if anything, as it's investing across multiple asset classes.

And then on the margin, I tend to agree with your direction of travel in your statement. We are going to accrete FRE margin over time. It will be lumpy in a given year because of the fundraising cycle and the way that management fees are recorded, but fundamentally and structurally, we can accrete FRE margin from here, which is exactly why we put it into the guidance.

Benoît Durteste

I think it's worth mentioning because it's not clear. I mean, obviously, it's in the data pack, but the balance sheet has very limited exposure to direct lending because we practically don't co-invest in the direct lending funds because we don't have to because the LPs understand that the returns are not suitable for our balance sheet. So we hardly co-invest.

And so the exposure is on CLOs, which we've historically disciplined ourselves to limit to around 10% of the balance sheet. So our exposure to debt instruments in the debt strategies and the balance sheet is actually quite limited. I think there's potentially a misconception there. And fundamentally, as David said, the balance sheet is essentially tracking our funds, right?

And again, I think the linkage has not really been made. We wouldn't be fundraising and having the success that we've been having and that we've been showing during this presentation for a long time now if our funds weren't performing well. And that's what the balance sheet is invested in. It just mirrors that. So over a medium -- everything is medium to long term, right, for us. What happens in a given year is largely all even. But medium term, it will reflect what we are doing in our funds which clearly LPs seem to appreciate.

Chris Hunt

Yes, exactly. And Nick, as you will have seen, the co-invest portfolio generated nearly GBP500 million of net cash flow. So we should think about cash generation as well in that context.

Michael Sanderson, Barclays.

Michael Sanderson *Barclays Services Corp - Analyst*

A couple, please. First one, Benoit. You were making some comments about the nature of private wealth and sort of how your institutional angle is particularly strong. I was just interested in how we think about Amundi partnership and the products you're likely to put there and how those will suit your more institutional focus and how you're going to change pieces around the investment process, if at all, around that.

And the second one was just talking about some of the fundraising. You talked about the FY27 back end, I think, with strategic equity and senior debt starting to raise. That feels like a slight bring-forward from, I think, previous conversations, but you can correct me, obviously, if I'm wrong. But given the deployment environment seeming from your commentary to be challenging still, I was quite surprised you would bring those forward in that environment, but feel free to correct me if I've misunderstood your previous position.

Benoît Durteste

Okay. Thank you, Michael. Two good questions. First of all, on Amundi, that's a really good question. And the main reason we entered into the partnership with Amundi is that we share a very similar view on how to approach the alternative asset class for wealth, which is largely not how it's been done to date, which is why we're going to take our time to craft products that we think are adequate and adequately protect the end investor.

So for instance, evergreen vehicles, I don't think, are appropriate for many of the asset classes in our world. They can work in credit and in LP secondaries, but with a number of caveats. And I'm not going to go into all this, but, for instance, I mean, I have some pragmatic rules. For instance, if you have an evergreen vehicle, it should be investing in parallel to the institutional fund that you have, which no one does.

By the way, this is not the way it's been done. And it has implications because it means that you're not going to be rushing to invest any money that's coming through the door in your evergreen, you're just going to wait for the next deal that gets done. So you're going to be holding cash for longer, which has an impact on returns, but it's the right thing to do.

By the way, this is not the way it's been done. And it has implications because it means that you're not going to be rushing to invest any money that's coming through the door in your evergreen; you're just going to wait for the next deal that gets done. So you're going to be holding cash for longer, which has an impact on returns, but it's the right thing to do.

And for that, alternative assets are a very good way to diversify, but you need to explain that they are very illiquid. And you cannot magically create liquidity out of fundamentally illiquid products. So that's what we're working on. I think long term, the potential is huge. But we're going to remain very disciplined in that way.

And as a result, there is no inconsistency because I think that was part of your question with how we're approaching infrastructure because, in a sense, we're pushing wealth closer to how we're investing institutional investor money, which is as it should be. You're also avoiding all the potential conflicts of interest of allocation between buckets, which I think is a really bad idea to get into, and we don't want to get into that.

So that's for how we're approaching the wealth opportunity with Amundi, but there's a lot of work going on. Just yesterday, we filed in Luxembourg with the CSSF to create the SICAV, which will be the umbrella SICAV for our VRS product. So things are progressing.

On the fundraising front, you're partially correct. So on direct lending, I think we're pretty much on track with what we expected. It's always difficult to predict the exact timing because, as you pointed out, it's correlated to deployment, but that's pretty much when we'd expect it to come back to market with SDP sometime this year or maybe early next year. So maybe we're a quarter ahead, but I wouldn't make too much of that.

Strategic Equity, it's true that we're perhaps a bit ahead of what we initially anticipated, which incidentally is why we talked for a while about launching a mid-market version of that strategy, and we decided to hold precisely because the large-cap strategy was going to come back a bit earlier than we thought and we didn't want to create an overlap. We might come back to that in the future. But that's just because, for Strategic Equity, two deals will move the needle.

So again, I wouldn't make too much of that because if you're successful and two transactions close, suddenly you're ahead of time, or it could so happen we're ahead, but you could be late by six months. It doesn't make much of a difference. So yes, I mean, we're slightly ahead on Strategic Equity and, in the scheme of things, it doesn't really change things.

What really matters is the cycle is how much we raise in the next fund. We have a global leadership in that strategy. That fund is larger than that of peers globally by some margin. I'd like to maintain that head start. So that's going to be the goal for this, for the fundraising of the next strategic equity.

Chris Hunt

Thank you very much.

Haley Tam, UBS.

Haley Tam ***UBS AG - Analyst***

Can I ask you two questions, please. Firstly, on the cash flow generation from the portfolio on the balance sheet. I think there was a significant realisation of more than GBP500 million you flagged this year. Was that all from reducing the co-investments or optimising the investments? Or were there any particular realisations that we should be flagging? That's the first question.

And the second one, just in terms of the balance sheet investment returns. 8% on structured capital and secondaries for two consecutive years. Now, can I just confirm what you said a few times, that this is representative of what you're seeing on the flagship funds? And if so, how can we square that with the very impressive IRRs and MOICs you report for those funds?

David Bicarregui

Maybe I'll just take the realisation question, Haley. Obviously, it's the totality of everything that's going on in the funds that's generating that realisation. As described, it's quite high because we had a good year for realisations across portfolios. And therefore, the balance sheet benefited, as did LPs, from those realisations. So that's why we had the higher elevated level of structural inflows.

But I also described the trend as clear: if we continue to allocate less capital to successive vintages, which is what we're doing, the back book of co-investment will be generating more cash and we'll be more able to pay down the debt and do the other things we talked about. So it's more the trend and the direction of travel that I think was particularly interesting, but it was a high year for realisations from a balance sheet perspective.

Benoît Durteste

Yes. And on -- the difficulty is always the same is it's very difficult to look at a one-year performance and draw conclusions on funds because -- and yes, there is a link, but it's not an immediate link. I think I've mentioned before that there are a lot of things that come into play in funds. So structured capital in structured capital, our performance is upper teens, right? But this is upper teens over the life of the fund. From one year to another, particularly if you've had a number of exits, typically, because that's what accounting requires, the closer you get to exit, the more you convert towards whatever exit value would be.

And so once you've achieved that, well, there's no uplift for a period of time because you've recognized it in the past. And also, when you're deploying, you do not recognize any uplift in value for a year unless it's debt and you have interest and you have to recognize the interest accrual. But otherwise, if you have any equity component, we -- our policy is we do not recognize any increase in value for a year. And so the more you deploy less of an increase you're seeing in your NAV at least in the near term, and then you see that catch up later on.

So that's why it's very difficult to look at in your -- it's -- I think it's more helpful and we provide some information on that to look at fund performance because in the end, that's what the balance sheet ends up reflecting it just may be in different years or spread out over a longer period of time. But if the question is, are you seeing a deterioration in the performance of the underlying fund. The answer is no, absolutely not. We're not seeing that at all.

And nor should we, in a way, because you're not seeing -- we're not experiencing a recession, we're not. So it would be unusual if we were to see this at this point.

Chris Hunt

Thanks, Benoit. There's been a written question around whether we see any merit in doing something along the lines of the SRTs that banks have been doing around balance sheet risk transfer. But I mean, David, that's not something that we consider within the balance sheet, i.e. (technical difficulty)

David Bicarregui

We can't. Just to be clear, that's not a financial decision. We can't. The balance sheet is co-investing in the fund. That's our co-interest; it's the alignment of interest. That's our co-investment in the funds. We are committing to the LPs to remain essentially on the hook, to keep skin in the game. So we couldn't, through the back door, de-risk the balance sheet, i.e., disalign ourselves with our LPs. That's not what they want. That's not what they need, right?

And I think it's important to understand that LPs in our world are looking for alignment of interest. They're typically looking for 1% to 2% of co-investment in any strategy. Some of it is put in personally by the investment teams. But as you can imagine, if you're raising a $10 billion fund, the teams cannot put up 1% to 2%; that's where you need the balance sheet. But as a result, the balance sheet needs to remain on the hook. We can't suddenly start securitising or doing some fancy off-balance-sheet de-risking.

Chris Hunt

Great. And there is one written question that we'll close with. Benoit, your SCA review and your tone today have been maybe slightly more long term, optimistic on the opportunities ahead, particularly around the scaling strategies into real estate and LP secondaries. If you were to think five or 10 years ahead, what could you do with the existing product suite of the business?

Benoît Durteste

Well, that's a bit of a crystal ball. The reason I -- maybe I sounded more optimistic. The reason for that is, as I pointed out, you really only know that a strategy has probably taken hold once you're through the second vintage, right?

Raising a first fund, having a first-time fund close, is incredibly hard. But even when you've done that, you're not out of the woods. It's only once you've raised the second vintage, which is typically much larger than the first one, that you've properly established a team, established credibility, and have an LP base. And you can then think, okay, normally, if things go to plan, you're just going to increase that strategy.

And it so happens that in real assets, so both in infra and in real estate, hopefully, in LP secondaries tomorrow, but we're not there yet in LP secondaries. But in infra equity and in real estate equity, we are now there. And that's why I sound a lot more confident because once you've reached that point, it's a lot easier to start thinking about, okay, I've raised the $3 billion-plus intra-equity strategy for Europe, it's not unrealistic to think that the next one can be $5 billion plus. It's not unrealistic to saying that on the back of that success, I can start looking at Asia.

Same thing in real estate and maybe with an eye on the US and Asia in real estate. But so suddenly, it's more credibly opening the door to growth which is maybe why I'm sounding more confident is just

it's easier to be more confident on those. Hopefully, a year from now or two years from now, we'll be able to say the same about LP secondaries. And as a result, suddenly, that's creating quite a lot of growth potential, right? Because if you look at -- you just put infrastructure and real estate together, and you put the two together.

And in the next vintage, the two together, the two combined could be as large as our historical flagship fund as European corporate. And these are fees on committed strategies. And so it's the same level of profitability, that's a positive outlook.

Chris Hunt

Well, thank you all for joining us. Thanks for attending today, and this concludes the presentation. Thank you all.